Ministry of Defence Annual Report and Accounts 2022–23

For the year ended 31 March 2023

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

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Foreword by Secretary of State for Defence

2022-23 has continued to see challenges to the international order and global freedoms. Russia's illegal invasion of Ukraine has raised national security issues the like of which we have not seen since the Second World War, and we are seeing an increasingly assertive government in the People's Republic of China and internal instability in Iran. Our UK Armed Forces have a long-standing world-class reputation and continue to defend and deter threats against our people, our country, and its territories, and are a force for good around the world, working with like-minded partners to build resilience against evolving security threats.

Our commitment to NATO is unwavering, with the security and prosperity of the Euro-Atlantic a core priority. As such, we are increasing the number of UK forces available to the Alliance under the NATO Force Model and helping to modernise and strengthen NATO's force structure for the future.

The UK continues to be at the forefront of the provision of military equipment to Ukraine, working with Allies and partners to support the self-defence and restoration of Ukraine's sovereignty and territorial integrity. The UK committed £2.3 billion in military spending to Ukraine in 2022 and has sustained this into 2023 to enable the provision of equipment, munitions, training, and support to allow Ukraine to secure lasting peace.

Our international partnership with Italy and Japan to deliver the next generation of combat aircraft through the Global Combat Air Programme and the trilateral development with Australia and the US (AUKUS), of submarines based on the UKs next generation design, allow us to stay at the cutting-edge of advancements in defence technology – outpacing and out-manoeuvring those who seek to harm us. These programmes not only demonstrate our commitment to UK and global security, but also support UK prosperity through a more resilient industrial base and the creation of UK jobs.

The reported Warrior programme loss later in the report, demonstrates the challenges the sponsoring front line commands have in delivering some capabilities. I am determined this should not happen again. The Defence Command Paper Refresh sets out reforms that are needed in defence acquisition including a maximum time for delivery and moving away from bespoke platforms.

All of this requires the commitment and dedication of our people and I am grateful to the Permanent Secretary, Chief of Defence Staff and all our people in Defence for all their tireless work in keeping our nation safe.

The Rt Hon Ben Wallace
Secretary of State for Defence

Introduction from the Permanent Secretary and Chief of the Defence Staff

The state funeral of Her Late Majesty Queen Elizabeth II, followed by the Coronation of King Charles III, highlighted the integral role the Armed Forces play in national life, and in shaping Britain's reputation and influence in the world. These extraordinary events were delivered in addition to our routine operational commitments and our efforts to modernise and reform. The fact that we were successful is testament to the strength and quality of the military and civilian team within Defence. Together, we are determined to do even more.

In a more contested and volatile world, our most important commitment remains NATO, with around 10,000 personnel deployed across the continent last year and our Continuous At Sea Deterrent is now in its 54th year of unbroken patrol. Defence Equipment and Support has overseen a massive logistical effort to transport equipment to Ukraine, and we became the first nation to supply Main Battle Tanks. Defence Intelligence, working with specialists from across government, sought to counter disinformation and the British Army led a multi-national programme to train over 18,000 Ukrainian troops.

Our global presence stretches from the Arctic to Antarctic, across land, sea, air and into the new domains of cyber and space. We have maintained a persistent presence in the Middle East and Indo-Pacific and we are forging new military and industrial partnerships spanning both East and West.

These include the Global Air Combat Programme with Japan and Italy and the AUKUS agreement with Australia and the United States: projects that exemplify the contribution Defence makes to prosperity, jobs, investment and skills.

Defence is delivering our contribution to the Integrated Review, Command Paper, and their subsequent updates. Recent highlights include awarding contracts for the second batch of Type 26 frigates and Fleet Solid Support ships and the accelerated purchase of ARCHER artillery systems. We remain focused on our people, our relationship with industry, transforming the force through science, innovation and technology, and seeking productivity gains.

In sum, these are worrying times, but the nation should be reassured: Britain is safe and well defended, and

Defence is becoming stronger and more productive. This Report reflects the dedication and skill of everyone involved, military and civilian, and we are very proud to lead them.

David Williams CB
Permanent Secretary for the Ministry of Defence

Admiral Sir Tony Radakin KCB ADC
Chief of the Defence Staff

Ministry of Defence – Organisation and Purpose

The main purpose of the Ministry of Defence (MOD) is to protect the people of the United Kingdom, prevent conflict, and be ready to fight our enemies. We are prepared for the present and fit for the future. Our priority outcomes over the past year have been to:

1. Protect the UK and its Overseas Territories
2. Enhance global security through persistent engagement and response to crises
3. Understand and counter, state and non-state threats
4. Contribute to NATO collective deterrence and Defence
5. Modernise and integrate Defence capabilities by taking a whole force approach to our people and increasing the use of technology and innovation

Defence is led at the official level by the Permanent Secretary, who is the Secretary of State's principal policy adviser; the second Permanent Secretary who oversees delivery of the Integrated Review and Defence Command Paper; and the Chief of the Defence Staff, who is the professional head of the Armed Forces and principal military adviser to the government and is supported by the Vice Chief of the Defence Staff. The Permanent Secretary is also Defence's Accounting Officer, with personal accountability to Parliament for ensuring the economic, efficient, and effective use of Defence resources.

The Defence Operating Model sets out how all parts of Defence work together to deliver Defence outputs and describes the key roles, responsibilities, authorities and accountabilities for all activities and decision-making processes. Defence is made up of 19 organisations: Head Office, four Military Commands, the Defence Nuclear Organisation, UK Space Command and 12 Enabling Organisations. More detail can be found in the How Defence Works publication[1].

The Annual Report and Accounts exists to hold the Department to account before Parliament and the public. It is audited by the National Audit Office prior to publication. It consists of a Performance Report, an Accountability Report and the Annual Accounts, providing detail on Defence activity undertaken during financial year 2022–23. The Performance Report is based around the Priority Outcomes agreed as part of the Ministry of Defence Outcome Delivery Plan[2].

Defence Risks

The Department has a risk management policy which supports the identification and management of risks and informs decision making across Defence. The process provides evidence-based assurance over the

1 How Defence Works (September 2020) (publishing.service.gov.uk)

2 https://www.gov.uk/government/publications/ministry-of-defence-outcome-delivery-plan/ministry-of-defence-outcome-delivery-plan-2021-to-2022

effectiveness of key controls to reduce uncertainty and identify opportunities.

Risk in Defence is managed at all levels. Strategic risks to the successful running of Defence and achievement of our objectives are managed by the Defence Board. These include:

- The affordability of the vision for Defence
- The capacity and capability of our workforce
- The delivery of operational capability and readiness
- The delivery of the Defence and Security Industrial Strategy and resilience of the supply chain

Key Achievements across the year

AUKUS deal delivers a trilaterally developed submarine **based on the United Kingdom's next-generation design** that will be **built and operated by the UK and Australia**.

The Prime Minister announced the **Global Combat Air Programme** (GCAP) in December 2022 a new partnership, **between the UK, Japan and Italy**, to deliver next-generation combat aircraft.

The UK has worked with International partners to establish the **International Fund for Ukraine**, to procure **equipment and support for Ukraine's Armed Forces**.

We have committed **£2.3Bn to support Ukraine** including over **10,000** anti-tank weapons, a squadron of **14** Challenger tanks and over **200,000** rounds of artillery ammunition.

The **UK** remains the only European Ally to **provide** a full spectrum of **capabilities to NATO**.

We have **exceeded** our **NATO** pledge to spend **2% of GDP** on Defence spending.

Ukrainian volunteers being trained in the Northwest of England by multinational forces

The **Wraparound Childcare** scheme was launched in September 2022. Within the first seven months of launch, over **7,000 children** are making use of the scheme.

The **Typhoon** programme continues to **support more than 20,000 jobs** throughout the UK.

The **fifth Astute submarine,** HMS ANSON, was **formally commissioned into service**

The RAF and industry partners carried out a **world-first 100% sustainable fuel flight** using a Voyager military aircraft, a world-first using an aircraft of that size.

Support to Ukraine

2022-23 has seen increased Russian aggression in Ukraine. In response, the UK continues to work closely with Allies and partners to ensure the provision of military support: to enable Ukraine to better defend itself; to restore its internationally recognised borders; and support its right to be a sovereign, independent and democratic nation. The UK committed £2.3Bn in military spending to Ukraine in 2022 and has sustained this into 2023 to enable the provision of: capabilities; training; and support to allow Ukraine to secure lasting peace.

The UK has continued to be at the forefront of the provision of military equipment to Ukraine, including through the gifting of substantial quantities of equipment and munitions from our own stocks. We have delivered a wide range of capabilities to help our Ukrainian friends to defend their territory throughout 2022. This included: anti-tank weapons, rounds of artillery ammunition, multiple-launch rocket systems, Air Defence systems, with associated ammunition and missiles, armoured and protected vehicles, as well as body armour, helmets, and over a hundred high-power industrial strength electrical generators.

In January 2023, we announced an accelerated package of combat power to help Ukraine build on their battlefield successes. This included the provision of a squadron of 14 Challenger 2 tanks, AS90 self-propelled guns, hundreds more armoured vehicles, a manoeuvre support package, another hundred thousand artillery rounds and further anti-tank munitions.

While training of the Armed Forces of Ukraine under Operation ORBITAL has paused, the UK continues to deliver a major training operation for Ukrainian forces under Operation INTERFLEX. Working with up to nine partner nations, training of Ukrainian personnel is progressing well across sites in the UK with over 18,000 Ukrainian personnel trained since Russia's illegal invasion, with the ambition for up to 20,000 in 2023. Ukrainian soldiers on this training programme undertake courses based on the UK's basic soldier training. This includes weapons training, battlefield first aid, fieldcraft, patrol tactics and training on the Law of Armed Conflict. The UK has also committed to expand training for Ukrainian forces to sea and air, including pilots and marines, as part of long-term investment.

The UK has worked with international partners to establish the International Fund for Ukraine (IFU) which uses pooled funding to procure critical military equipment to meet Ukraine's priority requirements. The first package, announced in February 2023, included vital capabilities in the form of uncrewed air systems, electronic warfare, air defence, maritime intelligence, surveillance and reconnaissance, and spare parts for equipment. Delivery of these capabilities to Ukraine will begin in July 2023. The second IFU round was launched in March 2023. The UK, Netherlands, Norway, Sweden, Denmark, Iceland and Lithuania have collectively contributed over £520M to the IFU to date, of which the UK contributed £250M in 2022-23. Further contributions are anticipated in the coming months.

We have delivered:

Over 10,000 Anti-Tank Weapons
Over 200,000 rounds Artillery Ammunition
Over 300 Armoured & Protected Vehicles

Financial Performance Summary

Introduction

The Finance Function is well-established within Defence, with clear policies and procedures and accountabilities, supported by effective and proportionate internal controls and assurance.

The Function has played a pivotal role in enabling the Department to meet the variety of challenges faced during 2022-23. These have included the significant ramping up of support to the Armed Forces of Ukraine, the Integrated Review Refresh and dealing with the implications of high inflation.

The Spring Budget 2023 provided an extra £5 billion for defence and national security over the next 2 years and £2 billion per year in subsequent years up to 2027-28. This will improve the resilience and readiness of the country's forces, by bolstering our conventional stockpiles, enabling early investment for the AUKUS submarine alliance, and modernising our nuclear enterprise.

The Finance Functional Leadership programme concluded in March 2023, but this does not mean that our transformation journey is complete. We are committed to continuous improvement and are focused on system and process improvements as part of the Journey to the Cloud, an Information Systems Enabled Business Change programme.

Financial Performance in 2022–23

Overview

The MOD receives authority from Parliament to commit resources to run the Department, both capital and cash, via the **Supply Estimates**. These are published twice in each financial year.

HM Treasury are responsible for the design of the budgeting system against which the Department is controlled. **Departmental Expenditure Limits** (DELs) are set as part of the **Spending Review** process and departments must not exceed these limits.

Resource Budgets control current expenditure such as pay, equipment support and infrastructure maintenance, as well as asset depreciation.

Capital budgets exist to control new investment and allow spending on capital assets.

Within the Resource DEL there is a separate **Administration** budget, also set in the Spending Review, to cover expenditure on running central government bodies (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 and the Cost of Operations.

Annually Managed Expenditure (AME) budgets are demand led and volatile so cannot be absorbed within normal controls. The AME budget is set by HM Treasury and any expected increases require Treasury approval. There is also a non-budget section of the Statement of Outturn against Parliamentary Supply (SOPS) to cover any prior period adjustments that may be required within the current year's accounts.

Performance Against Estimates

The Department's financial outturn was again delivered within all Parliamentary Control Totals and DELs. This was achieved through effective and regular scrutiny and challenge of our financial plans, forecasts and risks, throughout the organisation. Accountability for financial outcomes is clearly defined, with all Budget Holders including those in Enabling Organisations and their Finance Directors, personally responsible for delivery within budget and within defined tolerances for forecasting accuracy.

As a result we have effectively balanced the Capital Departmental Expenditure Limit (DEL) to within 1% of the £20.472 billion budget. This is a notable achievement in view of the significant increase in capital expenditure in 2022-23 as we continue to implement the decisions taken as part of the Integrated

Review. The Non-Ringfenced Resource DEL was also delivered to within 0.3% of the £31.735 billion budget. This was achieved without the need for central intervention or savings exercises.

A breakdown of expenditure against the Parliamentary and Treasury Controls can be found in the following table:

Analysis of Departmental Expenditure

Comparison of Estimate to Outturn	Estimate £ billion	Outturn £ billion	Variance £ billion	Variance %
Resource DEL (non ringfenced); of which	31.735	31.651	0.084	0%
Admin Costs	*1.811*	*1.758*	*0.053*	3%
Resource DEL (ringfenced)	8.246	7.351	0.895	11%
Cost of Operations (ringfenced)	0.900	0.846	0.054	6%
Total Resource DEL	**40.881**	**39.848**	**1.033**	**3%**
Capital DEL (non ringfenced)	18.313	18.278	0.035	0%
Cost of Operations (ringfenced)	2.159	2.026	0.133	6%
Total Capital DEL	**20.472**	**20.304**	**0.168**	**1%**
AME (Resource)	(8.500)	(13.856)	5.356	63%

The majority of the Resource Departmental Expenditure Limit (RDEL) variance in core expenditure of £0.084 billion, reflects lower expenditure on costs associated with the administration of the Department.

The Capital Departmental Expenditure Limit (CDEL) outturn variance was £0.035 billion and relates to minor movements on number of capital investment programmes.

Ringfenced Resource DEL relates to depreciation/ impairment of the Department's assets. The variance to budget (£0.895 billion) reflects uncertainty over the scale and scope of any impact from the Integrated Review Refresh on asset valuation.

For Annually Managed Expenditure (AME), which by its nature is demand led and volatile, the outturn was £5.356 billion below budget, reflecting the significant change to Treasury Discount Rates used in the valuation of long-term nuclear decommissioning provisions, which was reported late in the financial year.

No non-budget expenditure has been reported as no prior period adjustments to financial statements have been necessary in 2022–23.

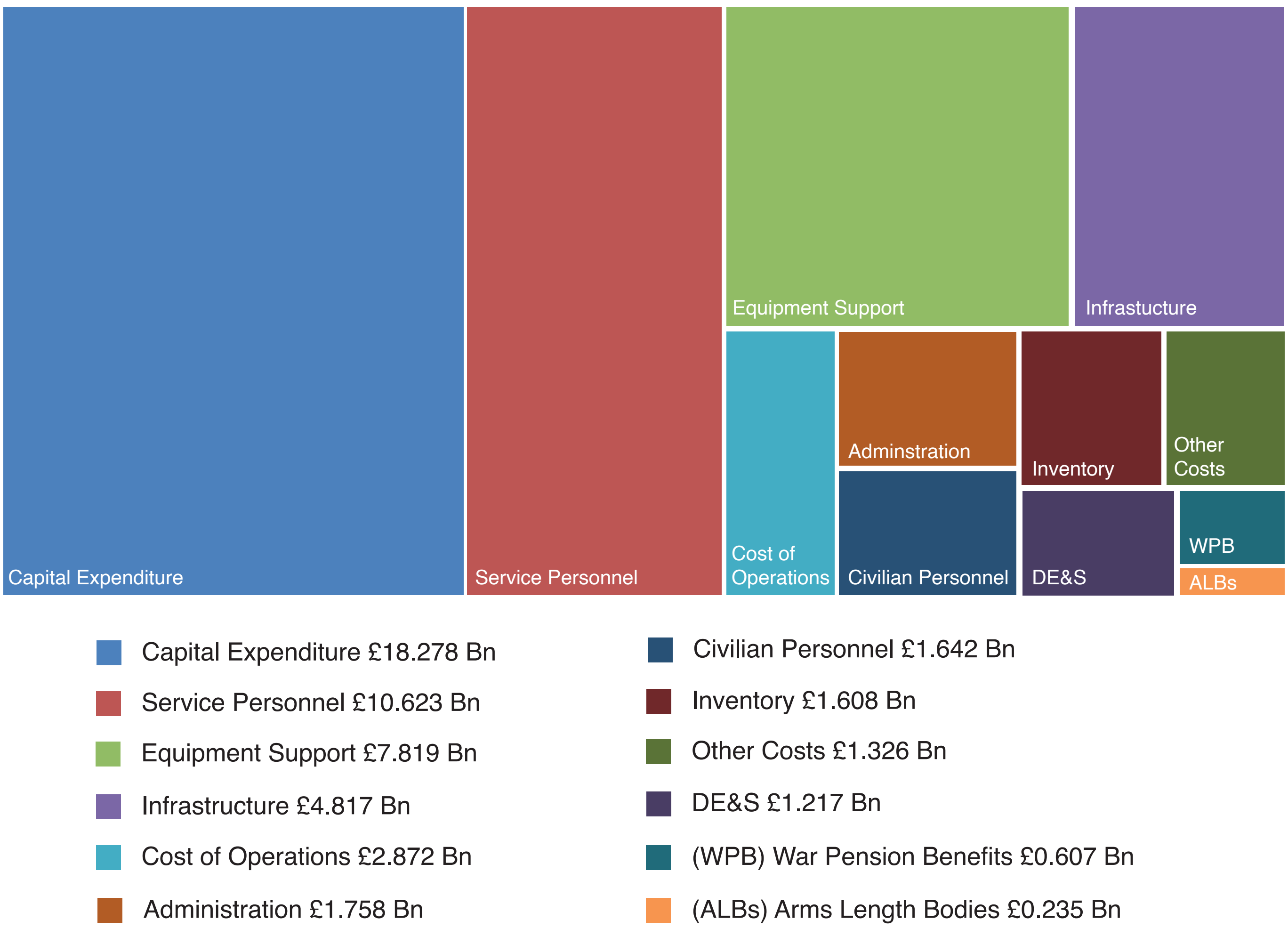
Further detail on the Reconciliation of Net Resource Outturn to Net Operating costs can be found in the Accountability Report SOPS Note 2.

Where We Spent Our Money in 2022–23

The following chart provides a breakdown of all non-ringfenced expenditure and operational ringfenced expenditure incurred by the Department in 2022–23. This expenditure is controlled by the Department through the In-Year Management forecasting process. It is the effectiveness of this process that enabled the Department to deliver a non-ringfenced RDEL and CDEL outturn very close to, but still within the approved estimates.

Where we spent Our Money 2022-23

Total Expenditure £52.801 billion



Category totals reflect separate rounded values in SOPS Note 1. This creates a minor anomaly whereby the total sum of these rounded values is £52.802 billion against total spending which is correctly stated as £52.801 billion.

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 (such as additional materials, travel etc.). Costs such as wages and salaries are not included as these were planned expenditure.

In 2022-23, net additional costs were incurred against a variety of operations, most significantly in the value of equipment and other support provided by the Department to the Armed Forces of Ukraine in relation to their ongoing conflict with Russia. Costs were also incurred against a variety of other operations including counter-terrorism.

The Deployed Military Activity Pool (DMAP) is a joint HM Treasury and MOD initiative to make resources available to fund the initial and short-term costs of any unforeseen military activity. In 2022–23, MOD also received the annual allocation from the Conflict, Stability and Security Fund (CSSF), a cross-HM Government fund enabling funding for conflict prevention, stabilisation, security and peacekeeping activities, under the strategic direction of the National Security Council (NSC).

The following table and graph reflect the spend on the main areas of conflict in 2022–23. Further details on military operations can also be found within the Performance Analysis section.

2022-23 Cost of Operations	Resource £ Billion	Capital £ Billion	Total £ Billion
Wider Gulf	0.039	0.001	0.040
North Africa	0.004		0.004
Other	0.010	0.080	0.090
CSSF	0.075		0.075
NATO	0.023		0.023
Iraq and Middle East	0.179	0.037	0.216
Europe	0.022		0.022
Afghanistan	0.019		0.019
Ukraine	0.475	1.908	2.383
	0.846	**2.026**	**2.872**

The following graph reflects the spend on the main areas of conflict in 2022–23:

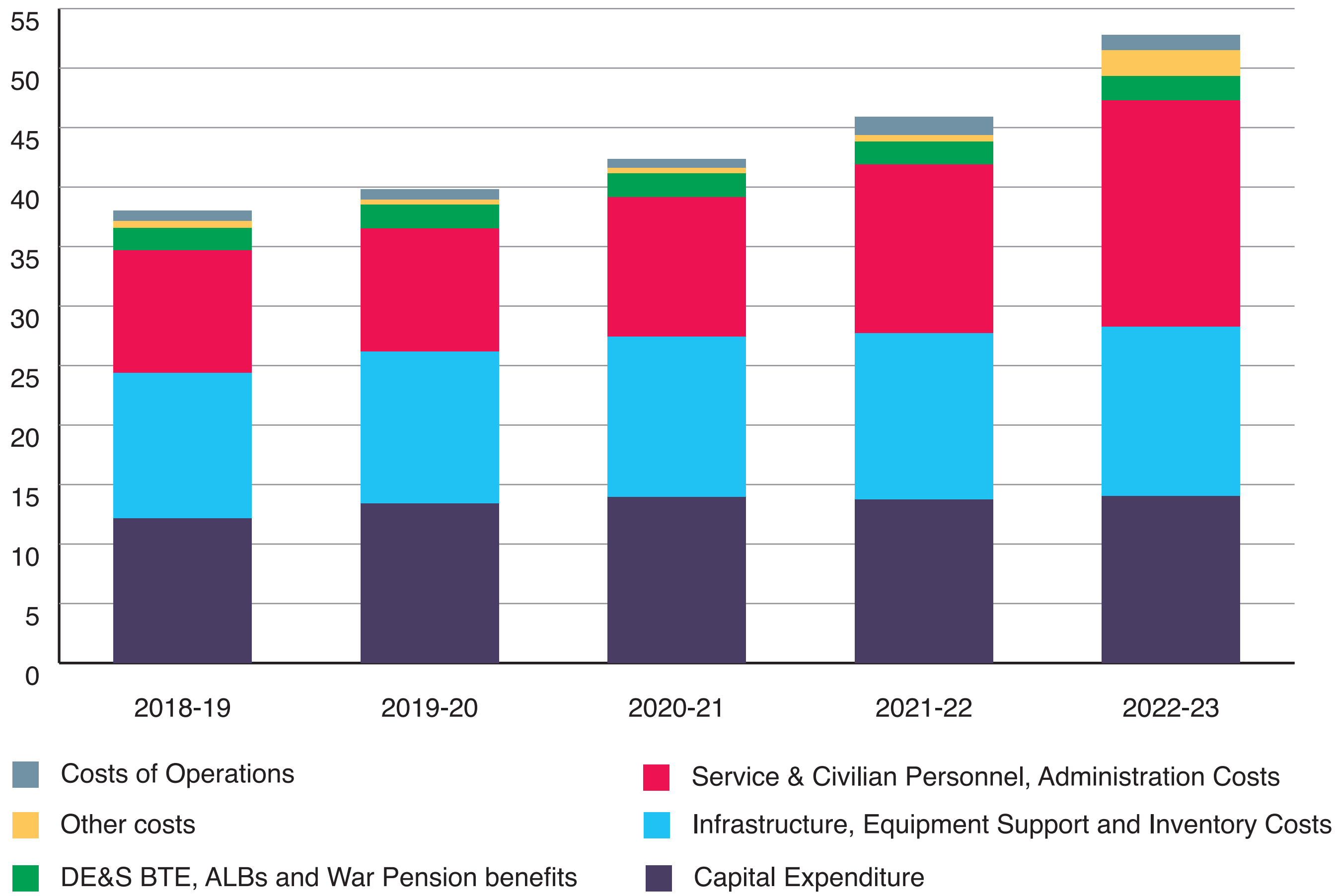
Long Term Expenditure Trends

The Department continues to meet the Government's commitment of spending at least 2% of the UK's Gross Domestic Product on defence and security every year.

As already noted, the Spring Budget 2023 provided an extra £5 billion for defence and national security over the next 2 years and £2 billion per year in subsequent years up to 2027-28. As set out in the Integrated Review Refresh, the Government's aspiration over the longer term is to invest 2.5% of GDP in defence, as the fiscal and economic circumstances allow.

The graph below shows the long-term trend for Resource and Capital expenditure, excluding asset depreciation and impairment from 2018-19 to 2022-23.

Analysis of Capital DEL and Cash Resource Del by Type of Expenditure (£Billion)



Finance Workforce

We recognise that professionalism and skills are vital to improving financial outcomes and we are committed to achieving a target of 60% of the finance profession holding a qualification.

Finance Professional Skills As at 31 March 2023	
Qualified staff[3] (of the total staff in the finance profession)	**1,259** (43%)
Studying for a professional qualification (of the total staff in the finance profession)	**523** (18%)
including those in apprenticeship programmes (of those studying for a professional qualification)	**183** (35%)
Finance Qualified SCS (of the total number of SCS)	**59** (87%)
SCS Studying (of the total number of SCS)	**5** (7%)
Grade 6/7 with relevant qualifications (of the total number of Grades 6/7)	**347** (76%)

The Finance Profession, Skills and Talent Management Strategy was revised in May 2022 and forms a key part of our strategic workforce planning activity and focuses on the following areas:

- **Resourcing** – ensuring that we have the resources we need to deliver financial management across the MOD;
- **Skills** – ensuring that we have the right skills and experience needed to deliver financial management across the MOD;

3 Those holding qualification from Consultative Committee of Accountancy Bodies (CCAB) / Chartered Global Management Accountant (CGMA) and Association of Accountancy Technicians (AAT)

- **Talent** – ensuring that we identify our talent and develop it appropriately to optimise delivery of financial management across the MOD.
- **Data** – ensuring that we use management information effectively to monitor and adjust our plans to deliver the Finance workforce required.

We have launched a Level 4 Apprenticeship external recruitment campaign to attract a diverse pipeline of talent to build and grow the future finance profession. This will support our ability to offset an aging demographic and build in knowledge transfer. It is anticipated that candidates will be in post by Autumn 2023

The Government Finance Function's Career Framework, detailing roles requiring professional qualifications, has been embedded across the majority of the profession; the remaining areas will be transitioned through the summer 2023.

Workforce dashboards have been developed and continue to be improved, to ensure that strategic workforce interventions are focused on the right areas.

Financial Assurance & Audit Activities

Financial Accounting and Audit

The Department has continued to focus on improving the quality and consistency of the Statement of Financial Position. Initiatives were overseen by a senior level board with targeted activity undertaken to improve known areas of weakness (including asset verification, decommissioning provisions and lease accounting). This activity was informed by the findings of internal and external audits.

Financial Accounting issues and risks are regularly reviewed by the Financial Management Executive and my Finance Committee.

Internal Control and Assurance Framework (ICAF)

We have continued to sustain compliance with the framework which sets the procedural baseline for controls and assurance for finance teams throughout the Department. Compliance is tested through quarterly self-assessment reporting and independent review by Defence Internal Audit.

The target was to sustain financial control compliance above 90% for each quarter. As reported in the Finance Function Annual Assurance Report 2022-23, this was achieved in each quarter with compliance of 95%, 96%, 95% and 96%.

We will continue to work with the Departmental control owners in the coming year, to focus on the opportunities identified for further improvements to controls.

Equipment Plan (EP) Assurance

The Cost Assurance and Analysis Service (CAAS) have continued to assess programme costings and overall affordability of the EP, through Independent Cost Estimate (ICE) reviews.

During 2022-23, CAAS conducted 53 ICE reviews covering around 50% of the EP against a target of 50%.

Finance Transformation and Improvement

The Finance Function has five overarching principles for this transformation programme:

- **People** – build skills and capability to maximise workforce potential
- **Culture and Behaviours** – challenge and be open to challenge

- **Process** – challenge the norm, standardise and automate with a focus on how we make a difference for the future
- **Insight** – strive for the best quality data to support decision making
- **Technology** – maximise the use of technology alongside the interoperability of data

Transforming how we operate is at the heart of this programme. Both Finance and Commercial Functions are reviewing how they currently operate across process, data, performance and controls and will adopt the work coming out of Functional Convergence.

Finance Functional Leadership Programme (FFLP) and Journey to the Cloud

The Finance Functional Leadership Programme (FFLP) formally concluded at the end March 2023 with some elements of final transition occurring after this date. FFLP has delivered a new Service Delivery Model (SDM) which is being adopted across all Top Level Budgets (TLBs) and Enabling Organisations (EOs) that make up the Finance Function, providing a clear structure and operating model to the Function, increasing professionalism and allowing people to undertake more focused and value-added work, whilst enabling the provision of an enhanced Finance Service Offering to the business, all underpinned by a strong foundation of culture and behaviours that support and embed the associated changes:

- Implementation of a consistent SDM has a crucial part to play in standardising ways of working, increasing consistency in organisational structure across the Finance Function and bringing multiple benefits for our people, the Department and our customers:
  - A more focused and efficient **Finance Operations** which is at the heart of Finance, supporting the business and the rest of Finance, with critical management information, to build understanding of the financial position and to keep everything functioning effectively.
  - A more cohesive **Specialist Services**, creating an opportunity for individuals to become real experts in their field and exploit their knowledge through sound judgement and recommendations.
  - A stronger **Finance Business Partnering** presence which provides our customers with a critical friend, strategic input and drives better decision making.
  - Professional focused roles providing the opportunity for more challenging work and creating a Finance Function which is proud, respected, valued and at the heart of decision making.
  - Greater alignment with the Government Finance Function (GFF), which will provide new opportunities for career and personal development,

through the use of standard career frameworks for individuals to create their own career pathway.

- A simpler finance model, which is easier for our customers to understand and interact with, building a reputation for finance as an enabler and not a blocker.

- Improved processes: MOD Finance Systems Strategy and MI & Data Strategy were endorsed, which provide the strategic principles for the future development of the corporate systems and how data will be governed, including the strategic move to the ‘Cloud’.
- In addition, the Finance Operating Model (FOM) has been documented and sets out how finance operates; the finance services and key high-level outputs delivered; how the finance teams are organised; the people, processes and systems to enable the function; the governance framework and how we engage and communicate both within the Finance Function and with other parts of Defence.

Post FFLP, TLB/EOs will continue to adopt and remain aligned to the SDM and FFL principles, closing the gap between the initial 80/20% position. The resolution of any divergences will continue to be monitored through to completion by the Finance Function Board, which I chair, where TLB/EOs will report back and provide updates at the appropriate stages of delivery.

The Finance and Commercial IS Enabled Change (Journey to Cloud 'J2C') Programme is progressing at pace and has already made significant progress delivering to its and to the broader Government Shared Services Strategy (GSSS) and Corporate Services Modernisation (CSM) objectives:

- Strategic Outline Case (SOC) was approved in February 2022.
- A team has been established, working alongside Commercial and Defence Business Services Digital, Information and Technology colleagues to deliver the programme covering:
  - **Project Management Office** (PMO).
  - **Finance Transaction Processing** (FTP) – focused on the General Ledger and its transactional subledgers including Asset Management, Project Accounting, Procure to Pay and Order to Cash.
  - **Financial Planning and Analysis** – focused on In Year Management, short and longer-term planning.
  - **Data and Management Information/Analytics**.
  - **Finance Capability and Change** – focused on our people and our customers in terms of stakeholder engagement, communication and building capability to ensure our people have the right skills and expertise to successfully deliver finance services once this programme has ended. Leading

on the overall change management approach, essential if we are to deliver this ambitious programme effectively.

- Programme Governance established August 2022, with a monthly Programme Board chaired by the Director Operational Finance, reporting into the Finance Function Board. A Deputy Director Capability Working Group has also been established to support the programme, to ensure ongoing regular engagement with the Finance Deputy Directors across the Department.
- Delivery of the Discovery and Assessment Phase with the key functional deliverables of Functional and Non-Functional User Requirements (UR). The URs have been developed based on Government Finance Function best practice principles and significant engagement at all levels across the Function, with a rigorous review and sign off process involving Deputy Director and Director process owners along with endorsement by the Finance Directors and DG Finance in May 2023.

Ukraine

The Department has played a pivotal role in facilitating the provision of support to the Armed Forces of Ukraine (AFU) during 2022-23. As has been publicly announced, the Department has committed £2.3Bn of support during this period including both lethal and non-lethal equipment procured and supplied directly to AFU, as well as equipment repair and maintenance and training of AFU personnel. The value of support was agreed with HM Treasury and ringfenced as operational expenditure. UK Government has committed to providing at least this level of support in 2023-24, if required.

Priorities for 2023–24

As a result, the Department's support to Ukraine is continuing into the new financial year. We will work with other partner nations where appropriate in addressing requirements such as through the International Fund for Ukraine which the UK is administering. We will also continue to work with HM Treasury to address the budgetary consequences of continued support, including direct procurement of equipment and timely replenishment of items issued from our own stockpiles.

The Department has established a mature understanding of the impact of high inflation on our programmes and activities. We are actively seeking to mitigate these impacts through engagement with our suppliers. These engagements will continue through 2023-24.

On other matters, I am delighted to see that the long-standing NAO audit qualification of our accounts for non-compliance with lease accounting standards has been removed in 2022-23. This reflects the huge amount of work undertaken by finance teams working with other functions (particularly Commercial) to deliver compliance. We recognise the need to ensure that we sustain this position by ensuring lease accounting is embedded as business as usual.

A focus on continuous improvement in the Finance Function will be crucial to enabling the function to meet future challenges. The solid foundations established through our Finance Functional Leadership programme stand us in good stead in achieving this ambition. We will also continue to progress system improvements including automation opportunities and management information enhancements through our Journey to the Cloud Project.

The Finance Function has built a strong reputation within the Department as a key enabler to delivery of often complex business outcomes. The function is also seen by external stakeholders, as high performing in a number of areas. We must strive to maintain and enhance this reputation further by exploiting the very real opportunities to streamline our systems and processes.

Charlie Pate
Director General Finance

Performance Analysis

Priority Outcome 1

Protect the UK and its Overseas Territories

Our UK Armed Forces have a long-standing world class reputation and continue to defend and deter danger against the British people, our interests and our allies. We have personnel stationed around the world stopping terrorism, keeping sea lanes open and delivering humanitarian aid. The expertise and experience of His Majesty's Armed Forces allows them to operate in every domain on land, at sea, in the air, in space and in cyber space. In 2022-23, we continued to deliver our Defence commitments enhancing national resilience and strengthening defence through the Continuous At Sea Deterrent, Quick Reaction Alert aircraft and Military Aid to Civilian Authorities. By maintaining a global presence in uncertain and testing times, the UK Armed Forces are a force for good on the world stage, providing constant stability and security and are above all, keeping Britain and its Overseas Territories safe.

PO1 Key Achievements

Over 50 years of **Continuous at Sea Deterrence**

71 MACA operations with 6,716 personnel deployed

Quick Reaction Alert Aircraft tracked **213** National Incidents with **4** launches in response to potential counter terrorism incidents

Explosive Ordnance Disposal teams attended **1,967** Conventional Munitions Incidents
Down from 2,200 (2021-22)

372 Improvised Explosive Devices incidents attended
Up from 367 (2021-22)

Over **40** years of **peace, security and prosperity** in the Falkland Islands and South Georgia and the South Sandwich Islands

Deter and Defend

In 2022-23, we continued to deliver our Defence commitments enhancing national resilience and strengthening UK Defence.

Defence has continued to provide an Integrated Air Defence System through the Royal Air Force (RAF), comprising of Quick Reaction Alert Typhoon fighters and Voyager tankers, air surveillance and control facilities, and space-based systems.

A minimum, credible, independent nuclear deterrent, based on a continuous at sea posture and assigned to the defence of NATO, remains essential as the ultimate guarantee to our security, and that of our allies. Since April 1969, there has always been a Royal Navy ballistic missile submarine at sea on deterrent patrol under Operation RELENTLESS.

Cyber and Electromagnetic

The National Cyber Force, a partnership between defence and intelligence, is responsible for operating in and through cyberspace in order to counter threats, protect and promote UK interests in support of national goals and is a central component of Defence's commitment to develop the UK's cyber capabilities. Over the past year its operational output has continued to grow, supporting the Armed Forces and wider UK foreign and domestic security objectives. Work continues to prepare facilities at Samlesbury, the National Cyber Force's new HQ. This will create capacity to accommodate its development and growth in order to meet the ambition sought by the UK National Cyber Strategy.

Enhanced defensive cyber and cyber security control measures continue to be applied in an agile way across Defence's extensive digital attack surface to counter the persistent threat presented by the full spectrum of cyber adversaries, and a new Defence Electromagnetic Authority has formed within the Defence Digital organisation to help counter the expanding risk across the electromagnetic environment, a risk that current operations in Ukraine have only reinforced.

Defence has continued to build on its commitment to cyber training and education and, in October 2022, the Defence Cyber School became the Defence Cyber Academy. As well as delivering high quality cyber training, it now has an expanded remit to provide international training and plays a significant role supporting the wider development of a national cyber profession.

Space

The war in Ukraine has served to reinforce the space domain's importance in securing information advantage and enhancing military operations. We continue to work at pace to deliver the ambition set out in the Defence Space Strategy[4], published in February 2022.

To broaden and deepen our international co-operation, we have: signed agreements with new international partners; played a leading role in the seven nation Combined Space Operations initiative; and supported the Government's work at the UN on responsible space behaviours, including, in October 2022, making a commitment not to destructively test direct ascent anti-satellite (DA-ASAT) missiles.

4 https://www.gov.uk/government/publications/defence-space-strategy-operationalising-the-space-domain

To meet current and evolving threats and to ensure continuity of the UK's military space-based communication capability out to the 2040s, we are delivering the next generation SKYNET 6 system, a resilient Satellite Communications service. Defence is pursuing options to enhance resilient and assured Positioning, Navigation and Timing (PNT) capabilities, and is supporting a cross-Government PNT team to explore a wider 'System of Systems' approach.

Operation ISOTROPE

Following the Prime Minister's direction, Defence took primacy on 14 April 2022 to 31 January 2023, for the Government's response to managing small boat migration in the Channel under Operation ISOTROPE. The aim of Operation ISOTROPE was to ensure migrants did not arrive in the UK on their own terms and were passed into the Home Office immigration system for appropriate processing. Despite 45,700 migrants crossing in 2022 (28,526 in 2021), there was a reduction in uncontrolled landings during Defence primacy. Only seven uncontrolled landings occurred within 2022, reduced from 39 in the previous year. Defence maintained approximately 180 personnel as part of Operation ISOTROPE and supported the small boats operation with various resources: an Offshore Patrol Vessel (OPV), six P2000s patrol vessels, one Wildcat helicopter and two rigid hull inflatable boats (all rotated throughout the operation).

Military Aid to Civil Authorities

Defence is not the lead for any civil contingency, but if required can provide support through the Military Aid to the Civil Authorities (MACA) process, whilst maintaining Defence's ongoing domestic national security commitments.

The 2022-23 financial year was another busy and varied year for the UK Armed Forces domestically, delivering 71 MACA operations.

Defence's vital role in supporting Safety of Life at Sea (SOLAS) operations involved providing P8 and A400M search, research and recovery aircraft in support of vessels in distress in the Atlantic Ocean on two occasions in 2022.

The industrial action in the last months of 2022-23 required more than 1,350 military personnel to assist ambulance trusts (750 personnel) and Border Force (600 personnel).

At the 2022 Commonwealth Games in Birmingham, we provided 2,076 Armed Forces personnel to ensure smooth delivery of the Games.

Counter Terrorism Support

Defence continued to maintain specialist personnel and three army battalions at high readiness to assist civilian authorities in the event of a terrorist attack. This includes Operation TEMPERER – the contingency plan to surge military support to respond to terror threats within the UK.

These capabilities were not activated during the 2022-23 financial year.

Deployments of military personnel have taken place routinely to maintain security at large-scale events, such as Her Late Majesty's State Funeral and the Commonwealth Games. Within an international context, Defence continues to support the overseas element of the UK's counter-terrorism strategy (CONTEST) and protect British nationals overseas, including by supporting partner nations to develop their own counter-terrorist capabilities in priority locations. This is carried out through Operation MONOGRAM. Our forward network of Counter-terrorism Regional Coordinators has enabled 25 projects in 27 countries to reduce threats to the UK and increase regional stability across the globe.

Explosive Ordnance Disposal

Defence has a long-standing agreement in place with the Home Office to respond to and render safe Chemical, Biological, Radiological, Nuclear and Explosive (CBRNE) devices in the UK. The Department routinely monitors the CBRNE threat through our local security partners which informs our resilience capability. The delivery of the first 25 of 120 new Explosive Ordnance Disposal (EOD) and electronic countermeasure (ECM) vehicles, GASKET 3, has taken place over the past year. The GASKET 3 fleet will replace the Wedgewood EOD vehicles and will be based throughout Great Britain, Northern Ireland, Cyprus, and Gibraltar. The programme is a £75m investment and represents a major modernisation to UK EOD operations.

Protect Overseas Territories

The protection of the Overseas Territories (OTs) and their people is one of the UK Government's most important responsibilities. All Front-Line Commands continued to deliver their standing military commitments to the Defence of the UK OTs. We continued to fulfil our obligations through the permanent presence of British Forces South Atlantic Islands (BFSAI). This includes the Falkland Islands, for which we marked the 40th anniversary of the conflict with a series of events throughout the year.

In support of the British Antarctic Territory and obligations under the Antarctic Treaty, the Royal Navy's Ice Patrol Ship, HMS PROTECTOR, completed her annual deployment to Antarctica. In the Caribbean, the Royal Navy presence also ensured we were on hand to provide immediate humanitarian relief during the hurricane season and assist in the interdiction of illicit narcotics.

The Royal Navy continues to respond to incursions into British Gibraltar Territorial Waters and British Indian Ocean Territories (BIOT) which have increased in activity post COVID-19. We have also supported US and allied naval and air units operating in the Indo Asia Pacific region.

Defence continued its support to deployment of local Defence Regiments and RAF activity in the Sovereign

Base Areas of Cyprus, increased to counter Russian malign activity in the East Mediterranean.

The Royal Funeral

On 8 September 2022, Buckingham Palace announced the death of Her Majesty The Queen, who was the head of the Armed Forces.

On the passing of Queen Elizabeth II, Operation LONDON BRIDGE was activated. This was a pan-Government plan to allow the country to mourn, conduct succession planning and deliver the State Funeral befitting the Queen.

Around 6,000 members of UK Armed Forces were deployed on ceremonial duties. This included:

- 846 from the Royal Navy
- 4,416 from the British Army
- 686 from the Royal Air Force

Around 175 members of Armed Forces personnel from the militaries of Commonwealth nations also took part.

Priority Outcome 2

Enhance global security through persistent engagement and response to crises

Global security enables freedom. Hostile state and non-state actors employ a variety of methods, both above and below the threshold for conflict. Alongside these human adversaries, there are also natural phenomena, such as natural disasters, floods, and hurricanes. Defence is committed to aiding our allies and the global community to eliminate or at least reduce the harmful consequences of the above threats.

This helps our understanding, shaping and influencing of the global environment. In 2022-23, we made progress in delivering our Defence commitments to strengthen security and defence at home and overseas by: supporting the building of capacity and resilience of like-minded partners to evolving security threats; and playing our role as part of the Government's effort to reduce the incidence of conflict.

PO2 Key Achievements

The Australia, UK and US partnership **(AUKUS)** continued to demonstrate our ambition to forge stronger bonds in the **Indo-Pacific.**	The Defence Secretary and Estonian Defence Minister signed a **Joint Roadmap** on the UK's future posture in November 2022.

A military **medical treatment facility** and critical care air support team and aircraft deployed to **Turkey** in support of the UK's response to the 6 February 2023 earthquake.

The Royal Navy's newest and most advanced nuclear attack submarine carried out **NATO security patrols** in the **Mediterranean** on her maiden operational deployment.

The Defence Secretary signed a Framework Agreement on **enhanced defence co-operation** with Finland.

UK and French forces worked together around the world, including in the **UK-led NATO** force in **Estonia**, and in **Africa**.

In **Bosnia** and **Herzegovina** the UK has continued to support the NATO mission to drive defence and security sector reform and **NATO Partnership for Peace** (PfP) activities.

Five Allied aircraft carriers – including Britain's flagship – took part in operations in the **Atlantic** and **Mediterranean** waters in a **demonstration of NATO unity**.

Overseas Defence Activity

We continue to work with our partners and allies to ensure global security and build each other's capacity.

Our security, and that of Europe, is dependent on alliances and partnerships. The conflict in Ukraine has focused our attention in the Euro-Atlantic area. UK support to Ukraine can be seen as vindication of our approach to build partners' capacity, where our persistent presence established the relationships, built the trust and created the understanding that has allowed UK Defence to lead the international effort.

We continue to enhance relationships in the Indo-Pacific. Our deployment of two Royal Navy Offshore Patrol Vessels, together with our increased network of Defence Attachés and Defence Staff, is a clear demonstration of this. Defence remains committed to its relationships in the Middle East, working closely with partners to build stability and prosperity as well as partnering to enhance national capabilities to counter state threats and Violent Extremist Organisations (VEOs).

We have continued to support the Afghan Relocations and Assistance Policy (ARAP).

The policy allows Afghan citizens who worked in key roles with or for the UK government in Afghanistan to apply for relocation to the UK for themselves and eligible family members. At the time of publication, we have relocated over 12,200 individuals to safety in the UK under the ARAP scheme. This includes over 5,000 ARAP eligible people since the end of Operation PITTING in August 2021.

We continue to deepen relationships with partners in Africa as we endeavour to address future threats. While the UK Government has decided to withdraw the Long Range Reconnaissance Group from the UN's peacekeeping Mission in Mali (MINUSMA), due to the country's deteriorating political situation and lack of support from the Malian government, British Military Support Officers to the UN continue to work with the UN Mission in country. In December 2022, the British Peace Support Team (Africa) delivered the first UK-owned, UN-accredited peacekeeping intelligence course in Uganda. They have continued to routinely train other nations' peacekeepers in high-demand fields such as medical care and counter- Improvised Explosive Device (IED). Our 250-strong force in Cyprus (UNFICYP) remains central to the effectiveness of that peacekeeping operation.

The Americas

Our special relationship with the USA remains the cornerstone of modern global security. Alongside Canada, as a Five Eyes (intelligence alliance, which includes Australia, Canada, New Zealand, the United Kingdom, and the United States) partner, we continue to conduct joint exercises and have unparalleled scientific and nuclear co-operation. These relationships serve to protect global interests. Through security and foreign policy, we continue to seek new opportunities to strengthen our bilateral defence and interoperability across all Services, at all levels. We also remain focussed on our responsibilities to the UK Overseas Territories in Latin America and the Caribbean and strengthening partnerships in the region to support our global interests.

Africa and the Middle East

In delivering an enhanced presence in Africa, we are seeking to deepen relationships with key partners to support them to tackle upstream threats. In the Middle East, the UK remains committed to building long term stability and prosperity. This is achieved through regular capability building activity and developing successful partnerships.

Indo-Pacific Region

The growing importance of the Indo-Pacific region has been reflected in the Defence contribution in the Indo-Pacific. We have remained resolute with our allies and have continued to grow important partnerships, increasing interoperability and protecting our shared Defence and security interests. We are clear that China poses a complex systemic challenge to our values and interests.

Global Networks

89 **Defence Attachés and Defence Advisors**

349 **Defence Section Staff**
181 **Loan Service Support**

Our network of attachés and advisors deliver a broad range of Defence tasks including Defence engagement, policy advice, sales, representative duties and management of UK Defence activity within host nations on behalf of the Secretary of State for Defence and the Chief of Defence Staff. They are also responsible for the provision of military advice to His Majesty's Ambassador or High Commissioner.

Training places offered **1,744** Down from **2,051** (2021-22)

Aiding in the form of training and education creates a valuable opportunity for the UK to exercise influence around the world. Such training is a key element of Defence engagement and contributes towards capacity building, security sector reform, conflict prevention and stabilisation.

Official Development Assistance Spend

Defence is involved in delivering Official Development Assistance (ODA) because it has unique capabilities to support development outcomes. Defence education and training can help build the capacity of recipient countries to better manage their response to security challenges which may hold back economic development, thus benefitting the welfare of the population and supporting conditions for reducing poverty. In 2022 we spent £3.659M on ODA.

Human Security

We have continued to deliver world-class human security training; most notably to over 18,000 Ukrainian personnel through Operation INTERFLEX and to UK military personnel deploying on Operation NEWCOMBE in Mali. We also advanced engagement on Human Security and Women in Defence with Georgia, Lebanon, Bosnia and Herzegovina and Sri Lanka leading to tangible policy changes. At the Foreign Commonwealth and Development Office's Preventing Sexual Violence in Conflict Initiative Conference in November 2022, the Minister for Armed Forces highlighted the importance of military co-operation with civilian agencies in conflict zones, to ensure the right support is delivered to victims and survivors.

Priority Outcome 3

Understand and counter state and non-state threats

Russia's illegal invasion of Ukraine has sharply raised the immediate threat and security issues to the Euro-Atlantic region, the like of which we have not seen since the Second World War. China has become increasingly assertive and coercive, posing an enduring and epoch-defining global challenge to British interests. Iran and North Korea remain volatile threats to their regions, and we are still contending with violent extremist organisations and self-initiated lone acting terrorists aspiring to attack the UK. Global activity and connectivity have presented new challenges to governments around the world.

Timely, accurate and coherent intelligence remains critical for today's decision-makers, informing all levels of command from strategic to tactical, giving advantage and reducing the risks and uncertainties in an increasingly complex battlespace. It is improving coherence and consistency, and thus effectiveness and efficiency, across all parts of the Department where intelligence activity takes place, including in the Front-Line Commands.

Our intelligence analysis is able to show that Russia's invasion of Ukraine has failed to meet its strategic and operational objectives: we have witnessed poor appreciation of Ukrainian resilience; shortcomings in command and control; and major logistics shortfalls. Russia's perception that they are in an enduring struggle with the West, and that the UK is a leading anti-Russian voice, will almost certainly harden and persist. Accordingly, Russia will remain the greatest military threat to the UK and to the West, through 2023 although, in the short-term, losses from its war in Ukraine will render it significantly weaker in some areas of capability.

China's increasingly assertive government continues to pose an enduring global challenge to British interests (including Defence interests), seeking to rewrite the international order, disrupting stability and prosperity.

That it is more authoritarian and has growing links with Russia raises concerns for us. The modernisation of the People's Liberation Army (PLA) continues and its posture towards Taiwan remains troubling. China's efforts to influence internationally through coercive and covert means and its attempts to acquire intellectual property and other information in the 'grey zone' are risks we follow closely.

Iran continues to pose a threat to regional stability. Whilst protests have distracted the regime, they have not affected its ability to continue to sponsor malign activity across the region. Meanwhile, its ever-growing defence relationship with Russia is also a source for concern. Our intelligence has helped cross-government efforts on Iran's nuclear intent and helped illuminate the increasing threats to the UK homeland. Elsewhere, our intelligence capabilities continue to monitor the activities of violent extremist organisations and the growing presence of Russia and China in Africa, the Americas and the Middle East.

Intelligence

We have invested in new operational intelligence capabilities. Our geographic intelligence (GEOINT) systems have been upgraded to exploit new sources of data giving us a cutting edge for the future. We have also significantly expanded the capabilities associated with, and the availability of, Open Source Intelligence (OSINT) this year to meet the increasing needs and expectations of users of this high value resource. As the operation and survivability of our military platforms becomes ever more important, we have invested significantly in our mission data production capabilities, the heart of which is the Joint Electronic Warfare Operational Support Centre. Mission data is the lifeblood of modern combat systems. New partnerships with industry are improving the continuity of business and delivering new technology and processes. The results, already tangible, mean products are more responsive to the needs of the UK Armed Forces, our allies and our export sales customers.

Secretary of State’s Office of Net Assessment and Challenge (SONAC)

During 2022-23 SONAC reached its full operating capability. This has allowed SONAC to build on the foundations of its initial years, to deliver increased challenge and evidence to Ministers, senior officials, and at major boards: to increase the rigour of decision-making; to produce more evidence-based products to help Defence understand the nature of the threat and the balance of advantage; to develop red teaming, strategic analysis, and wargaming capacity across Defence and wider government; and to inject external expertise into Defence.

We have war gamed Ukraine crisis scenarios in order to develop understanding and testing for future events; provided multiple scenario products to better understand future risks and opportunities; and facilitated the development of the cross Whitehall Russia strategy. We have built foundational products on China's economy, as well as key challenge and evidence papers on the potential Taiwan crisis, to help us understand where strategic advantage may lie. We have examined strategic advantage, military effectiveness, economic statecraft and global threats which will underpin our Net Assessments and strategies in the years ahead.

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Priority Outcome 4

Contribute to NATO collective deterrence and defence

NATO Allies face the same threats as the UK including: the emergence of space and cyberspace as operational and warfighting domains; the proliferation of arms, especially advanced weaponry; the ability for non-state actors to acquire these advanced weapons and use them in unconventional warfare; terrorism; the global threat posed by Russia and the challenges from China.

The UK knows it is stronger with allies and partners, and its commitment to NATO is unwavering. We remain the only European Ally to provide a full spectrum of capabilities to NATO, from our Continuous At Sea Deterrent and Offensive Cyber to our conventional Armed Forces. This year, we made an ambitious offer to NATO, increasing the number of UK forces available to the Alliance under the NATO Force Model – which will modernise and strengthen NATO's force structure for the future. The UK will lead the land component of the Very High Readiness Joint Taskforce and transition this to the inaugural Allied Reaction Force in 2024 – an agile, multi-domain and combat effective force ready to deploy at very high readiness and respond to a range of crises.

PO4 Key Achievements

The UK has made the largest offer of any NATO ally to the **NATO Readiness Initiative**	We have deployed up to **1,850** personnel on **enhanced Forward Presence** missions
We have exceeded our NATO pledge to spend **2% of GDP** on Defence spending	The UK has achieved a **92% fill rate** for NATO positions. This has been consistently above 90% for the last 5 years

In response to Russia's invasion of Ukraine, the UK strengthened its commitment to Estonia. We have bolstered our enhanced Forward Presence Battlegroup by maintaining division-level assets in country and augmenting these with periodic deployments of additional capabilities and enablers, including Apache and Chinook helicopters. We are also supporting Estonia with training and the development of its first divisional-level HQ.

As part of the UK's commitment to NATO, the RAF is currently providing a Quick Reaction Alert capability in Romania. This is a recurring 4-month deployment of Typhoon jets, known as Operation BILOXI, which is part of a wider NATO enhanced Air Policing mission to maintain the security of NATO airspace.

The UK has also increased its troop numbers in Poland. To help ensure the Alliance retain its cutting technological edge, the UK will co-host, with Estonia, the European HQ of the Defence Innovation Accelerator for the North Atlantic in White City, London.

RAF Personnel from Joint Force Air Component, deployed to Turkey on Exercise Volkan, to assist and support the Turkish Joint Force Air Component's training as they work up to hold this NATO commitment in 2025. This exercise was designed to test the Turkish Joint Force Air Component's ability to conduct operational planning and deliver complex joint operations in challenging scenarios.

The Joint Expeditionary Force (JEF) is a British-led force comprising of 10 partner nations. The JEF provides a range of responses in times of crisis – on its own or in support of NATO – with a particular focus on the High North, North Atlantic and Baltic Sea regions. The JEF conducted two major Exercises, Joint Protector 22 in Denmark in November 2022 and JEF Warrior in Norway in March 2023 to enable JEF partners to plan and deliver high-value training as part of the continued development of JEF interoperability.

In May 2022, RAF personnel and aircraft participated in a major NATO exercise in North Macedonia, known as Exercise Swift Response. This is an annual multinational exercise that this year covered 8 countries in 3 regions: the Arctic, the Balkans, and the Baltic region. The exercise involved about 9,000 members of the Armed Forces from 17 NATO and partner nations. The RAF contribution focused on North Macedonia, where they have been training with forces from North Macedonia, USA, Italy, France, Montenegro, Albania and Greece. These NATO exercises ensure the alliance's preparedness to respond to threats.

Priority Outcome 5

Modernise and integrate Defence capabilities by taking a whole force approach to our people and increasing the use of technology and innovation

Our adversaries have advanced their technology, from hostile groups having access to sophisticated equipment such as drones, to large state actors developing advanced weaponry such as high-speed ballistic missiles. Defence's advances need to outpace our adversaries, to ensure we can effectively compete and, if necessary, defeat.

To address these challenges, we have continued to improve our equipment and accompanying equipment support, modernising, and better integrating the capabilities of our Armed Forces. Investment has continued in the domains of cyberspace and space, and in modern platforms and weapons systems that will enable us to extend our technological advantage over our competitors. As a result of the refresh of the Integrated Review, Defence will receive £5 billion of additional funding over two years, focusing on the priority areas of nuclear resilience and conventional stockpiles.

In 2022-23, we have made progress in delivering our Defence commitments to sustain strategic advantage through science and technology (S&T) and innovation, guided by our S&T strategy, and our commitment to invest at least £6.6 billion in Research and Development (R&D) over the next four years, to 2024-25.

We have prioritised higher-risk research to support the modernisation of our Armed Forces. We aim to deliver an enduring military edge in areas including space, directed energy weapons and advanced high-speed missiles. We also committed to accelerating the modernisation of digital capability, in support of military and business advantage, and multi-domain integration. We have continued to secure our data, systems, and digital infrastructure, to reduce cyber security risk.

Through the Defence and Security Industrial Strategy (DSIS), we have adopted a more strategic approach to our industrial base to ensure the UK continues to have competitive, innovative, and world-class defence and security industries. Government and industry are working closely together to deliver the DSIS commitments, to drive innovation and improvements in productivity and efficiency, and strengthen the resilience of the defence sector.

We have continued to invest in Defence Infrastructure; including investing more in accommodation to improve the lived experience for service personnel, as part of our Accommodation Strategy published in Autumn 2022. We have also made progress on the Defence Estate Optimisation Programme with delivery of our sustainability targets through improvements to our estate.

Our focus will be matched by a more modern approach to our workforce. Our people – military and civilian – will remain fundamental to delivering our competitive advantage, our links to society, and our global standing.

PO5 Key Achievements

The **Global Combat Air Programme** will support over **2,800** jobs in the UK

The **AUKUS** deal will deliver a trilaterally developed submarine based on the United Kingdom's next-generation design that will be built and operated by the UK and Australia

Second **Type 31** frigate construction started, creating over **1,500** jobs, across the supply chain, including **1,250** high-skilled roles and **150** apprenticeships

Supporting UK's **defence industrial base** through significant international capability collaborations and export opportunities including urgent capability requirements in response to Ukraine

The **Defence and Security Accelerator** allocated over **£49M** across **249** projects, of which 56% were with Small & Medium-sized Enterprises (SMEs).	**623 Mechanised Infantry Vehicles** on contract. **Boxer** is a modern, highly protected and mobile platform with further purchases under consideration
UK Space Command has achieved Initial Operating Capability of over **500** personnel	Building of **Advanced Technology Research Centre** announced
The **Wraparound Childcare** scheme was launched in September 2022. Within the first seven months of launch, over **7,000** children are making use of the scheme	Our **female representation**, in the regular Armed Forces, continued to increase in 2022-23 to **11.5%,** up from 11.3% (in April 2022)
71% of Armed Forces and Civilian Personnel based outside South East and London regions in UK	The **Defence Accommodation Strategy** launched in October 2022

Defence and Security Industrial Strategy (DSIS)

The Defence and Security Industrial Strategy (DSIS) recognised the need to think about defence and security industries as strategic capabilities in their own right and consider the broader industrial impacts of our decisions. The UK's response to the Russian invasion of Ukraine has underpinned the importance of closer and earlier dialogue between government and industry.

We have achieved a great deal since DSIS was published in March 2021. In the past couple of years, the Government has published the Small and Medium sized Enterprises (SME) Action Plan, the refreshed National Shipbuilding Strategy, the second Joint Economic Data Hub Annual Economic Report, the Land Industrial Strategy, the Science and Technology (S&T) Collaboration and Engagement Strategy, and the Defence Capability Framework. We will look to create strategies for key capabilities at a level of detail beneath those segments in DSIS. Strategies for Radar and Uncrewed Systems are being developed to provide direction for Defence teams, guide investment decisions and set out our intent in these key areas to industry. We are also delivering a range of initiatives to improve our acquisition processes and culture under the pan-Defence acquisition reform agenda, a key enabler of DSIS.

The Procurement Bill is now at report stage in the House of Commons. This will create a new framework for single source procurement where contracts are not competed.

Defence provisions remain largely as they were introduced and we are anticipating Royal Assent in 2023. We continue to work with the Cabinet Office on the development of the Bill.

Exports

We are working closely with the Department for Business and Trade to manage a portfolio of strategic export campaigns across all domains. During 2022–23, we have built on the commitments of the Defence and Security Industrial Strategy to support several high value opportunities, working closely with industry to develop competitive offers for equipment and support arrangements. We have actively promoted Boxer and SupaCat in the Land domain, Type 26 and Type 31 (AH140) maritime campaigns, Eurofighter Typhoon, and several types of Complex Weapons, for which there have been a surge in demand around the world as several countries seek to prioritise expanding and upgrading their capabilities and in particular, ground based air defences.

We have developed how we support government to government mechanisms for defence exports through "Defence Partnerships". Learning from experience of the MOD Saudi Arabia Projects organisation, bespoke arrangements have been created to support exports to and collaboration with India and Poland, and several other countries have expressed interest in creating similar mechanisms.

Global Combat Air Programme[5] (GCAP)

The Global Combat Air Programme (GCAP) is a new partnership, announced by the Prime Minister in December 2022, between the UK, Japan and Italy, to develop the next-generation combat air capability. GCAP aims to harness next-generation technologies to deliver cutting-edge sensors, weapons and data systems. It is being designed to ensure our ability to protect our interests and allies and partners, to retain control of the air, and to conduct crucial missions in contested environments, integrated with forces across air, land and sea, and interoperable with our F-35 fleet and allied aircraft.

The aircraft, which will start to replace the Typhoon from 2035, will provide the backbone of the RAF fighter force and sit at the centre of a wider system of capabilities, including next-generation weapons systems and uncrewed aerial systems.

The programme aims to harness the combined strength of our countries' defence industries, sharing expertise and costs and delivering at pace. It is supporting highly skilled jobs in all three countries, with over 2,800 people working on it in the UK alone, acting as a launch pad and a ladder for careers in highly skilled roles such as software engineering. It will contribute to the UK's world-class combat air sector, which employs more than 40,000 people directly and in the supply chain. It is strengthening

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5 Global Combat Air Programme takes centre stage at DSEI Japan – GOV.UK (www.gov.uk)

our sovereign industrial base and driving innovation through large-scale investment in R&D.

AUKUS

On the 13th March 2023, the UK and Australian Prime Ministers and the US President announced the conclusion of the 18-month scoping study to enable Australia to build, deploy and operate conventionally-armed nuclear-powered submarines. This will be delivered through a three phased approach, culminating in the delivery of nuclear-powered attack submarine (SSN) AUKUS, a trilaterally-developed SSN using a UK design combined with cutting edge US submarine technology. Both Australia and the UK will build and operate SSN-AUKUS. The programme will create a more resilient trilateral industrial base and deliver thousands of UK jobs, while enhancing peace and stability in the Indo-Pacific and Atlantic. On the 13th March 2023, the US State Department also announced a 36-month extension to the Open General Licence pilot, enabling trilateral re-exports and re-transfers within and between the AUKUS nations.

Shipbuilding

£4.3Bn of Defence expenditure was attributed to UK shipbuilding and repair in 2021-22[6]

£4.2Bn
awarded to BAE Systems to build the second batch of five Type 26 Frigates

1,700 **UK jobs** supported through the BAE Systems contract over the next decade

1,200 **UK shipyard jobs** and an expected **800 jobs** in the UK supply through the Fleet Solid support contract

The National Shipbuilding Office is implementing the National Shipbuilding Strategy Refresh and bringing a clear strategic focus on maximising the national benefits from Government shipbuilding activity. As part of this, Defence is making a significant contribution through its procurements for the Royal Navy.

Construction in the Rosyth dockyard of the second Type 31 frigate has started – the second in a fleet of five frigates to be built by Babcock in Scotland which will support around 1,500 jobs across the supply chain including 1,250 highly-skilled roles and 150 apprenticeships.

6 https://www.gov.uk/government/statistics/mod-regional-expenditure-with-uk-industry-and-supported-employment-202122

In addition to the ongoing Type 31 build by Babcock in Rosyth, BAE Systems were awarded a £4.2Bn contract to build the second batch of five Type 26 Frigates. The next generation frigate will form the backbone of Defence by providing anti-submarine protection to the Royal Navy Fleet and the contract will support 1,700 jobs over the next decade, delivering on the ambitions in the National Shipbuilding Strategy Refresh.

The £1.6Bn Fleet Solid Support contract will see around £100M investment into UK shipyards, and will deliver three ships essential to the UK's Carrier-led Maritime Strike Group. The majority will be constructed at Harland & Wolff's facilities in Belfast and Devon, with components to be manufactured in their other delivery centres in Scotland.

Submarines

The UK is committed to its submarine build programmes. Replacing the Vanguard Class, the Dreadnought Class will deliver the UK's future nuclear deterrent capability. When they enter service from the early 2030s, they will be the largest submarines ever operated by the Royal Navy.

Construction of the first and second Dreadnought Class submarines is well underway in Barrow-in-Furness, Cumbria. They will be powered by the next generation of nuclear reactor, allowing the submarine to patrol the oceans silently for months at a time. At its peak, the Dreadnought programme will support around 30,000 UK jobs. In September 2022, the first steel was cut on the third Dreadnought submarine WARSPITE, at the BAE Systems shipyard and the ceremony was in February 2023. The Astute programme will deliver seven state of the art nuclear powered attack submarines, replacing the Trafalgar Class. HMS ANSON, the fifth Astute Class submarine, sailed from Barrow-in-Furness in February 2023 to begin her journey to His Majesty's Naval Base Clyde where she will prepare for sea trials before entering operational service with the Royal Navy.

Defence is strengthening the delivery of the UK's nuclear deterrent with a new senior leadership team supported by new governance arrangements and a clear focus on delivery. We are enabling the nuclear enterprise with greater delegated powers and a model that supports swift decision making.

Complex Weapons

The Complex Weapons Strategy, established in 2010, is based on the onshore industrial capability vested within MBDA UK and Thales at Prime Contractor level. The approach ensures that we maintain Freedom of Action and Operational Advantage whilst supporting and maintaining UK jobs and industrial capability in Complex Weapon design, manufacture and its supporting supply chain.

Over the last 12 months we have continued to deliver key capabilities and milestones. These include In Service Support contracts for Sea Viper and Meteor, the latter being critical to maintaining the UKs Meteor Beyond Visual Range Air-to-Air Missile capability. Air Complex Weapons also provided significant support of granting in kind to Ukraine across three separate air weapon systems.

We are progressing advanced laser and radio frequency demonstrators as part of the Novel Weapons Programme, through three contracts with UK industry. Known collectively as Directed Energy Weapons (DEW), these next-generation technologies could revolutionise the battlefield and reduce the risk of collateral damage. The systems are powered by electricity and operate without ammunition, significantly reducing operating costs, increasing platform endurance and providing unprecedented offensive and defensive flexibility to personnel on the frontline.

Strategic Suppliers and the Supply Chain

The Equipment Plan[7] and maintenance of military capability relies on a significant national and international supply chain. Our focus remains on understanding and monitoring supply chain fragility and resilience, strengthening risk management, and gaining better visibility of our indirect supply chain and its potential impact on Defence outputs. This includes understanding the longer-term impact of the Ukraine crisis, Covid-19, and the United Kingdom's departure from the European

7 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1120332/The_defence_equipment_plan_2022_to_2032.pdf

Union on industry, with the aim of identifying and managing emergent issues, and mitigating risks with our strategic suppliers and our extended critical supply chain.

We have invested in a department-wide programme designed to map and understand our most-critical supply chains, and we continue to collaborate across government and internationally to share intelligence and best practice on common critical supply chains and materials. We have achieved success in driving policy improvements in areas of small and medium enterprise spend, anti-slavery, social value, sustainability, and prompt payment performance.

Acquisition Reform

Acquisition reform is a pan-Defence effort focussed on sustained, system-wide improvement, learning from experience to drive increased pace and agility and address the systemic challenges that impact on programme delivery. In particular, we are committed to delivering an acquisition system that is faster and more agile, in order that we move at the pace of modern technological development – maintaining our cutting edge against adversaries.

Over the past year, we have focussed on embedding our new tools and techniques which enable tailored approaches and support the strategic alignment which is key to successful delivery. More projects have been using the Risk and Complexity Assessment which enables strategic challenges to be addressed earlier, Single

Decision-Making Meetings which bring together key approvals stakeholders to reduce investment decision-making times, and Project Capability Optimisation Assessments to ensure Senior Responsible Owner (SRO) and team capabilities match project challenges. We are also investing more resource in our programmes, for example by increasing the number of SROs. We are exploring greater use of portfolio approaches to enable flexibility and adaptability in responding to emerging threats.

We are already starting to see improvements and we are building on these achievements. Our approach involves setting our programmes up for success, consulting experts, including industry, earlier in the process; being proportionate in all that we do, valuing time to drive pace and tailoring our approaches according to each programme's risk and complexity; focussing on our people, increasing professionalism and building a cadre of accredited and experienced Senior Responsible Owners; and ensuring we can adapt rapidly to a changing environment by building incrementally on existing capability to deliver to the front line more quickly.

Capability

Navy Command

The Royal Navy has modernised it's fleet at pace this year. Investing in cutting edge technology to redress the imbalance between afloat offensive and defensive capabilities, the Navy has initiated procurement of the

Mark 41 missile launch silo and the Naval Strike (anti-ship) Missile to enable parity with threats in the North Atlantic. In the Underwater domain, we continue to evolve our design of the Sting Ray Mid Life Upgrade (our future Light Weight Torpedo) which will be a modern world class underwater weapon.

The Royal Navy continues to deliver its core Defence Outputs. HMS GLASGOW – first of class Type 26 frigate – achieved float off into the Clyde, a significant milestone on the pathway to maintaining Operational Advantage in the North Atlantic. Project Cetus sees us going even further by introducing an Extra Large Autonomous Underwater Vehicle as part the Anti-Submarine Warfare Spearhead Programme, while supporting a small, innovative UK company through the creation of specialist jobs.

In February 2023, the XV Patrick Blackett vessel, a unique testbed ship, left Portsmouth Naval Base to undergo sea acceptance trials. The XV Patrick Blackett, named after the British physicist and former Royal Navy Sailor who went on to win the Nobel Prize for physics, will enable the Royal Navy to accelerate the delivery of new technology and equipment to the front line.

Type 26 Frigate

The £4.2Bn T26 Batch 2 contract was signed in November 2022 and will see BAE Systems build the remaining five vessels. The T26 Global Combat Ship programme will deliver a total of eight Anti-Submarine

Warfare (ASW) Frigates replacing the T23 ASW Frigates. All three Batch 1 ships are under construction in the BAES Govan and Scotstoun yards.

Type 31 Frigate

First steel was cut for HMS ACTIVE in January 2023, the second in class of the Type 31 “Inspiration Class”. These will replace the Type 23 General Purpose Frigates. Significant investment in Rosyth Dockyard infrastructure and automation has realised planned productivity gains.

Fleet Solid Support (FSS)

The £1.6Bn contract for three FSS vessels was awarded in January 2023 to Team Resolute (including BMT, Harland & Wolff and Navantia UK). The FSS vessels will provide support to the Maritime Task Groups providing supplies from food to ammunition, enabling Royal Navy capability around the world.

Multi-Role Ocean Surveillance Ship

To mitigate the threat posed to the UK through seabed warfare, a commercial vessel has been procured by the Royal Navy and is being refitted to prepare for military service in late Summer 2023. It will be capable of hosting a range of predominantly underwater battlespace capabilities.

Future Commando Force

Future Commando Force (FCF) seeks to develop a capability that can deliver comparative advantage across the spectrum of conflict and support theatre access operations.

The contract for the collaborative Swedish, German, UK programme for the Future All-Terrain Vehicle programme has been signed, delivering 60 vehicles which will replace the Viking variant. The Commando Force programme is progressing through capability and assessment phase to the planned timeframes.

Army Command

The Ukraine conflict brought the Army's work to improve its readiness and resilience into sharp focus and has resulted in the Army delivering training to over 18,000 Armed Forces Ukraine personnel and continued granting-in-kind of lethal and non-lethal aid.

In support of Defence's contribution to the NATO Force Model offer, the Army has commenced delivery of £361M of additional capability which includes the recapitalisation of M270 Multiple Launch Rocket System launchers, Multi-Mode radios to upgrade communications and interoperability of UK Land Forces, and headsets to enable safe operation of the Army's Armoured Fighting Vehicle fleet.

Furthermore, as part of the modernisation of the Army's capabilities, PUMA medium Uncrewed Aerial Systems and lightweight surveillance radars have been delivered, and VIKARE Counter-UAS systems upgraded.

The Army has deployed personnel to 67 countries, including NATO enhanced Forward Presence deployments to Estonia, Indo-Pacific exercises in Japan, Republic of Korea, India, and Australia, and the success of counter-terrorism capacity building with Partner Nations.

In 2022-23, the Ranger Regiment delivered 300 activities across 52 countries and has personnel persistently deployed in Africa, Europe, and the Middle East. Agile and expeditionary, it has demonstrated it is optimised for military assistance and is steadily building its licence to operate, offering opportunities to achieve genuine information manoeuvre with, and through, partners.

The Land Regional Hub (LRH) Oman has enabled the execution of exciting and arduous overseas training through Exercise Desert Khanjar. These deployments demonstrate how the LRH concept could inform the optimisation of strategic effects in Belize and Brunei.

The Land Industrial Strategy sets out how Defence will leverage its £41.3Bn investment in land equipment and support over the next decade to foster an innovative, globally competitive, and highly skilled industrial base; whilst delivering greater international influence and allied resilience. Project MERCURY is working with industry to exploit emerging technologies including robotics, autonomy and artificial intelligence, and will also look at the tactical advantages of hybrid electric and electric vehicles. The Land Capability Campaigns Office has continued to co-ordinate efforts across government and industry to secure increased sales that help build industrial resilience and reduce procurement and through-life support costs.

Mechanised Infantry Vehicle

Boxer is a modern, highly protected and mobile platform; the Army currently has 623 on contract with further purchases under consideration. The first UK vehicle is expected to undergo trials in 2023 and the programme is on track to deliver the approved In-Service Date in 2025. New basing locations and training facilities are being developed; this will continue through 2023.

Main Battle Tank (MBT)

The Main Battle Tank programme will deliver 148 Challenger 3 MBTs with enhanced lethality, survivability, and mobility with Initial Operating Capability (IOC) in 2027. Rafael's Trophy Active Protection System and the Defence Science and Technology Laboratory (dstl) designed New Modular Armour which will deliver unparalleled levels of survivability.

Land Environment Tactical Communication and Information Systems (LETacIS)

LETacIS is a new generation of tactical military communications, forming the land domain's deployed digital backbone. It will connect sensors, decision makers and effectors and exploit open architecture. This year saw the delivery of more than 1,300 modern Multi-Mode Radios (MMR) to the Army, Royal Navy and Royal Air

Force and the conclusion of competition for the new TRINITY Wide Area Network.

Armoured Cavalry – Ajax

Ajax is a fully digitised reconnaissance vehicle with multiple sensors: it gives the Army a huge step up in digital and Intelligence, Surveillance, Target Acquisition & Reconnaissance (ISTAR) capability. Trials to address noise and vibration were successfully completed in October 2022 and a Performance Assessment Review was completed in December 2022. The programme timelines have been reset through formal departmental and Government approvals against a new Initial Operating Capability being achieved in the second half of 2025 and Full Operating Capability being achieved in 2028-29.

Air Command

The Royal Air Force (RAF) has continued to deliver its outputs for Defence. The ASTRA (building the Next Generation RAF) initiative has generated innovation from across the Whole Force. Achievements include: the ability to replace cadmium plating on aircraft parts without the need to remove the parts themselves – dramatically reducing costs and keeping more aircraft flying more of the time; a drone-based reconnaissance capability to keep bases secure; a hydrogen-powered towing tractor; and the introduction of BIOSCAN which is transforming how we measure the size and shape of our people and use that data to improve the fit, form and function of specialist flying clothing.

The Royal Air Force has worked extensively with industry to contribute to Defence's Net Zero ambitions. An RAF Voyager has undertaken the world's first flight of a military aircraft using only Sustainable Aviation Fuel – allowing us to set the global pace and understand the technical implications across the end-to-end supply chain and support infrastructure. The fuel which remained from this trial was then blended with other aviation fuel to conduct air-to-air refuelling of both Typhoon and a C-130 Hercules aircraft – again for the first time.

The Royal Air Force is also working with a contracted partner to conduct trials and experimentation to increase the scale of production for power-to-liquid synthetic fuels, using renewable energy for hydrogen electrolysis, and Direct Air Capture to obtain CO2 from the air, before chemically synthesising them to produce aviation fuel.

The Royal Air Force have launched Gladiator, a synthetic training system which links simulators and live aircraft to a central hub, enabling operators from across the Land, Maritime and Air domains to train safely and securely together. The scale, complexity, and security of the training provided by the new system is unparalleled within Europe. This dramatically enhances our ability to train effectively together and also lowers our carbon footprint.

As part of the ongoing transformation of Defence air traffic management services, a new hub has opened at

RAF Coningsby at which radar operatives from multiple units are now co-located. New equipment provides controllers with improved situational awareness enhancing flight safety, with digital upgrades including touch screen communications and enhanced radar pictures.

F-35B Lightning aircraft

The first tranche of 48 F-35B will be delivered to the UK by 2025 with a second tranche taking the total fleet to 74 aircraft scheduled to begin delivery in 2027 and supporting the generation of a third frontline Squadron by 2033.

Typhoon European Common Radar System (ECRS) Mk2 radar

ECRS Mk2 is vital for Typhoon to operate in contested environments to maintain freedom of action and control of the air. The development of ECRS Mk2 will sustain a UK industrial base that will benefit the Global Combat Air Programme (GCAP) and ensure we remain competitive in the Combat Air export market. The ECRS Mk2 programme will commence ground/flight trials in 2023-24. The Typhoon programme continues to support more than 20,000 jobs throughout the UK. The latest investments sustain more than 1,300 jobs across the UK, including the North East, North West, South East and Scotland.

PROTECTOR

The next generation of remotely piloted medium-altitude, long endurance aircraft will replace Reaper and enhance the UK's ability to deliver a persistent armed Intelligence, Surveillance, Targeting and Reconnaissance (ISTAR) capability. Initial Operating Capability is expected in 2024 with Full Operating Capability programmed for 2026.

P-8 Poseidon

The P-8 Poseidon programme is filling a long-term gapped Maritime Patrol capability and will achieve Full Operating Capability in 2024.

E-7

E-7 will deliver significantly increased operational effectiveness over the legacy E-3D fleet and will provide the UK's contribution to the NATO Airborne Early Warning and Control Force with better availability, lower operating costs and a reduced workforce requirement.
The programme is expected to achieve Full Operating Capability in 2026.

A400M

The A400M is the UK's primary Tactical Air Transport aircraft and replaced the C130J in all roles in June 2023. To date, the aircraft has demonstrated a significant step change in capability, in important operational circumstances – e.g. the airlift from Afghanistan and Sudan, and humanitarian and disaster relief operations in the Caribbean and Indonesia. The transfer of capability from C130J to A400M is ongoing with both low and high-level parachute capability graduating in 2023 to enable 16 Air Assault Brigade Combat Team and Special Forces projection. The final aircraft of 2022 will be delivered by Summer 2023.

UK Space Command

UK Space Command has achieved Initial Operating Capability and has over 500 personnel which will continue to grow over the coming year.

It is responsible for delivering the Defence Space Portfolio, which will deliver capabilities to meet the Defence Space Strategy objectives to protect and defend UK interests and enhance military operations; the first two satellites as part of the MINERVA network (the ‘digital backbone’ for our Intelligence, Surveillance and Reconnaissance programme, ISTARI) have been placed on contract with an expected launch in early 2024.

Space Command, in conjunction with the UK Space Agency, is developing the requirements for a joint civil-military Space Domain Awareness programme and planning for a National Space Operations Centre, which will improve civil-military Space Command and Control.

Having completed a Training Needs Analysis, Space Command is working to upskill the Defence workforce, including delivering an Executive Space Operations Course, and continuing work to establish a Space Academy.

UK Strategic Command

Strategic Command develops, generates, operates and integrates unique information age capabilities to maintain operational and strategic advantage in an era of persistent competition. UK Strategic Command (UKStratCom) core purpose is to lead the cyber and electromagnetic domain, support joint commanders in campaigning, and drive more integration.

NATO's Strategic Concept and subsequent recognition of Multi Domain Operations (MDO), leaned heavily on the thought leadership provided by the Defence's Multi Domain Integration Change Programme and the Development Concepts and Doctrine Centre. This solidifies how we will fight into the future and provides the conceptual basis for future force design.

In October 2022, UKStratCom took on the direction and management of the Global Defence Network (Defence Attachés, loan service, and permanent overseas training teams). Bringing this network into UKStratCom accelerates integration with our six overseas bases and the operational networks run by our joint commanders to provide greater insight, influence, and prosperity opportunities for Defence.

Digital

Defence has continued its mission to transform its use of technology and data by focusing on delivery of three strategic outcomes. We are creating a digital 'backbone' that focuses on the technology, people, and organisational processes that will allow us to share data seamlessly and securely with decision-makers across all the military and civilian domains. We are also creating a digital ‘foundry’ that is defining a software and data analytics development centre that will use the capability and access to data provided by the ‘backbone’ to rapidly develop digital solutions in response to emerging needs. We are committed to delivering an empowered digital function with a skilled and agile community of digital specialists who will help deliver digital transformation and closer integration across Defence.

The National Audit Office (NAO) has recognised the Digital Strategy for Defence[8] as being consistent with good practice across government, providing clear direction across the Department. Digital Exploitation for Defence (DX4D) has helped strengthen and accelerate digital transformation across Defence by extending the Digital Strategy to Defence level outcomes. The Data Strategy is driving working level improvements within programmes to strengthen data integration and the sharing of data through digital systems that connect to one another securely and effortlessly. Defence Digital has published and continues to develop common standards, shared architecture, policy and ways of working in order to govern and drive coherent Defence effort towards the adoption of functional initiatives.

Research and Development

Cutting edge Science and Technology (S&T) investment is critical to the security, prosperity and resilience of the

8 https://www.nao.org.uk/reports/the-digital-strategy-for-defence-a-review-of-early-implementation/

United Kingdom. Defence has worked closely with other government departments in support of the Science and Technology Superpower agenda and the development of the UK Science and Technology Framework. The Department has committed to invest at least £6.6Bn over four years to 2024-2025 to ensure we sustain operational advantage, make the right decisions and are able to effectively exploit new technologies to develop battle winning military capabilities.

Defence works with a rich network of academics, industry and international partners to deliver our objectives and enhance the national R&D and Innovation ecosystem. Internationally, through focused relationships and strengthened through multilateral collaborations such as AUKUS, we have targeted key S&T and innovation activities that achieve the best strategic benefit for the UK. These technical co-operation areas are now underway in quantum, artificial intelligence and cyber, modernising and improving our capabilities.

Defence has also delivered key commitments and intentions set out in the 2020 Defence Science and Technology Strategy[9]. This includes the publication of the S&T Collaboration and Engagement Strategy[10], aiming to help Defence access more UK talent by creating a single portal into the world of Defence Science, Technology and

9 https://www.gov.uk/government/publications/mod-science-and-technology-strategy-2020

10 https://www.gov.uk/government/publications/accessing-more-uk-talent/science-and-technology-collaboration-and-engagement-strategy-accessing-more-uk-talent

Innovation. The new S&T Portfolio[11] was launched, designed to pivot S&T towards high-risk generation-after-next research. The Defence AI Strategy[12] was published, together with policy on the Ambitious, Safe and Responsible[13] development and use of AI-enabled capability.

Defence has improved and strengthened its overall R&D system by establishing five end-to-end R&D Pipelines based on its five most significant and enduring Capability Challenges. The R&D Pipelines focus on enabling better, more-informed decisions, allowing us to gain more value out of R&D. As examples, this work has allocated £16M to drive the demonstration of Dragonfire Laser Technology Demonstrator Programme within 2 years and up to £21M of additional funding for the Asymmetric Hard Power R&D Pipeline.

In 2022-23, the Defence Innovation Fund invested just under £100M, contributing to over £300M of the £800M to be spent over a ten-year period. This includes continued funding for the Spearhead Programmes enabling rapid progress on key elements of R&D. A broader approach to financial risk has supported additional freedoms for Operational Staff and wider Defence Innovation Hubs to pursue and deliver innovative solutions to Defence

11 https://www.gov.uk/government/publications/defence-science-and-technology-programmes-and-projects/ministry-of-defences-science-and-technology-portfolio

12 https://www.gov.uk/government/publications/defence-artificial-intelligence-strategy

13 https://www.gov.uk/government/publications/ambitious-safe-responsible-our-approach-to-the-delivery-of-ai-enabled-capability-in-defence

problems at pace. This enabled the rapid development and deployment of capability for Ukraine.

The Defence and Security Accelerator (DASA) launched 12 themed competitions and ran 5 cycles of the Open Call for Innovation, enabling suppliers to accelerate their ideas into defence and security. Since April 2022, DASA has allocated over £49M across 249 projects, of which 56% were with SMEs. The Defence Technology Exploitation Programme (DTEP) was launched in June 2022, in partnership with Innovate UK, offering grants to help SMEs join Defence supply chains, and come together with larger suppliers to solve Defence problems. Projects include improved personnel tracking on board HMS QUEEN ELIZABETH and using data to improve marksmanship training.

The Levelling Up White Paper aims to increase public investment in R&D outside the greater South East by 40% thereby spreading expenditure more evenly across the UK. Of the £1.3Bn spent on R&D by Defence this year 72% of extramural R&D was spent outside the South East, South West and London.

People

Defence strives to attract, retain and motivate a diverse and talented workforce. As at 1 April 2023, the size of the Armed Forces including Reserves is 188,817 and a civil service of 60,640. The Armed Forces intake reduced during 2022-23 as there was a greater emphasis on recruiting specific skills rather than recruiting greater mass. We continue to recruit a diverse workforce, with representation of both women and ethnic minority groups in the regular Armed Forces on an upward trajectory over the last five years. As of 1 April 2023, representation for ethnic minority groups in the regular Armed Forces was 10.1% and representation of women was 11.5%.

Strategic Workforce Planning

We are continuing to build on our whole force approach to strategic workforce planning in which budget holders have the freedoms and incentives to design a whole-force workforce (civilian and military regular and reservists) to deliver commitments. This enables us to understand and manage the risks to ensure that we have the right people, at the right time, in the right location to deliver Defence outputs, and has improved our ability to focus on key workforce capability areas.

In line with our Defence People Strategy, we continue to operate through our four strategic objectives: an adaptable and sustainable workforce; maximising talent; providing attractive offers that access and retain talent and a stronger, more effective and collaborative People function. We have now identified four pan-Defence key workforce capability areas for priority action; Cyber/Digital, Intelligence, Health/Medical and Engineering and are developing pan-Defence plans to address these. At the end of March 2023, our whole-force skills significant pinch points were assessed as 70.

Our Pan Defence Skills Framework provides a Defence-wide approach to skills management across the Whole Force. Having formalised the policy and carried out testing, we are now focused on agreeing the joint skills that are used across military and civilian roles. This will act as a building block to enable personnel to gain greater transparency on roles and skills and the Department to better utilise the skills of its people and to better plan the future workforce.

On the 26 April 2022, Mr Rick Haythornthwaite was commissioned to do a review of Armed Forces incentivisation. Following a comprehensive consultative review, a report was published on 19 June 2023 with over 60 evidence-based recommendations. Defence will establish a holistic reward and incentivisation strategy to attract and retain skills, maximise operational effectiveness and provide a modern, flexible and people-centric system fit for the future which is shaped around emerging generations' needs.

To support the delivery of the Defence People Strategy and the provision of an adaptable and sustainable Whole Force workforce model, digital transformation is required. Building on the successful introduction of our new HR Platform (MyHR) for the Civil Service, we are continuing to modernise the corporate services supporting both the Armed Forces and civilian employees across Defence. We are delivering in line with the Government Shared Service Strategy; bringing our systems together in the cloud to deliver more efficient, joined-up, intuitive and valuable services to our people.

Future Soldier

The largest transformation of the British Army in more than 20 years has begun and will create an Army that is more integrated, agile, and lethal; a modern force fit to face up to current and future threats. We are focusing on capability rather than troop numbers and this transformation offers the best combination of both.

Reserve Forces

The Reserve Forces 2030 Review redefines the relationship of the Reserves with society, expands roles, unlocks potential, and transforms available support. During the year, around 900 Reservists were mobilised to UK operations and 890 to overseas operations, bringing niche skills or reinforcing regular forces. The second Annual Capability Audit along with a Tabletop Exercise in the Shrivenham battle-labs will continue our focus on preparedness and our ability to use the Reserve component at pace and scale.

Cadets

Defence sponsors five cadet forces, four in the community, and one based in schools. There are around 135,290 young people and 25,950 adult volunteers in 3,500 cadet units. Independent research has demonstrated that the valuable life skills gained from the cadet experience including self-discipline, confidence, and resilience can improve employability and social mobility. Nearly 500 schools have cadet units; the joint Ministry of Defence and Department for Education Cadet Expansion Programme is progressing the Government's ambition to increase school cadet numbers to 60,000 by 2024.

Diversity and Inclusion[14]

We are delivering our Diversity and Inclusion Strategy to ensure we safeguard the nation's security and stability through creating an inclusive organisation. This strategy, which is continuously improved and refreshed with organisational and societal change, sets out a long term (2018-30) vision for Defence to consist of capable and motivated people that appropriately represent the breadth of the society we exist to defend, now and in the future. This vision will be delivered through a set of priority actions focused on, leadership and culture change, recruitment, retention and progression, and outreach into wider society. We are taking practical steps to make Defence and the Armed Forces a career of choice for more women and those from minority backgrounds. During 2022-23 our progress has included:

- implementing the Defence Race Equity Programme to make Defence a better place to work, increase representation and improve progression and retention.
- supporting the independent review into the impact of the historical ban on LGBT personnel serving in the

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

Armed Forces, working closely with the Cabinet Office.

- implementing a new approach to HIV, enabling serving personnel who are taking suppressive treatment for HIV, and whose blood tests show no detectable virus, to be recognised as fully fit for service.[15]
- implementing The Armed Forces Menopause policy to create a supportive and inclusive working environment by educating, supporting and guiding service women and line managers affected by the menopause.

Defence Workforce Numbers

Regular Forces Representation

	Female	Ethnic Minority
As at 1 April 2023	11.5%	10.1%
As at 1 April 2022	11.3%	9.6%

Defence Civilian Representation

	Female	Ethnic Minority	LGBTQ+	Disabled
As at 1 April 2023	45.2%	6.4%	2.9%	11.9%
As at 1 April 2022	44.5%	6.0%	2.8%	11.4%

15 https://www.gov.uk/government/news/armed-forces-make-major-changes-to-end-hiv-being-a-barrier-to-service

UK Armed Forces Personnel

	Naval Service	Army	Royal Air Force	Total	Armed Forces Apprenticeships (Starts since 2015)
As at 1 April 2023	38,769	113,439	36,609	188,817	102,945
As at 1 April 2022	40,131	118,235	37,878	196,244	93,450

Of total Armed Forces Personnel – UK Regular Armed Forces

	Royal Navy	Army	Royal Air Force
As at 1 April 2023	32,840	77,536	32,180
As at 1 April 2022	33,929	80,730	33,319

Of total Armed Forces Personnel – Trained Future Reserves 2020

	Navy Reserve	Army Reserve	Royal Air Force Reserve
As at 1 April 2023	2,734	24,813	2,812
As at 1 April 2022	2,871	25,729	2,881

Other Personnel Figures

	Civil Service (FTE)	Civil Service Apprenticeships Starts	Cadet
As at 1 April 2023	60,640	603	135,290
As at 1 April 2022	59,903	783	124,070

Defence Regional Footprint[16]

Defence has a strong national presence and its workforce is based across the UK at over 500 locations.

16 Location data is for 2022, and reflects UK based regular forces and civilian workforce only.

Wraparound Childcare

Following successful trials at pilot sites around the country the full rollout of the Wraparound Childcare scheme launched in September 2022. This scheme provides funding for up to 20 hours per week of before and after school care during term time for eligible military parents who have children aged between 4 and 11 years. Within the first seven months of launch over 7,000 children are making use of the scheme.

Future Accommodation

The Defence Accommodation Strategy, published in October 2022, committed us to helping Service personnel buy a home of their own, supporting those in long-term relationships in the same way as those married or in civil partnerships and set minimum standards for single living accommodation. Forces Help to Buy became a permanent policy following the conclusion of its pilot phase at the end of 2022. Changes to accommodation entitlements to recognise unmarried families are expected later in 2023-24, and assessment of the single living accommodation estate against the new minimum standard is already underway and will inform investment and enhancement plans.

Armed Forces Covenant

The number of Signatories to the Armed Forces Covenant is **10,348** as at June 2023
Up from 8,604 (2021-22)

The Armed Forces Covenant recognises the uniqueness of service and is a promise by the nation that those who serve or have served, and their families, will suffer no disadvantage in accessing public and commercial goods and services, in comparison with the general population, and that special provision may be appropriate for those who have sacrificed the most. This promise was strengthened further with a new statutory duty, which came into force in November 2022, to ensure that relevant public bodies give due regard to the principles of the Covenant in the areas of health, housing and education. The new duty promotes better understanding among those delivering these key services of the Armed Forces community and the impact of Service life, with the aim of promoting improved outcomes.

The Armed Forces Covenant Fund Trust (a Defence Non-Departmental Public Body and a charity) has awarded over £14M to more than 300 projects since 1 April 2022 that support the Armed Forces community across the UK. Under the Defence Employer Recognition Scheme, organisations from across the UK can pledge their support for the Armed Forces community by signing the Armed Forces Covenant. The number of signatories to the Armed Forces Covenant stands at 10,348, up from 8,604 in (2021-22). Employer Recognition Scheme Gold Awards are awarded to those employers across the UK that provide the highest levels of support and advocacy for those who serve, veterans and their families. 642 organisations across the UK now hold this award, providing paid time off for reservists to fulfil their military commitments and supportive HR policies for veterans, reserves, and cadet force adult volunteers, as well as spouses and partners of those serving in the Armed Forces.

Complaints, Justice and Serious Crime

Following independent reviews of the Service Justice System, 221 recommendations were made with 60% of the recommendations completed as of June 2023. The Armed Forces Act 2021 contained provisions for a number of the main recommendations arising from His Honour Judge Lyons' review of the Service Justice System, and the review undertaken by Sir Richard Henriques into investigations on overseas operations. Secondary legislation has subsequently brought the following provisions into force: the introduction of an Overriding Objective for the Service Courts; the transfer of responsibility for prosecution witnesses to the Director of Service Prosecutions; changes to the Court Martial Rules in relation to Board sizes, the way in which decisions are reached, and extending the eligibility rules for serving on a Court Martial Board; the creation of the Defence Serious Crime Unit (DSCU) headed by the Provost Marshal Serious Crime, which came into being on 5 December 2022; and the creation of the role of the Service Police Complaints Commissioner. The regulations for the Service Police Complaints regime were laid on 23 February 2023 and the Complaints system went live on 19 June 2023.

In relation to concurrent jurisdiction, the prosecutors have drafted Protocols about how cases will be allocated to the relevant jurisdiction, and these were published for consultation on 23 February 2023 and the prosecutors are now considering the responses. As a result of a review, following criticisms of the Service Complaints system, many changes were made in 2022 to improve performance, with a particular focus on increasing efficiency; making the system more independent; improving the support available for those who engage with the process; and increasing trust and confidence in the system and its decision makers. These changes bring our system in line with leading practice in other public and private sector organisations.

The Defence Serious Crime Command (DSCC) and Defence Serious Crime Unit (DSCU), has the jurisdiction to investigate the most serious crimes alleged to have been committed by persons subject to service law in both the UK and overseas. The DSCC/U provides improved victim support through a Victim and Witness Care Unit (VWCU), which became operational on 16 March 2023 and is independent of single Service Chains of Command. The VWCU, which became operational on 16 March 2023, will provide a coordination function, adopting a multi-agency approach to victim care with key stakeholders to ensure victims are supported at every stage of the investigative and judicial process.

In July 2022, we published the Strategy for Tackling Sexual Offending in Defence which overlaid three new policies setting out zero tolerance to sexual offending, sexual exploitation and abuse, sexual relations between instructors and trainees and unacceptable sexual behaviour. The strategy prioritises the interests of the victim, ensures that sexual offence cases are dealt with coherently across the Armed Forces and aims to reduce the prevalence and impact of sexual offending in Defence through increased reporting, engagement, successful prosecutions and decisive administrative action.

The Government response to the House of Commons Defence Committee inquiry into Women in the Armed Forces (2021), stated the Secretary of State's determination to ensure female representation on court martial boards relating to sexual offending. Since 1 January 2023, at least one woman must now sit on a Court Martial Board for all proceedings, not just for sexual offending cases.

Future Workplace

Defence's Future Workplace strategy was agreed by the senior leadership team in May 2021 and sets out our vision, benefits, key principles and how we will establish and deliver Smarter Working across Defence. Since 2021, we have made significant progress in adapting both our civilian HR and military personnel policies, delivering a suite of tools and technology to support hybrid working and setting the standards for workplace modernisation.

In May 2022, the Government Property Agency (GPA) awarded Defence a rating of 'established' in their assessment of our Smarter Working maturity, recognising that Defence has made substantial progress in adopting Smarter Working and that our leaders have a good understanding of Smarter Working principles.

Empowerment

The Defence Empowerment programme was established in 2020 as an enabler to delivering Defence priorities. The pan-Defence programme aims to "unlock the potential of our people by giving them the capability, opportunity and motivation to drive meaningful improvements in the way we operate in Defence". The high level objectives are to improve our leadership capability, morale and engagement, enhance our organisational and operational effectiveness and to drive greater innovation and ideas generation. Central activity is bolstered by localised empowerment initiatives in the Front Line Commands and Enabling Organisations.

Corporate Services Modernisation

Defence established the Corporate Services Modernisation strategy in coordination with the Government Shared Services Strategy and Functional Convergence programmes which are driving and accelerating Corporate Services changes across government. We are working as one organisation to deliver improvements to our HR, Finance and Commercial shared services to deliver improved user experience for our people, enable better decision making and increase productivity. In 2022-23 progress has included implementing a HR ‘Software as a Service’ (SaaS) system for 56,000 civil servants, confirming a single cloud-based Enterprise Resource Planning (ERP) service provider for Defence and the successful onboarding of a Client Side Partner (CSP) who will provide specific expertise to help procure Defence’s future Delivery Partner.

Infrastructure

The Defence portfolio is one the UK’s largest and most diverse estates and includes all the property that Defence uses for living, working and training accommodation, and for the deployment of military capability. Additionally, it also includes maritime, airfield and rail infrastructure to support and enable Defence operations. Managing the estate accounts for approximately 12% of the defence budget.

A year on from publication, the Strategy for Defence Infrastructure[17] continues to provide the strategic direction to strengthen long-term estate planning and improve coherence with new capability requirements. Our implementation plan includes ensuring Single Living Accommodation meets the new minimum standard; delivering electric vehicle charging infrastructure for the military owned civilian vehicle fleet; and modernising our building performance standards.

17 https://www.gov.uk/government/publications/strategy-for-defence-infrastructure

The Future Defence Infrastructure Services (FDIS) contracts are now in service across the built estate regions (Scotland & Northern Ireland, Central, South West and South East), while Service Families Accommodation transferred to a national management supplier and regional maintenance services in April 2022 and the contract for the UK Training Estate has been awarded.

Working closely with our delivery agents and industry partners, lessons from the performance of the current housing contract will have been learnt and will be implemented and include more robust contract and performance management while we transition the Defence estate from a fix-on-fail approach (fixing something when it goes wrong or breaks down) to a pre-planned maintenance regime (being proactive and maintaining assets regularly so they are unlikely to fail), with particular focus on remedying damp and mould where this is present on the estate. The revised contracts will also ensure that we gain a better understanding of the condition of its assets in order to inform targeted investment decisions.

The Defence Estate Optimisation (DEO) Portfolio is a long-term investment to modernise the defence estate. It is an ambitious portfolio of construction activity, unit and personnel moves, and site disposals that will deliver a better structured, modern and more sustainable estate to support military capability. To date it has completed over 300 technical surveys, capacity and assessment studies, and released enough land through the disposal of surplus sites for over 6,000 new homes. DEO has completed construction on five projects, is in or about to start active construction on seven further sites, and is in the latter stages of assessment for a further 20 projects with contracts placed for development sites across the UK. To deliver these projects more quickly and efficiently, a new Commercial and Procurement Strategy was developed which draws on industry best practice. The new Strategic Alliance contract for design and build was signed in April 2023 and the Technical Services Provider contract, signed in May 2023.

Defence has access to one of the largest estates in the country, accounting for **1.4%** of the UK landmass

The Defence estate consists of approximately **130,650** assets across **1,096** establishments spread globally

Land assessed as surplus to current Defence requirements where property assets are not required for military purposes can be disposed. Such disposals are supporting wider government policies, such as land release for house building and levelling up. In 2022-23, Defence disposed a total of 35 hectares of land securing receipts for £65M for reinvestment.

Sustainability

Defence continues to lead work on progressing the Defence Climate Change and Sustainability[18] (CC&S) Strategic Approach. We are ensuring that all defence decisions consider climate change implications through a whole systems approach, with CC&S teams stood up in all organisations across Defence.

The Sustainable Support Strategy[19] was published in November 2022 which describes how the Support Function will deal with future challenges to operations by addressing urgent CC&S issues. The Strategy highlights the benefits of being self-sustaining on operations and that sustainability is the solution to the future force; not an imposition to it.

An Estate Sustainability Strategy is under development, which will set out how we will ensure our infrastructure is more resilient, supports energy security, and delivers our Net Zero ambition to mitigate the impacts of climate change.

Defence is meeting the need for CC&S literacy across defence and all functions through centrally cohering the approach and creating digestible, targeted products including strategic level master classes, e-learning Whole Force awareness level course, and functional (role-related) learning.

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18 https://www.gov.uk/government/publications/ministry-of-defence-climate-change-and-sustainability-strategic-approach

19 https://www.gov.uk/government/publications/sustainable-support-strategy

Climate Adaptation

We are continuing to build an understanding of the implications of a climate changed world to Defence and adjusting accordingly. We know that it will change where we operate, what we need to operate, how we operate and who we operate with.

We have developed a Defence Climate Risk Assessment Methodology (DCRAM) to better understand the risks and enable areas that need greater adaptation and resilience to be targeted. The DCRAM will be used to help prepare us for future climate related reporting requirements and has been aligned to National Audit Office guidance on climate related financial risks, as well as The Task Force for Climate related Financial Disclosures. Multiple pilot phases have been completed in 2022-23 as part of the DCRAM implementation plan across Defence.

Sustainability Innovation

Investment into innovative decarbonisation and sustainability continues at pace and scale across Defence.

In November 2022, the RAF and industry partners carried out a 100% sustainable fuel flight using a Voyager military aircraft, a world-first using an aircraft of that size and the first of any aircraft type in the UK. This is a step towards unlocking the potential to reduce lifecycle carbon emissions while improving operational effectiveness.

The Army Battlefield Electrification Strategy was published in 2022. This contains a series of Army Research and Experimentation projects looking at technology-driven transformation in the Army. A key element was Technology Demonstrator 6 which looked at fitting experimental Hybrid Electric Drive (HED) drivetrains to Army vehicles.

Sustainable Procurement

The Department continues to apply the Social Value Model to its competitive procurements, with circa 86 contracts awarded in 2022-23 where Social Value formed part of the award criteria. Industry engagement has been further strengthened through the Defence Suppliers Forum continuing their Social Value groups and adding new Aviation, Shipping and Estate Sustainability groups. This forum is supported by the Sustainable Procurement (SP) Working Group who continue to provide Defence-Industry engagement with prime contractors. The SPWG Strategic Plan has been updated to include Net Zero, responsible production and consumption.

Defence Standard 00-051 places environmental management requirements on defence suppliers. It ensures environmental sustainability consideration is mandated for all new procurement contracts and tailors SEMR clauses to a successful tender. Following revisions to this standard in 2021-22, the policy was finalised at the end of 2022 and training has been provided to roles responsible for setting environmental management requirements (SEMR). Defence contract management includes SEMR monitoring and performance measurement to ensure suppliers are meeting Departmental Sustainable Procurement expectations.

Digital/ICT

We have drawn on the Greening Government: ICT and Digital Services Strategy, to develop our own Strategic Framework for Sustainable Digital Technology and Services[20] which was published in June 2021. Specific decarbonisation activity includes: a rationalisation programme to close on-premises data centres and move services to the Cloud; the letting of a contract for a managed print service that will reduce device numbers, paper usage, energy consumption and waste; and extending the life of over 10,000 laptops to reduce Scope 3 carbon emissions, cost, and waste.

In 2022-23 Defence Information Infrastructure (DII) – a secure military network which supports 2,000 Defence sites – has successfully deconstructed and disposed of obsolete digital equipment on a global scale. Sustainable waste management (i.e. re-use/recycling) was identified as a core priority and, as of March 2023, the DII Disposals Team (working with E-Cycle) have decommissioned 200+ tonnes of hardware, across 750 sites with less than 0.02% of waste going to landfill.

20 https://www.gov.uk/government/publications/sustainable-digital-technology-and-services-strategic-approach-2021-2025

Sustainable Construction

We have adopted industry leading best practice into infrastructure building guidance through the incorporation of challenging low embodied and operational energy targets for new builds and major refurbishments.
We have also identified a whole life cost of carbon impact for infrastructure which aligns with the preferred Infrastructure Projects Authority methodology. This will assist the drive to achieve net zero carbon by 2050 and support the consistent measurement and reporting of carbon emissions in infrastructure.

Nature recovery

In 2022-2023 Defence continued to fund and deliver nature recovery projects across the estate with almost £1.5m invested in over 130 projects to improve the condition of Sites of Special Scientific Interest (SSSI). A further £1m was invested in other biodiversity projects across the UK and overseas. This included work to re-wet peatland at Otterburn Training Area, in Northumberland National Park, which has had to overcome issues such as unexploded ordnance as well as deconfliction with military training.

Through these projects, and many others, Defence continues to make a significant contribution to the UK governments' nature recovery goals. This is highlighted by the fact the defence estate includes:

- 169 Sites of Special Scientific Interest covering 82,000 ha (35% of the Defence estate)

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- 24,500 ha of woodland (11% of the Defence estate)
- 31,000 ha of land in 13 National Parks
- 19,000 ha of land in Areas of Outstanding Natural Beauty

MOD SSSIs	2021-22	2022-23
Total Area UK	82,232 ha	**81,671 ha**
Total Area England	70,476 ha	**70,476 ha**
% in Favourable Condition – England only	48.40%	**49.80%**
% in Favourable or Recovering – Condition England only	97.40%	**97.20%**

Historic Environment (Heritage)

MOD Scheduled Monuments	2021-22	2022-23
Total number	771	**772**
Good Condition	40%	**40%**
Moderate Condition	42%	**42%**
Poor Condition	14%	**14%**
Unassessed	3%	**3%**

MOD Listed Buildings	2021-22	2022-23
Total number	853	**854**
Good Condition	61%	**61%**
Moderate Condition	29%	**29%**
Poor Condition	8%	**8%**
Unassessed	2%	**2%**

Defence Greening Government Commitments (GGC's)

A key element in the delivery of the Strategic Approach is Defence's Greening Government Commitments (GGCs). The GGCs set out the actions UK government departments and their partner organisations will take to reduce their impacts on the environment. The Commitments currently in place cover the target period

2021 to 2025. Defence will be working closely with DEFRA (Department for Environment, Food and Rural Affairs) to discuss the scoping and plans for the 2025-30 review. Defence's performance for 2022-23 against the GGC's is set out in the table below. These commitments have been disaggregated across Defence to drive delivery through a sectoral approach to defence decarbonisation.

Defence 2022-23 Greening Government Commitment Performance

	Baseline	Past years		Current year		GGC 2025 Target
	2017-18	2020-21	2021-22	2022-23	Performance against baseline (%)	
MOD Committed Target						
CO_2 Emissions (Millions of tonnes) Estate	1.26	0.99	0.90	0.88	(30%)	(30%)
CO^2 Emissions (Millions of tonnes) Direct Estate	0.57	0.60	0.52	0.53	(7%)	(10%)
CO^2 Emissions (Millions of tonnes) Travel	0.08	0.05	0.06	0.03	(63%)	(30%)
CO^2 Emissions (Thousands of tonnes) Domestic Fights	6.53	0.81	2.46	4.07	(38%)	(30%)
Contribution to Wider Government Targets						
Total Waste (Thousands of tonnes)	40.00	37.00	41.00	39.87	(0.3%)	(15%)
%Waste to Landfill	15%	5%	2%	3%	–	Reducing waste to Landfill to 5% of total waste
%Waste to Recycle	30%	25%	30%	37%	–	Increasing recycling to 70% of total waste
Water (millions cubic metres)	15.24	15.62	15.23	15.80	4%	(8%)
Paper (millions of A4 equivalent)	0.94	0.75	0.46	0.45	(52%)	(50%)
New Stream under GGC 2021-2025 framework						

	Baseline	Past years		Current year		GGC 2025 Target
	2017-18	2020-21	2021-22	2022-23	Performance against baseline (%)	
International Flight travel distance (millions of km)	–	–	328	653	–	GGC reporting requirement
Ultra Low Emission Vehicle (ULEV)	–	7.30%	9.36%	27.1%	–	By 31st Dec 2022, 25% car fleet to be ULEV

Notes:
1. CO_2 Estate emissions, estate direct emissions, water and waste data for 2022-23 include Atomic Weapons Establishment (AWE) data.
2. Waste % to landfill and recycle does not include a split for AWE as the data is not currently available.
3. Following a review of waste data to ensure consistency, a restatement requirement has been identified. This impacts the baseline year 2017-18, as well as 2020-21 and 2021-22..
4. MOD reports further details to DEFRA through GGC reporting.

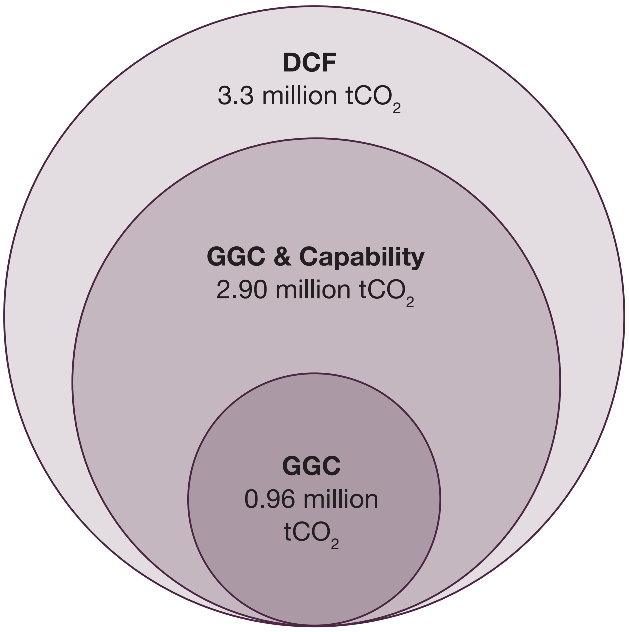
Defence Carbon Footprint

The Defence Carbon Footprint (DCF) covers direct estate emissions (UK and overseas), capability energy, fugitive emissions, emissions electricity and heat (UK and overseas), waste generated, employee commuting, service family accommodation, and duty travel. The Defence sustainability reporting boundary is based on the Defence Operating Model. This year the overall Defence Carbon Footprint has reduced.

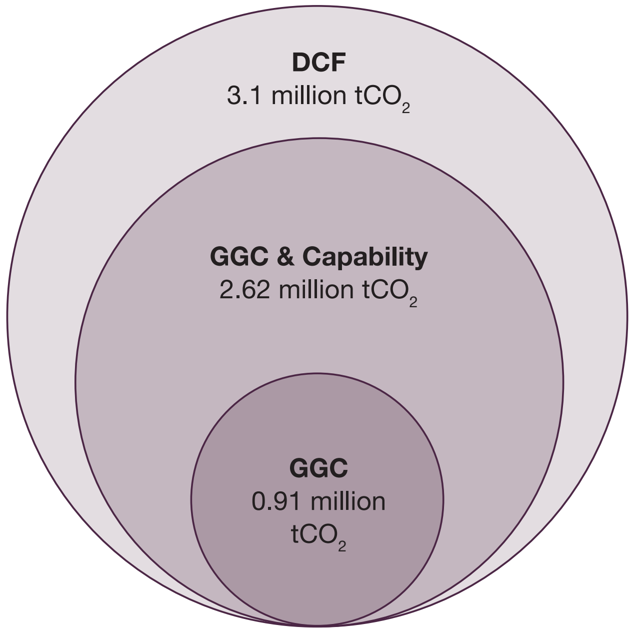
The DCF is aligned to the Green House Gas Protocol and covers emissions that Defence can directly influence across Scope 1, 2 and 3. The visuals on the following page illustrate the different components of the DCF and how they have changed over the past financial year.

MOD Carbon Emissions Reporting

2021-22 MOD Carbon Emissions reported



2022-23 MOD Carbon Emissions reported



Sustainable Development Goals

Defence contributes to the UK delivery of United Nations Sustainable Development Goals (UN SDGs). The diagram below shows the linkage between defence activities and UN SDGs.

PO	Core Output	UN SDG
PO1	Protect the UK • UK Armed Forces domestically, delivered 71 Military Aid to Civilian Authorities Operations.	16
PO2	Enhance global security • 89 Defence Attachés and Advisors.	16
PO3	Understand and counter state and non-state threats • Delivered Human Security training to over 18,000 Ukrainian personnel and to UK military personnel deploying in Mali.	16
PO4	Contribute to NATO collective deterrence and defence • The UK has achieved a 94% fill rate for NATO positions. • We have exceeded our NATO pledge to spend 2% of GDP on Defence spending.	16

PO	Core Output	UN SDG
PO5	Delivering our Diversity and Inclusion Strategy: • Ethnic Minorities represent 6.4% of Defence Civilians. • LGBTQ+ represent 2.9% of Defence Civilians. • 11.9% of Defence Civilians are disabled.	4
	• Making Defence and the Armed Forces a career of choice for more women and those from minority backgrounds: • 11.5% of the Regular Forces are female. • 45.2% of Defence Civilians are female.	5
	• The RAF and industry partners carried out a world-first 100% sustainable fuel flight.	7
	• Under the Defence Employer Recognition Scheme, organisations from across the UK can pledge their support from the Armed Forces community: • The number of Signatories to the Armed Forces Covenant is 10,348.	8
	• The Defence Information Infrastructure Disposals Team have decommissioned 200+ tonnes of hardware, across 750 sites with less than 0.02% of waste going to landfill.	9
	• 61% of the Defence Listed Buildings are in “Good Condition”.	11
	• Delivery of Greening Government Commitments.	12
	• An Estate Sustainability Strategy is under development.	13
	• Defence has continued to fund and deliver nature recovering projects: 97.20% of Defence SSSIs in England are in Favourable or Recovering condition.	15

David Williams CB
Accounting Officer

18 July 2023

Accountability Report

For the year ended 31 March 2023

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

This Corporate Governance Report outlines the composition and organisation of the Ministry of Defence (MOD). It provides detail of Departmental governance structures and the way that they support an extensive range of defence 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 the MOD.

Who We Are

The following tables 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 2022-23. They also include detail on the number of meetings attended during the year.

Ministerial Members of the Defence Board		
Ministers	**Role**	**Defence Board**
The Rt Hon Ben Wallace MP	Secretary of State for Defence	3 of 4
Baroness Goldie DL	Minister of State for Defence in the House of Lords	3 of 4
Leo Docherty MP (to 6 September 2022)	Minister for Defence People and Veterans	1 of 1
Sarah Atherton MP (from 20 September 2022 to 26 October 2022)	Minister for Defence People, Veterans and Service Families	1 of 1
The Rt Hon Dr Andrew Murrison MP (from 30 October 2022)	Minister for Defence People, Veterans and Service Families	1 of 2
The Rt Hon James Heappey MP	Minister of State for the Armed Forces	1 of 4
The Rt Hon Jeremy Quin MP (to 6 September 2022)	Minister of State for Defence Procurement	1 of 1
The Rt Hon Alec Shelbrooke MP (from 7 September 2022 to 25 October 2022)	Minister of State for Defence Procurement	0 of 0
The Rt Hon Alex Chalk KC MP (from 26 October 2022)	Minister of State for Defence Procurement	1 of 3

Non-Executive Members	Role	Defence Board	People Committee	Defence Audit and Risk Assurance Committee
Brian McBride	Non-Executive Board Member	4 of 4		
Simon Henry (to 1 April 2022)1	Non-Executive Board Member	0 of 0		0 of 0
Robin Marshall	Non-Executive Board Member	3 of 4		
Kate Guthrie	Non-Executive Board Member	4 of 4	5 of 5	
Tracy Myhill	Non-Executive Member		4 of 5	
Tim Walton (to 1 January 2023)	Non-Executive Member			6 of 6
Paul Smith (interim Chair from 12 April 2022)	Non-Executive Member			7 of 7
Gurpreet Dehal (from 1 May 2022)	Non-Executive Member			5 of 6
Alison White (from 1 November 2022)	Non-Executive Member			2 of 2
Angela Henderson (from 1 November 2022)	Non-Executive Member			2 of 2
David Holt (from 1 November 2022)	Non-Executive Member			2 of 2

1 Simon Henry stood down as a member of the Defence Board and chair of the DARAC on 1 April 2022. Paul Smith was interim chair from 12 April 2022 and Brian Gilvary took on the role on 1 May 2023

Executive Members of the Defence Board, Executive Committee and DARAC	Role	Defence Board	Executive Committee (ExCo)	Defence Audit and Risk Assurance Committee[1]
David Williams CB	Permanent Secretary	4 of 4	14 of 14	4 of 7
Laurence Lee	Second Permanent Secretary	3 of 4	9 of 14	2 of 7
Admiral Sir Tony Radakin KCB ADC	Chief of the Defence Staff	3 of 4	9 of 14	
Admiral Sir Tim Fraser CB ADC (to 26 May 2022)	Vice Chief of the Defence Staff	0 of 1	0 of 1	
General Gwyn Jenkins CBE OBE ADC (from 30 August 2022)	Vice Chief of the Defence Staff	2 of 3	6 of 13	
Charlie Pate	Director General Finance	3 of 4	14 of 14	5 of 7
Damian Parmenter	Director General Strategy and International		12 of 14	
Prof Dame Angela McLean	Chief Scientific Adviser		5 of 14	

1 For DARAC either PUS, 2PUS or DG Fin will attend the meeting. PUS/2PUS's attendance is based on agenda items and their portfolios, they will not attend meetings together

Directorships and Significant Interests

Details of directorships and other significant interests held by ministers are set out in the List of Ministers' Interests which are available on Gov.uk[21] and the Register of Members' Financial Interests held on the UK Parliament Website[22].

Details of directorships and other significant interests held by members of the Defence Board can be found on Gov.uk[23].

21 https://www.gov.uk/government/publications/list-of-ministers-interests

22 https://www.parliament.uk/mps-lords-and-offices/standards-and-financial-interests/parliamentary-commissioner-for-standards/registers-of-interests/register-of-members-financial-interests/

23 https://www.gov.uk/government/collections/ministry-of-defence-register-of-board-members-interests

The Department provides guidance and instructions to individuals who hold appointments in outside organisations, where a conflict of interest might arise or might be perceived.

Related Party Transactions & Conflicts of Interest[24]

The names and titles of all ministers and related parties who had responsibility for the Department during the year, are provided via the web pages referred to above.

All potential conflicts of interest for non-executive board members are considered on a case by case basis. Where necessary, measures are put in place to manage or resolve potential conflicts.

The Defence Board has agreed and documented an appropriate system to record and manage conflicts and potential conflicts of interest of Board members. Where applicable, the board will publish in this Governance Statement, all relevant interests of individual board members and how any identified conflicts and potential conflicts of interest of board members, have been managed.

24 Section relates to IAS24 – Related party transactions

Any significant Related Party Transactions associated with the interests of ministers or Defence Board members, are shown in Note 19 – Related Party Transactions.

No minister, board member, key manager or other related party has undertaken any material transactions with the Ministry of Defence during the year.

Personal Data Related Incidents

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 provide details of the Department's personal data related incidents during the year to 31 March 2023.

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

Month of Incident	Nature of Incident	Nature of Data Involved	Number of People Affected
July	Due to incorrect redaction technique being used by a member of staff in breach of MOD policy, an individual's name was disclosed in a Freedom of Information request.	Name, role, previous work location	1
September	As part of recovery action on a system following a system outage, 9 files attached to medical notes relating to service personnel were found to be unrecoverable.	Medical files	9
	Total number of incidents is 2		

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.

Summary of Other Protected Personal Data Related Incidents

Category	Nature of Incident	2022-23	2021-22
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises.	27	36
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises.	9	13
III	Insecure disposal of inadequately protected paper documents.	1	2
IV	Unauthorised disclosures.	464	482
V	Other.	49	47
Total		**550**	**580**

The MOD takes the security of its personnel, data and establishment very seriously. Every data incident reported, including near misses, is investigated to determine the root cause and the MOD data protection officer's team works with business areas to reduce the likelihood of re-occurrence. As most of the incidents relate to human error, training and awareness activities are regularly undertaken to continuously improve staff knowledge and understanding of the data protection principles and the processes and procedures that must be followed to secure data.

MOD, through its Cyber Defence and Risk Directorate, is working to drive down cyber risk on a number of fronts. Examples of what is done to reduce risk are annotated below:

- Cyber security policies have been updated and re-written to make them clearer and more usable.
- the secure by design programme is modernising accreditation and reinforcing the accountability for cyber security of project managers and system owners.
- The awareness, behaviours and culture campaign is promoting good cyber security behaviours across the whole of Defence with campaigns focused on sharing of information, the use of social media, clicking on links and use of USB devices.
- A document labelling tool has been rolled out which forces users to correctly label emails and documents. This will help minimise the number of unauthorised disclosures.

- This approach enables a culture of proactive risk management and appropriate security consideration in all aspects of our work, connected cyber security principles, roles, processes, tools and techniques to achieve secure systems.

MOD's performance this year is a reflection of continuous improvement work in the Department. This includes revised and refreshed data protection training which staff now undertake annually; promotion of data protection awareness through campaigns such as Data Protection Day; and ongoing technology developments including implementation of an Azure Information Protection (AIP) to MOD Outlook.

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 these resources, during the year. These accounts are inclusive of the Department's Executive Agencies and its sponsored Non-Departmental and other Arm's Length Bodies (ALBs), designated by order made under the GRAA by Statutory Instrument 2022 No.1319 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed at Note 20 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 and procedures in place 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.

David Williams CB was appointed as the Permanent Secretary and the Accounting Officer of the Ministry of Defence by the Permanent Secretary of HM Treasury on 6 April 2021.

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 (AOSS).

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.

The Department also has a Second Permanent Secretary. The role of the Second Permanent Secretary is to improve collective ability to deliver on the ambitious vision for Defence outlined in the 2021 Integrated Review and the Defence Command Paper. This has included full engagement in the Integrated Review Refresh activity and a new Defence Command Paper has been issued which addresses the impact of emergent issues since the original review.

Working closely with the Vice Chief of the Defence Staff, the Second Permanent Secretary is responsible for digital, science and technology, transformation, and work to develop the space and cyber domains. To aid this, the Second Permanent Secretary has been granted the role of Additional Accounting Officer for these activities.

Accounting Officer Confirmation

I have taken all of 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 in its entirety 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 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 challenge and scrutiny from the Defence Audit and Risk Assurance Committee as to the

effectiveness of the policies and processes in use in the Department.

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 over the last year we have continued to deliver improvements to the way Defence is managed and operates. There remain some areas where we have extant control weaknesses, which are detailed in the sections that follow along with the actions we are taking.

Significant Control Risks

The Department has identified several areas of risk which have the potential to adversely impact the control environment should they occur. These risks are identified and monitored through the Quarterly Performance and Risk Reporting (QPRR) and Annual Assurance Reporting (AAR) process. The most notable areas of risk identified this year are as follows:

People: Challenges in recruitment and retention continue. This is particularly impacting on the levels of specialist skills in the Department. Several initiatives are in place across Defence to mitigate this risk, including increasing the number of apprenticeship programmes through specialist functions which continue to develop and increase professional skills and qualifications. To increase digital skills, the Digital Exploitation for Defence (DX4D) initiative was established in July 2022 to accelerate digital transformation across Defence and embed the relevant cultural and organisational changes. A Digital, Data and Technology (DDaT) and cyber pay framework has been introduced which will help attract and retain talent by offering enhanced pay ranges and allowances, to target skills gaps and enable the Department to compete more effectively in the labour market.

The Department has commissioned the Haythornthwaite Review reflecting the commitment published in the Defence Command Paper (March 2021). The independent review looked at how the Armed Forces incentivises personnel by understanding the attitudes and experiences of current serving Armed Forces, including pay and pensions, work life balance, welfare support, career, and talent management. The review report was published in June 2023 and the Department will take forward the implementation of recommendations which will support improvements in recruitment and retention.

Furthermore, the Department continues to prioritise the implementation of recommendations from the Wigston Review 2019 to improve the measures taken to prevent inappropriate behaviour and how it is investigated and dealt with in the armed services. MOD is on track to deliver all recommendations from the review by the end of September 2023. This is in line with the projected 5 to 10 year estimate for delivering organisational and cultural change.

Changes to the complaints system include the introduction of a clearer and efficient reporting process to build trust and encourage staff to speak up. Investing in our people and developing leadership capability is a key objective for Defence. The Defence ‘Leading with Empowerment’ (LwE) initiative was launched in 2022 to embed a culture of empowerment across the Department; this included the introduction of a leadership development scheme and reverse mentoring schemes for senior leaders.

Supply Chain: The war in Ukraine has increased global competition in the supply chain, which coupled with inflationary pressures has impacted the acquisition of components and raw materials. Defence is continually monitoring and building resilience in the supply chain, through the implementation of an extensive MOD wide Supply Chain Resilience Programme, which prioritises the mapping of Defence’s most critical dependencies.

The delivery of the Defence Equipment Plan 2022 remains a strategic priority. In respect to investment going forward, the Spring Budget 2023 provided an extra £5 billion for Defence and national security over the next 2 years and £2 billion per year in subsequent years up to 2027-28. As set out in the Integrated Review Refresh, the Government’s aspiration over the longer term is to invest 2.5% of GDP in defence, as the fiscal and economic circumstances allow.

Additionally, Acquisition Reform is a key enabler of the Defence and Security Industrial Strategy 2021 (DSIS). The Department is driving increased pace into acquisition and incentivising innovation and productivity through a range of improvement initiatives and fundamental reforms of the regulations that govern defence and security procurement and single source contracts. A variety of practical interventions to set capability programmes up for success from the outset have been delivered. A key achievement this year has been the roll out from April 2022 of a new pan-Defence Risk and Complexity Assessment to help Senior Responsible Owners (SROs) better understand and address strategic programme challenges at an early stage. The implementation of Category Management is expected to result in financial savings, and capability benefits such as improved availability and time to delivery, through a pan-Defence approach to buying goods and services. Additionally, digital tools have been introduced to support agile delivery and improve the tracking and management of investment decisions. The Department continues to improve commercial skills and capabilities through increasing the number of staff accredited in contract management. Improvements have also been made to the way the Department manages the SRO cadre through the introduction of an SRO talent pool, which ensures their skills are matched to specific project challenges.

Estates: The Strategy for Defence Infrastructure (SDI) published last year, continues to set the framework and ambition to transform the Defence estate and develop the Infrastructure Function, addressing a number of challenges over the coming decades. Investment has been prioritised, to ensure the estate is fit for the future, is safe and compliant, and to improve the lived experience for service personnel. In 2022-23, £185m has been invested to improve housing standards with 14,000 homes receiving an upgrade over the last two years. Over 97% of military homes now meet or exceed the Government's Decent Homes Standard. In addition, over the next 10 years, more will be invested to improve the quality of Service Family Accommodation, to address damp and mould remediations and new energy efficiency targets. For Single Living Accommodation, work is ongoing to ensure these facilities meet the new minimum standard; a funded programme is in place to address health and safety risks on the estate. An Estate Sustainability Strategy is under development to ensure infrastructure is resilient enough to support energy security and Net Zero ambitions and to mitigate the impacts of climate change.

All four regions of the UK Built estate have transitioned to the Future Defence Infrastructure Services (FDIS) contracts, while Service Families Accommodation transferred to a national management supplier and regional maintenance services last year; the training estate will transition in Dec 23. The MOD is closely monitoring the performance of its contracts through continuous engagement with its delivery agents and industry partners and there are signs of improvement. The MOD will implement lessons learnt from the performance of the current housing contract to ensure more robust contract and performance management mechanisms are in place to address the challenges faced with families' accommodation, while the estate transitions from a fix-on-fail approach (fixing the building or its sub-systems when they fail) to a pre-planned maintenance regime (regular maintenance and interventions to reduce failures). The revised regime will give the MOD a better understanding of the condition of its assets, and issues such as damp and mould, to inform targeted investment decisions.

The Defence Estate Optimisation Portfolio is a long-term investment bringing together an ambitious portfolio of interdependent programmes, construction activity, unit and personnel moves, and land release, to create modern and sustainable facilities for Defence. It has already completed 300 technical surveys, capacity and assessment studies and, through the disposal of surplus sites to date, released land for over 6,000 new homes. It has seven sites in active construction and is in the latter stages of assessment for further projects. To deliver these quickly and efficiently, the Portfolio has entered into a new strategic Commercial arrangement, drawing on industry best practices. Six major projects have started their project contracting period in readiness to enter into contract in August 2023, with a further five by the end of this financial year. The portfolio is in the final stages of implementing a new Contract Permissioning Group, which will significantly reduce business case approval timescales.

Security and Resilience: The Department recognises the growing security and resilience threats faced from both state and non-state actors. The Integrated Review Refresh 2023 states the ‘UK will strengthen our protective security, seeking to address vulnerabilities that expose our people and infrastructure to physical and security risks in addition to using our existing counter terrorism and other security capabilities more broadly to disrupt and respond to threats’.

The Department has continued to expand the Defence Resilience Team, to develop the Defence Resilience Function and to improve assurance against policies and controls.

The Department continues to improve it’s security culture through the implementation of the Defence Personnel Security Strategy, the delivery of a Security Communications Plan and the Security Culture Survey. Combined, these will provide key insights on security behaviours, increase awareness of Insider Risk, and help target communications and interventions to instil positive security behaviours.

Cyber

Addressing the Cyber Security and Resilience risk remains one of the Department’s top priorities and is underpinned by a robust disaggregated risk approach that has been embedded across Defence.

The volatile international environment where state threats are increasing and diversifying means that cyber security has never been more important from an MOD perspective. Cyber security does not respect geographic borders and therefore hardening and enhancing resilience is therefore an ongoing operational requirement.

Annual compliance audits, against an industry-standard cyber compliance framework, ensure we understand the effectiveness of our control environment across the department and show that implementation and maturity of those controls are improving year on year.

Top Level Budgets (TLBs) and Enabling Organisations (EOs) have made considerable progress in identifying and categorising their Critical Systems as part of Defence's wider Critical National Infrastructure (CNI) efforts. In turn, progress made over the last twelve months to improve MOD's cyber security posture, has increased the Department's Cyber Resilience.

The cyber security risk continues to be overseen through the Cyber Defence and Risk team in MOD with further Governance being exercised through the 3* Cyber Resilience Oversight Board and through bi-lateral engagements with TLB/EO teams.

National Audit Office Management Letter

The NAO Management Letter (ML) for 2021-22 reported further improvement in the quality and accuracy of evidence submitted in support of the accounts and audit. The Department has reviewed and taken appropriate action in respect to all the points raised in the ML, where we considered this was appropriate and necessary.

The ML reported an issue with the approval and disclosure of certain compensation payments which has been addressed with HM Treasury and by the additional disclosures included in the Losses and Special Payments section of the Accountability Report.

The NAO continued to report weaknesses in the calculation and validation of nuclear decommissioning provisions. The Department has taken steps to improve accuracy and robustness in this area including review and improvement of the workbooks used in valuing these liabilities. This and the early resolution of ML issues on decommissioning accounting treatments and valuation of Astute class submarines, improved quality in this area in 2022-23.

The Finance Committee regularly reviewed financial accounting risks and issues with particular attention given to resolving the lease accounting audit qualification.

Accounts Qualification

In previous years the Department has not complied with the lease accounting requirements in the HM Treasury

Financial Reporting Manual to determine whether its contracts have the characteristics of a lease and whether such contracts should be categorised as operating or finance leases. The Department had previously decided, with the support of HM Treasury, not to fully implement the earlier accounting standards (IAS7/IFRIC4) as it did not represent value for money given the costs and complexity of doing so.

The Department has, however, fully implemented the new and simplified lease accounting standard (IFRS16) in 2022-23 which has resolved the long-standing audit qualification.

Governance Framework

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 diagram that follows details the MOD Board structure and its committees.

Defence Board Sub-Committees and the Executive Committee

Not all other committees are shown, but all will escalate their business to and formally report the Executive Committee.

A separate Investment Approvals Committee for Defence Nuclear is chaired by DG Finance.

Summary of discussions of the Key Committees and Boards

Defence Council	The Defence Council is an authority structure and does not meet in the conventional way. Defence business is managed through the Defence Board and Single Service Boards, although the Defence Council can be called at any time at the request of the SofS. The Defence Council did not meet during 2022-23.

Defence Board	During 2022-23 the Defence Board maintained visibility of the key priority areas within the Department which included; the Integrated Review Refresh, Defence Digital and Cyber. The Board maintained oversight of Defence Board risks and received regular updates from its sub-committees.

Defence Audit and Risk Assurance Committee (DARAC)	During 2022-23, the DARAC conducted deep dive assessment on the Department's risk framework to ensure its effectiveness. The Committee also undertook a review of the Department's Annual Assurance Reports, which included Infrastructure, Finance and Project Delivery. In addition, the Committee were provided with updates on the following key priority areas for defence: Climate Change & Sustainability, People Risk, Defence Digital and Cyber. The Committee were also apprised of the processes in place for Defence Safety, Nuclear Category Management, Fraud, PFI Contract Expiry and the Advisory Committee on Business Appointments (ACOBA). The DARAC reviewed the Departmental Annual Report and Accounts including the Governance Statement and progress of key audit issues.

Executive Committee (ExCo)	Key areas of discussion by ExCo included the annual planning and allocation of resources process, Integrated Review Refresh, Defence Command Paper Refresh and Defence Delivery.

Defence Nuclear Board (DNB)	The DNB is a sub-group of the Defence Board. It is the most senior group within the MOD that deals exclusively with nuclear-related matters. It advises and assists the Minister for Defence Procurement in overseeing and assuring delivery of the UK's strategic nuclear deterrent and the Defence Nuclear Enterprise (DNE) that sustains it.

Investment Approval Committee and Investment Approval Committee Nuclear (IAC and IACN)	During 2022-23 the IAC and IACN considered a broad range of projects, including: AJAX, Morpheus, Service Family Accommodation, Next Generation Communications Network, F35 Lightning, Type 26 Frigate Batch 2, Armed Forces Recruitment Programme, Main Infantry Vehicle, Skynet, Armoured Main Battle Tank Programme, Watchkeeper, FCAS, Typhoon, Brimstone and Fleet Solid Support Ships.

Defence Delivery Group (DDG)	The DDG has been refocused to put the quarterly performance and risk data at the heart of its discussions and decision-making. Key focus areas included digital transformation, readiness and key capability areas.

People Committee (PC)	The PC continues to conduct deep dives into programmes including the Future Accommodation Model, Strategic Workforce Planning and the Haythornthwaite Review of Armed Forces Incentivisation (HRAFI). The Diversity and Inclusion programme continues to take a prominent position along with discussions on command action plans.

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

Over the past 12 months, the Department has continued to support war efforts in Ukraine. In addition, it has focused its attention on working to deliver the Integrated Review Refresh (IRR) and the Defence Command Paper Refresh.

The Department has seen some change in its ministerial and senior leadership team over the past year, including the departure of one Defence Board Member (NED) and the Chair of the Defence Audit and Risk Assurance Committee (DARAC). As a result, the Defence Board (DB) has not met as frequently this year, but has maintained oversight of the core priorities for the Department including the Integrated Review Refresh, Defence Digital and Cyber, and has continued to receive written updates from its sub-committees. During the calendar year 2023, we will be undertaking an independent review which is currently ongoing. Findings from the review will be presented to the Defence Board following the September meeting.

Through my separate DB NED sessions, I have been updated on AJAX, Head Office Review, Defence Transformation, Acquisition Reform and Future Combat Air Strategy. In addition, oversight of the quarterly Outcome Delivery Plans (ODP) has assured me that the Department continues to focus its efforts in the right areas.

My NED colleagues continue to provide valuable support to the Department through their involvement on nuclear, people, union, safety and climate activities. I am also working with the Department's NED policy team to improve the cadre of NEDs within Defence ensuring that they bring with them the right experience and values.

I was pleased to also welcome a new NED colleague to the Board in 2023, Brian Gilvary, who will also take on the role of Chair of the (DARAC). Brian comes to us with Defence experience as previous Chair of the Audit and Risk Committee of the Navy Board and brings with him a wealth of knowledge and financial expertise.

The focus for the year will be to embed the amended strategy following publication of the Defence Command Paper Refresh. Defence Digital will remain a key area of attention as it forms the backbone of a number of efficiency programmes within the Department. As the Department's Digital NED, I will continue to take a keen interest in this area and am encouraged by the progress being made and plans for the coming year.

Brian McBride

Review and Challenge

There is a cross-government requirement to conduct an Annual Board Effectiveness Review. During the calendar year 2023, we will be undertaking an independent review which is currently ongoing. Findings from the review will be presented to the Defence Board following the September meeting

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, Defence Delivery Group, People Committee 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.

The Defence Delivery Group (DDG) is our primary Board for managing delivery and performance. The DDG is chaired by the Permanent Secretary and Chief of Defence Staff and attended by the Service Chiefs and the CEOs of our key Enabling Organisations as well as relevant Head Office Directors General/3 Star Military Officers. Delivery discussions take place every quarter covering Defence's key priorities and using the DDG allows for collective action to be taken on any key issues. In October 2022, we held a Delivery Stocktake to review performance and identified some priority areas to improve delivery.

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) were executive agencies, within the Departmental accounting boundary for the financial year 2022-23. DECA was subsumed into DE&S from 1 April 2023. MOD has one Trading Fund, also an executive agency, the UK Hydrographic Office (UKHO), which is outside the Departmental accounting boundary.

The Department's Non-Departmental Public Bodies (NDPB) with Executive Functions; the National Museum of the Royal Navy (NMRN), the National Army Museum (NAM), the Royal Air Force Museum (RAFM), the Single Source Regulations Office (SSRO), the Armed Forces Covenant Fund Trustee Ltd (AFCFT), and AWE plc, the company that runs the Atomic Weapons Establishment, are sponsored by the Department and fall within the Departmental accounting boundary. International Military Services Limited (IMS) is a Designated Body of the MOD and I am the Accounting Officer.

Each of the Executive Agencies (except the UKHO) and the Executive NDPBs have a Chief Executive appointed by me and produce their own annual report and accounts, which includes a Governance Statement, and are audited by the National Audit Office (NAO). The UKHO's Chief Executive is appointed as an Accounting

Officer by HM Treasury's Permanent Secretary. Within AWE plc, the Chief Executive is appointed by the Secretary of State and granted AO status by me.

In addition, there are a number of NDPBs with Advisory Functions. Full details of all the accountability relationships within the MOD are included in the Accounting Officer Systems Statement (AOSS) which is published separately to the Annual Report and Accounts.

Functional Leadership

Functions are Defence-wide activities that the Executive Committee judge should be carried out in a consistent or coherent way across the Department. Each Function is led by a 3* Director General level Functional Owner, responsible for setting consistent standards, processes, and ways of working across Defence, with eleven based in Head Office and four in UK Strategic Command. Functional Owners can be supported in the day to day running of the Function by a 2* Functional Leader.

Since 2018, Defence has made significant progress with implementing Functional Leadership. We have fifteen Functions that cover all the wider Government Functions. These Functions are, very largely, embedded in the Defence Operating Model, and play fundamentally important roles in delivering cross-cutting coherence, specialist services and business improvement. We have developed a common approach for all Functions to set and agree their remit and authority in order to set defence wide standards, and then the necessary assurance processes to check they are effective.

Each functional accountability body, operating on behalf of the Executive Committee, oversees the work of the Functional Owner in directing and cohering the planning, delivery, and strategic improvement of the Function; holding the Functional Owner to account for performance of the Function and reviewing the Functional Owner's Annual Assurance Report, capturing risks, and outlining the controls that have operated during the year.

Functional Leadership also provides a platform for Defence transformation. To enhance this further, we are seeking to improve the interfaces between 'horizontal' Functions and the 'vertical' delivery areas, which will primarily be scoped through the Defence Design work.

We are also continuing to maintain full engagement with the Government's Functional agenda and ensuring that, individually and collectively, Functions can best deliver pan-Defence business improvement.

Our Approach to Risk Management and Assurance

Risk management is an integral part of everything we do. The MOD faces a wide range of risks to the effective achievement of the Departmental priorities.

The Departmental risk management framework is set out in the internal Joint Service Publication (JSP 892), which defines the mandatory requirements for risk and assurance activities across the Department. The Departmental risk management framework sets out the principles, concepts and accountabilities which underpin how we manage risk in alignment with the Orange Book: Management of Risk - Principles and Concepts.

The Department continues to be an active member of the Heads of Risk Network and Government Risk Profession, led by HM Treasury. In 2022-23 JSP 892 was refreshed and published across the Department, to incorporate government best practice and the latest updates to the Orange Book. The MOD will carry out an annual review of its risk management framework to ensure it adopts best practice and is compliant with government policies and guidance. The next review in 2023-24 will incorporate principles from the HMT Orange Book of a cross-government Risk and Control Framework, the Defence Risk Appetite framework, and the development of a Departmental Assurance Map.

The risk management framework sets out the governance arrangements and roles and responsibilities for those involved. Principal risks are agreed and managed by the Defence Board (DB). Each principal risk is assigned a ‘risk owner’, who is responsible for ensuring appropriate and effective governance, processes and activities are in place to manage the risk. Risk owners across the MOD are responsible for regularly assessing risks and escalating changes through the Quarterly Performance and Risk Reporting (QPRR) process. The framework enables the cascade of risk through the Department so that risk can be managed at all levels.

Principal Risks

The MOD faces a range of risks which affect the delivery of priority outcomes and outputs across the Department. The issues and risks faced are diverse in nature and severity, and often determined by external forces over which the Department may have influence but no control.

The Department’s principal risks, those held by the Defence Board, and wider strategic risks held across Defence are reviewed quarterly by the DDG and the DARAC, with frequent senior deep dives. These risks have clear escalation routes through the Executive Committee (ExCo) and the Defence Board. This helps the Department better understand how risks are changing, and at what pace, and enables senior leadership to oversee the delivery of priorities.

Risks faced by the Department include, but are not limited to, the recruitment and retention of staff, cyber threats, and supply chain resilience. The detailed list of risks is not published for reasons of national security; however, the following table provides an overview of the principal risks and their mitigating activities.

Strategic Risk	Our Response
The right numbers of people with the right skills.	Recruitment, retention and development is managed through workforce planning, focused learning and development packages, and the development of a pan Defence skills framework. The Haythornthwaite Review of Armed Forces Incentivisation has completed and the Department is reviewing its recommendations. The Department has implemented work to support the workforce with the impact of the cost-of-living crisis.
The alignment of the workforce to planned outputs.	The MOD is developing the Armed Forces and civilian workforces to meet the needs of the future; through strategic workforce planning and ongoing transformation programmes. This work also seeks to ensure that the Department is an innovative, diverse, and inclusive employer ensuring military and civilian personnel have fulfilling career paths that map to the requirement of the Departmental's outputs.
The delivery of operational capability	The delivery of operational capability across all Commands remains the key priority of the MOD. Effective reporting and management of identified key areas of capability ensures the Department is able to deliver as required. The MOD has also effectively balanced UK operational requirements against the ongoing support to Ukraine.
The affordability of the vision for Defence.	The Department continues to mitigate both risks to in-year affordability and financial risks into the future of the enterprise which includes balancing the Equipment Plan. This will ensure that the Department's costs are understood, managed, and provide Value for Money.

Strategic Risk	Our Response
The failure of industry in delivery of outputs.	We engage actively with industry to balance their own limitations against the needs for defence and manage risks to delivery. The increased pressure on supply chains from economic factors and the conflict in Ukraine, has required the MOD to develop robust methods for mapping supply and ensuring delivery.
Protection of our assets and people, including from cyber-attack.	We are proactive in deterring cyber threats and consistently review our systems. Our cyber resilience programme works collaboratively with our security and resilience teams to provide a secure cyber infrastructure.

Risk Management Responsibilities

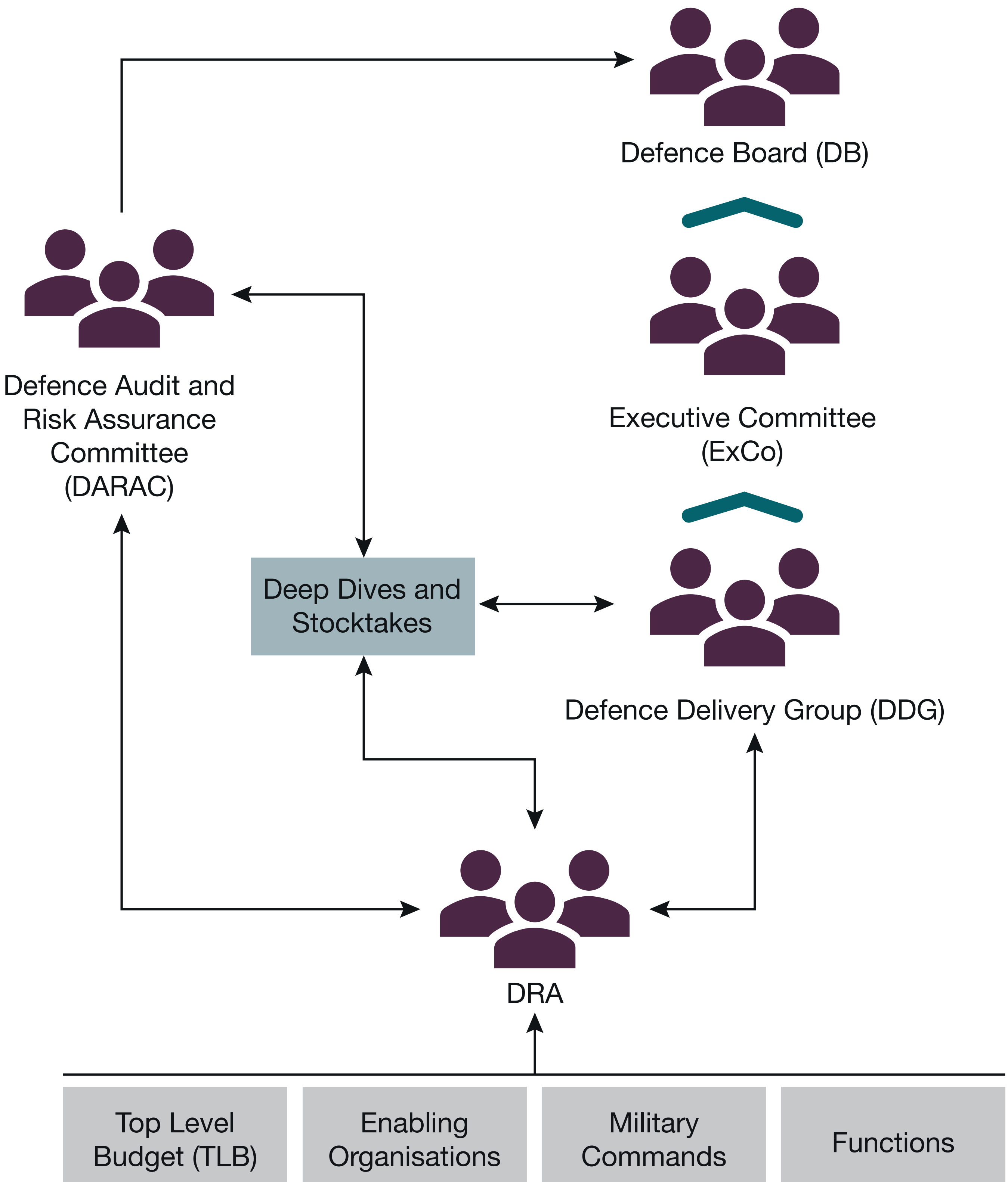
Risk is managed within the Department at all levels. Delivery risks are held across our Top-Level Budgets (TLBs), Front Line Commands (FLCs), Enabling Organisations (EOs) and Functions. For example, these risks would be identified and managed, to support Senior Responsible Owners (SROs) to help deliver programmes and project outcomes and outputs effectively. At this level, governance arrangements are in place to ensure risk has the proper senior oversight allowing appropriate levels of authority to intervene to take risk management decisions.

Delivery risks are aggregated within TLBs, Front Line Commands, Enabling Organisations and Functions who are also responsible for identifying strategic risks that could impact on their ability to deliver against key Departmental priorities as set out in Command and

Business Plans and any responsibilities set out in the Defence Strategy. Alongside the Department's principal risks, when collated form a set of strategic risks which are then reported to senior departmental figures including Permanent Secretaries, the Chief of Defence Staff, Service Chiefs and Directors General. This approach to risk management and reporting of risk enables leaders at all levels of the Department to make risk informed decisions, whilst ensuring that the Department is not exposed to any unnecessary risk.

The following diagrams set out the MOD risk management reporting structure and the associated key responsibilities.

Risk management reporting structure



Role	Responsibility
Defence Board	The Defence Board is accountable for risk management, challenge, review and sponsorship, and monitors the Department's top risks.
Executive Committee	The Executive Committee (ExCo) is responsible for ensuring that the right risks are managed effectively.
Defence Audit and Risk Assurance Committee	Defence Audit and Risk Assurance Committee (DARAC) provides assurance over MOD's risk management.
Defence Delivery Group	Defence Delivery Group (DDG) reviews current risk assessments on Defence Board and TLB risks, allowing for impacts to be considered and decisions to be made across the Department.
Chief Risk Officer	The Chief Risk Officer (CRO) is the most senior figurehead for risk management in Defence and acts as lead adviser to the Defence Board on risk management and assurance. The CRO is responsible for setting the organisation's policies on risk management, aligning them with government policy and best practice.
Defence Risk and Assurance	The Defence Risk and Assurance (DRA) team owns the Departmental Risk Management policy and the MOD risk management framework and is led by the Departments' Chief Risk Officer.
Top Level Budgets/ Enabling Organisations/ Military Commands/ Functions	Responsibility for the effective implementation of Departmental policy on Risk Management is delegated, ensuring that appropriate risk management governance structures, processes and activities are in place.

Assurance and Controls

The Department relies on assurance from multiple sources, consistent with good practice. Risk and assurance activity is structured around three lines of defence, ranging from operational assurance (first line of defence) to independent assurance such as Internal Audit (third line of defence):

- **The First Line:** those responsible for the effective operation of controls and are expected to submit relevant evidence to support this.
- **The Second Line:** set policies and controls to manage risks and measure Departmental compliance against these to strengthen and support first line activities.
- **The Third Line:** independent assurance provided by Government Internal Audit Agency (GIAA), and other external sources operating in the third line including Infrastructure and Projects Authority Integrated Assurance reviews and other independent regulators.

To further support the three line lines model, the Departmental relies upon other sources of independent assurances including external auditors chiefly, the Comptroller and Auditor General.

The Department has continued to operate its Annual Assurance Report (AAR) process with submissions provided by the FLCs, TLBs, Functions and EOs. As part of this process, business areas are asked to set out the assurance mechanisms in place and their compliance with defined policies and processes, providing an overall self-assessment of the effectiveness of key controls. All AARs are subject to independent scrutiny by an appropriate senior management review board / committee, before being reviewed by the Defence Audit & Risk Assurance Committee (DARAC).

The DARAC reviews the Department's approach to internal control and provides independent advice both to the Defence Board and the Accounting Officer, on the effectiveness of the Department's policies and processes. The Department also obtains third line assurance through the Government Internal Audit Agency (GIAA) and the Defence Safety Authority (DSA).

The TLBs and EOs, are supported by an Audit Committee or equivalent, which is chaired by Non-Executive Members and at which representatives of the internal and external auditors are present. The Audit Committees focus their activities on providing advice on wider business risk, control, and assurance processes. The DARAC meets the Chairs of the Audit Committees twice a year.

Considering this assurance process, and the review of performance, described separately, the DRA assessment is that the Department carries an overall level of 'Limited assurance' over the operation of its internal control environment for 2022-23. Whilst the opinion remains the same as reported in 2021-22, the AAR process has demonstrated the control environment across Defence. Good progress has been made towards strengthening the control environment. Notably, improvements in commercial capability and supply chain assurance, the strengthening of digital controls, standards and policies and the streamlining of delivery models for technology projects. Broader analysis of assurance activities has shown varying levels of maturity across the second line and functions. The Department will continue to strengthen the control environment across the three lines of defence through a number of improvement activities. This includes maturing the AAR process, refreshing the risk management framework for the Department and developing a risk based assurance map.

The Government Risk Profession in partnership with the Government Internal Audit Agency (GIAA) has launched a Risk and Control Framework (RCF) to be implemented across government departments from 2023-24. The RCF will provide structure to existing assurance requirements across Government Departments. MOD will carry out a review of the existing control environment in line with the updated Orange Book to ensure best practice and the RCF is implemented across the Department.

Opinion of the Group Head of Internal Audit (GHIA)

Overall, we noted improvement in the overall control framework across the Department and the adequacy and effectiveness of internal controls in a range of areas.

These included, core financial processes, selected digital and cyber processes, contract management arrangements and the design and roll out of new developments by the Commercial function.

However, despite this improvement, the overall opinion for 2022-23, consistent with previous years, is Limited Assurance. This is due to continued issues around broader departmental risk, governance and internal controls assurance processes. We noted weaknesses in the maturity of second line of defence activities in front line commands, enabling bodies and selected functions. In particular, risk management, functional oversight, project and programme management monitoring and compliance processes.

We noted a common issue of failure to prioritise sufficient resource to deliver oversight mechanisms. In addition, there is a need to improve the production and distribution of management information to enable better oversight of compliance with core controls.

For risk management, further improvement is required, to improve linkage between Board risks, disaggregated risks and risks owned and managed in individual MOD entities. Implementation of planned changes to risk management and subsequent assurance mapping, should enable more effective assurance oversight and evaluation in future years.

Quality Assurance of Analytical Models

In line with the delegated model recommended in the Levene review, quality assurance in MOD is delegated to individual TLBs and ALBs. Accordingly, TLBs and ALBs are responsible for managing their own models and MOD helps to cohere this, provide guidance and share best practice through our Quality Assurance Working Group (QAWG). Our declared business critical model list for 2022 was published in December.

We have increased our engagement with representatives from across the Department as well as those supporting ALBs and enabling organisations such as DE&S, Dstl, DIO and SDA. This will ensure we are aware of all Business Critical Models and further promote Quality Assurance across Defence.

Compliance with the Corporate Governance Code

The Department's compliance with the HMT Corporate Governance in Central government departments. – Code of Good Practice, issued in April 2017 has been reviewed and confirm that the Department complies with all the requirements, with three 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. Since 1 April 22, the Chair position has been vacant and filled in the interim by Paul Smith, a DARAC member and ARAC

Chair to Strategic Command. The Defence Board were kept informed of DARAC business through written updates until we appointed a replacement. Brian Gilvary was appointed in May 2023. Since November 2022, I have chosen to have five Non-Executive members attend the DARAC. The Non-Executive Members provide independent support to a range of governance meetings. The Non-Executive Members on the DARAC also bring experience from the Commands, Enabling Organisations and from the private sector, providing independent challenge from the wider organisation and externally to the Head Office views of risk, assurance and governance. 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 Executive Committee. 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.

Section 4.1 of the code requires that "a formal and rigorous annual evaluation of the board's performance and that of its committees, and of individual board members" is conducted. It is noted that during the calendar year 2023, we will be undertaking an independent review which is currently ongoing. Findings from the review will be presented to the Defence Board following the September meeting.

Management of Interests

As noted in the Director's report, all Board members (both executive and non-executive) are obliged to report all potential conflicts of interests as set out in the Code (para 4.15). A central register of interests is maintained by the Department and no such conflicts have been identified requiring disclosure.

In line with declaration requirements for special advisers, all special advisers have been asked to declare any relevant interests or to confirm they do not consider they have any relevant interests.

The Department employs two special advisers that are army reservists. Ms Daisy Peck is an army reservist and held a volunteer coach role for Campaign Force but has not been an active volunteer since joining the MOD and last volunteered in 2019. Mr Peter Quentin is an army reservist. Any conflict perceived or otherwise are appropriately managed.

Departmental policy requires all military and civilian personnel to make a full declaration of interests where there is a real or perceived conflict of interest between their official duties and their outside interests. The requirement to consider potential conflicts is enduring and must specifically be reconsidered on taking up a new role or outside interest. Relevant interests include private commercial activities including investments, consultancy and advisory work as well as holding office for professional organisations. Corporate Governance teams in delegated budget holder areas are responsible for overseeing adherence to the policy and maintaining records for their business areas. Assurance on policies and recordkeeping is provided periodically by budget holders.

The Department recognises the new requirements for 2022-23 to report details of any remuneration reported by Senior Civil Servants (SCS) associated with outside interest and has separately published these details[25].

Business Appointments

Departmental policy requires that anyone leaving the MOD must check whether they are required to obtain clearance before taking up a new appointment, including consultancy work. The policy fully aligns with the Cabinet Office Rules on Business Appointments as contained in Section 4.3 Annex A of the Civil Service Management Code. The policy makes clear the circumstances in which individuals will be required to apply for clearance before taking up an appointment outside the Department.

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25 https://www.gov.uk/government/publications/ministry-of-defence-senior-civil-service-secondary-paid-employment-2022-to-2023

Applications from those below SCS are signed off at second reporting officer level (with right of appeal to TLB Directors of Resource), from SCS Band 1 and 2 at TLB Director Resources level (with right of appeal to the MOD Business Appointments Panel), and from SCS Band 3 (and military equivalent) and above at Ministerial level on advice from the MOD Business Appointments Panel, Permanent Secretary and the Advisory Committee on Business Appointments (ACOBA).

In compliance with Business Appointment rules, the Department is transparent in the advice given to individual appointment applications for senior staff including special advisers. Advice regarding specific appointments is routinely published on Gov.uk[26]. The following table provides information relating to the applications under these rules for 2022-23. The numbers refer to applications received during 2022-23. Some leavers took up more than one role requiring clearance under the business appointments rules and therefore needed to submit multiple applications for clearance. Actual numbers of leavers requiring clearance under the business appointments rules was therefore lower than numbers of applications for clearance.

The date taken for applications assessed is the date in which the approving authority decision was made. For SCS 3 and 4 or equivalent, this was the date which the application was assessed/finalised by ACOBA. There

26 https://www.gov.uk/government/collections/mod-business-appointment-rules-index

were some applications where it was eventually decided that no conditions were required/an application had not been necessary, this explains the differences which occur in some cases between the numbers of applications assessed and the number where conditions were set. Information relating to business appointment applications relevant to 2022-23 is shown in the following table:

Business Appointment Rules Applications 2022-23

Number of exits from the Civil Service and Military (SCS / 1-star and above) 130					
Details of BAR applications for Civil Service and Military (SCS/ 1 star and above)	**SCS 1/ 1-Star**	**SCS 2/ 2-Star**	**SCS 3/ 3-Star**	**SCS 4/ 4-Star**	**Special Adviser**
Number of BARs applications assessed by the department	18	9	7	14	–
Number of BARs applications where conditions were set	15	9	7	11	–
Number of applications that were found to be unsuitable	–	–	–	–	–

Number of breaches of the rules in the 2021-22 was Nil.

Tackling Fraud and Corruption

Fraud Defence leads the MOD's counter fraud function. The Defence counter fraud strategy and action plan meet the Government Functional Standard for Counter Fraud (GovS13), set by the Public Sector Fraud Authority (PSFA).

The 2022 Cross-Government Fraud Landscape Report, published in February 2023 by the PSFA, highlights MOD as having the highest detected fraud figure (£149M in 2020-21) and the second highest figure for combined fraud and error, compared to other government departments (outside of tax and welfare). This is a reflection of the focus by the Department on fraud detection.

Analysis & Strategic Intelligence

Fraud Defence conducts analysis of financial and commercial transactions, and military and civilian pay, allowances and expenses data, to determine whether transactions are inappropriate or out of policy.

An initiative on bulk data analytics, with a particular focus on procurement fraud, has been launched with Fraud Defence's strategic partner KPMG. Initial pilots have been completed, and the next step is to embed the lessons. A challenge is the resource required to validate the raw data, which will be a focus of future work.

Analysis of military and civilian expenses has also been performed to identify duplicate claims and recover overpayments.

The MOD participated in the 2022-23 National Fraud Initiative, an exercise that matches data within and between public and private sector bodies, to prevent and detect fraud.

Fraud Risk

The implementation of a structured fraud risk management process across the MOD has helped the business to balance the cost of addressing fraud risks against the potential impact of a fraud occurring, and to become more resilient. Top level budgets have increased their fraud risk maturity, though maturity levels across the Department are still variable.

Fraud risk owners are encouraged to identify where their threats and vulnerabilities are greatest, and whether an adequate control environment is currently in place.

Engagement, Training & Awareness

In 2022-23, Defence launched new single Service-specific versions of the Fraud Bribery & Corruption training package, and for the first time this has been mandated across the whole of Defence. The focus now will be on increasing take-up rates, which remain inconsistent across the Department.

Investigations

Fraud Defence is investigating a wide range of cases involving allegations including bribery and corruption, fraud and misconduct. All members of the investigations team are Accredited Counter Fraud Specialists.

Investigators have also assisted business areas on a number of highly sensitive and challenging investigations, e.g. involving irregularities in the area of procurement and overseas jurisdictions. The volume of casework provides a continuing challenge to timely investigation, so rigorous prioritisation is needed.

Confidential Hotline/Operational Intelligence

The MOD Raising a Concern policy has been updated in line with the Cabinet Office model policy for Government, and applies across Defence for all Crown Servants. The 2nd Permanent Secretary has been appointed as the Departmental Speak Up Champion, to assure the effective operation of the whistleblowing process across the Department and act as a focal point for the Nominated Officers, helping to strengthen their prominence across Defence.

All Defence personnel (and the public) are encouraged to report suspected fraud and other irregularities to the Confidential Hotline, including through an annual Speak Up campaign. The hotline delivers our duty of care to whistleblowers, triages and refers cases for investigation, and gathers intelligence. We have launched a programme to upgrade the Hotline in line with national law enforcement standards.

The MOD reports to the Cabinet Office on whistleblowing cases and other related activity occurring in the Department every year. In all the resolved cases, the whistleblower receives an update that their concern has been addressed and where appropriate, what action was taken and details of any organisational learning.

Ethics Propriety & Standards Policy & Assurance

The Department published new internal guidance relating to Defence Ethics, Propriety and Standards in March 2023. For the first time, this new guidance brings together our ethics, standards and propriety policies, making clear that they apply to all Service and civilian personnel. The policies embody the seven principles of public life that all Crown Servants should follow: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

Following publication of the guidance, a programme of Deep Dives has been initiated to assure the effectiveness of, and compliance with, the policies.

Ministerial Directions

There were no Ministerial Directions to David Williams CB as Accounting Officer, during 2022-23.

Conclusion

The Department has striven to deliver high standards in internal controls and assurance during 2022-23.

There have been external factors that have presented challenges to the Department, most specifically: the enduring conflict in Ukraine and impact of continued high inflation. I am content, indeed proud of the agility shown by the Department in adapting and responding to these and other challenges.

The Integrated Review Refresh has enabled us to understand how these and other factors have impacted on the decisions we took as part of the 2021 Defence Command Paper. The refinements to these decisions arising from the refresh will ensure we remain on a solid strategic footing with an affordable programme going forward.

There are of course areas where we can improve and we will relentlessly pursue the mitigation actions to address the Significant Control Risks identified earlier in this report.

We will also learn the lessons from the flexible, rapid and effective decision making demonstrated in our response to the Ukraine conflict and will seek to apply this approach more widely within the Department where applicable. This will further improve our responsiveness and deliver better Defence outcomes in the future.

In addition, an end to end review of the Defence Operating model has been initiated. The review will explore how behaviours, culture, process and structure can be optimised to improve the way we deliver our strategy and outcomes. The aim is to align our effort to support stronger delivery and better value for money through good decision-making, better information and reduced bureaucracy. This review will gather a strong evidence base to enable us to implement effective changes to how we operate across the whole enterprise as soon as practicable.

David Williams CB
Accounting Officer

18 July 2023

The Remuneration and Staff Report

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

Remuneration Report

Remuneration Policy

Pay for senior civil servants (SCS) and senior officers of the Armed Forces, is set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB).

The SSRB 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 SSRB has regard to the following considerations:

- The need to recruit, retain, motivate and where relevant, promote suitably able and qualified people to exercise their different responsibilities;

- Regional / local variations in labour markets and their effects on the recruitment, retention and where relevant, promotion 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 (DELs); and
- The government's inflation target.

The SSRB takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the SSRB can be found on the review body website[27].

There is an established Departmental procedure for the appointment of Non-Executive Directors (NEDs) which requires a transparent recruitment and selection process (including due diligence checks), with appointment on merit, thus following the Governance Code on Public Appointments. NEDs 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

27 https://www.gov.uk/government/organisations/review-body-on-senior-salaries

of Good Practice. NEDs 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 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.

Senior (2-star and above) military officers’ pay is dependent on their performance, time in rank and position on the pay scale. Individuals can be awarded a single increment on the anniversary of their appointment (subject to a satisfactory performance appraisal) and progress accordingly up the incremental pay scale for their rank to the top increment. Should an Officer receive an unsatisfactory appraisal they will not receive an annual increment until achieving a satisfactory level of performance. The average value of one incremental rise was 3.2% of salary in 2022-23 (2021-22: 2.7%). Exceptions to this are the Chief of the Defence Staff (CDS) who automatically receives an annual increment on the anniversary of promotion to the role until the maximum pay for the rank is obtained, and senior medical and dental officers who are paid from spot rates of pay for their rank.

Whilst non-executive remuneration is not directly linked to performance, in part to avoid any suggestion that an employee / employer relationship exists, NEDs 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 NEDs and identify ways this could be improved and provide feedback.

Senior Manager Contracts

The Governance Code on Public Appointments requires public appointees to be made on merit on the basis of fair and open competition. 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: Civil Service Commission (independent.gov.uk)

The lead Departmental NED appointment to the Defence Board was approved by the Prime Minister from a list of candidates recommended by the Cabinet Office. The current lead NED appointment in June 2020 was approved for an initial 3 year period by the Prime Minister. The Prime Minister has agreed to a 1 year extension of the lead NED appointment which will ensure continuity.

NEDs/Public Appointees 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 appointments made by His Majesty the King on the recommendation of the Prime Minister and Secretary of State respectively. Once selected the intention is that appointees hold these posts for between 3 and 5 years.

Remuneration and Pension Entitlements

The following sections provide details of the remuneration and pension interests of ministers and 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

(This section has been subject to audit)

The salaries, allowances and taxable benefits-in-kind for the ministers who had responsibility for the Department during the year are set out below.

Ministerial Salary, Benefits-in-Kind Pensions Benefits

	2022-23				2021-22			
	Salary £	Benefits-in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)[1]	Total £ (to nearest £1,000)[5]	Salary £	Benefits-in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £ (to nearest £1,000)
Secretary of State for Defence								
The Rt Hon Ben Wallace MP (from 24 July 2019)	67,505	Nil	19,000	86,000	67,505	Nil	17,000	85,000
Minister of State for Defence in the House of Lords								
(Baroness Goldie DL[2] from 27 July 2019)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Minister of State for Defence Procurement								
The Rt Hon Jeremy Quin MP[4] (to 6 September 2022)	15,840	Nil	3,000	19,000	31,680	Nil	8,000	40,000
Full year equivalent salary	*31,680*							
Minister of State for Defence Procurement								
The Rt Hon Alec Shelbrooke MP (from 7 September 2022 to 25 October 2022)	4,241	Nil	1,000	6,000	Nil	Nil	Nil	Nil
Full year equivalent salary	*31,680*							
Minister of State for Defence Procurement								
The Rt Hon Alex Chalk KC MP (from 26 October 2022)	13,711	Nil	3,000	17,000	Nil	Nil	Nil	Nil
Full year equivalent salary	*31,680*							
Minister of State for the Armed Forces[3]								
The Rt Hon James Heappey MP[3] (from 14 February 2020)	29,204	Nil	8,000	37,000	22,375	Nil	6,000	28,000

	2022-23				2021-22			
	Salary £	Benefits-in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)[1]	Total £ (to nearest £1,000)[5]	Salary £	Benefits-in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £ (to nearest £1,000)
Parliamentary Under Secretary of State and Minister for Defence People, Veterans and Service Families								
Leo Docherty MP[4] (to 6 September 2022)	11,187	Nil	2,000	14,000	20,634	Nil	5,000	26,000
Full year equivalent salary	*22,375*				*22,375*			
Parliamentary Under Secretary of State and Minister for Defence People, Veterans and Service Families								
Sarah Atherton MP (from 20 September 2022 to 26 October 2022)	2,248	Nil	0	3,000	Nil	Nil	Nil	Nil
Full year equivalent salary	*22,375*							
Parliamentary Under Secretary of State and Minister for Defence People, Veterans and Service Families								
The Rt Hon Dr Andrew Murrison MP (from 30 October 2022)	9,443	Nil	2,000	12,000	Nil	Nil	Nil	Nil
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 increase exclude increases due to inflation or any increase or decrease due to a transfer of pension rights.
2. Baroness Goldie has waived her rights to remuneration.
3. The Rt Hon James Heappey became a Minister of State on the 7 July 2022.
4. The Rt Hon Jeremy Quinn and Leo Docherty were paid by the Department until the end of the calendar month as is normal practice when ministers move to positions elsewhere in Government.
5. Some single values in the table above are individually rounded, whereas others are the sum of unrounded values. This creates a minor anomaly whereby the table may appear not to sum correctly but is in fact a valid representation of the overall value.

Compensation for Loss of Office

(This section has been subject to audit)

Ministers who, on leaving office have not attained the age of 65 and are not appointed to a relevant ministerial or other paid office within three weeks, are eligible for payment of a tax-free severance payment of three months of their annual equivalent salary. Two severance payments were made during 2022-23 in accordance with the Ministerial and Other Pensions and Salaries Act 1991. The Rt Hon Alec Shelbrooke MP received £7,920 and Sarah Atherton MP received £5,593. None were made in 2021-22.

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 – £84,144 with effect from 1 April 2022 (change from the £81,932 pa with effect from 1 April 2021) 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 in the tables that follow.

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.

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.

CETV figures are calculated using the guidance on discount rates for calculating unfunded public service pension contribution rates that was extant at 31 March 2023.

HM Treasury published updated guidance on 27 April 2023; this guidance will be used in the calculation of 2023-24 CETV figures.

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 Pensions

(This section has been subject to audit)

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 overleaf.[28]

The real increase in the value of the accrued pension compared to the 2021-22 value, is shown in italics (in bands of £2,500) in the first column of the following table:

28 Further details of the scheme are available at https://www.mypcpfpension.co.uk

Ministerial Accrued Pension and Cash Equivalent Transfer Value (CETV)

	Total Accrued Pension at Retirement as at 31 March 23	CETV at 31 March 22 or date of Appointment if Later	CETV at 31 March 23 or on Cessation of Appointment if Earlier	Real Increase in CETV
	£000	£000	£000	£000
Secretary of State for Defence				
The Rt Hon Ben Wallace MP	**5-10** *0-2.5*	83	**110**	**10**
Minister of State for Defence in the House of Lords				
Baroness Goldie DL	Nil	Nil	Nil	Nil
Minister of State for Defence Procurement				
The Rt Hon Jeremy Quin MP (to 6 September 2022)	**0-5** *0-2.5*	21	**25**	**2**
The Rt Hon Alec Shelbrooke MP (from 7 September 2022 to 25 October 2022)	**0-5** *0-2.5*	0	**1**	**1**
The Rt Hon Alex Chalk KC MP (from 26 October 2022)	**0-5** *0-2.5*	17	**20**	**1**
Minister of State for the Armed Forces				
The Rt Hon James Heappey MP	**0-5** *0-2.5*	10	**17**	**3**
Parliamentary Under-Secretary of State and Minister for Defence People, Veterans & Service Families				
Leo Docherty MP (to 6 September 2022)	**0-5** *0-2.5*	11	**13**	**1**
Sarah Atherton MP (from 20 September 2022 to 26 October 2022)	**0-5** *0-2.5*	0	**0**	**0**
The Rt Hon Dr Andrew Murrison MP (from 30 October 2022)	**0-5** *0-2.5*	45	**50**	**2**

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

(This section has been subject to audit)

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

	2022-2023[5]					2021-2022				
	Salary	Annual Performance Award	Benefits-in-kind	Pension Benefits[1]	Total	Salary	Annual Performance Award	Benefits-in-kind[2]	Pension Benefits	Total
	£000	£000	£ (to the nearest £100)	£ (to the nearest £1,000)	£000	£000	£000	£ (to the nearest £100)	£ (to the nearest £1,000)	£000
Secretary of State for Defence	See Minister's Salary Table									
The Rt Hon Ben Wallace MP										
Minister of State in the House of Lords										
Baroness Goldie DL										
Minister of State for Defence Procurement										
The Rt Hon Jeremy Quin MP (to 6 September 2022)										
The Rt Hon Alec Shelbrooke MP (from 7 September to 25 October 2022)										
The Rt Hon Alex Chalk KC MP (from 26 October 2022)										
Minister of State for the Armed Forces										
The Rt Hon James Heappey MP										
Parliamentary Under Secretary of State and Minister for Defence People, Veterans & Service Families										
Leo Docherty MP (to 6 September 2022)										
Sarah Atherton MP (from 20 September 2022 to 26 October 2022)										
The Rt Hon Dr Andrew Murrison MP (from 30 October 2022)										

	2022-2023[5]					2021-2022				
	Salary	Annual Performance Award	Benefits-in-kind	Pension Benefits[1]	Total	Salary	Annual Performance Award	Benefits-in-kind[2]	Pension Benefits	Total
	£000	£000	£ (to the nearest £100)	£ (to the nearest £1,000)	£000	£000	£000	£ (to the nearest £100)	£ (to the nearest £1,000)	£000
Permanent Under Secretary of State										
David Williams CB (from 6 April 2021)	180-185	Nil	Nil	12,000	195-200	175-180	Nil	Nil	140,000	315-320
2nd Permanent Under Secretary of State										
Laurence Lee[3] (from 3 June 2021)	165-170	Nil	Nil	Nil	165-170	135-140	Nil	Nil	Nil	135-140
Full year equivalent salary						*160-165*				
Chief of the Defence Staff										
General Sir Nick Carter GCB CBE DSO ADC General (to 30 November 2021)	Nil	Nil	Nil	Nil	Nil	185-190	Nil	63,400+	30,000	280-285+
Full year equivalent salary						*280-285*				
Admiral Sir Tony Radakin KCB ADC (from 30 November 2021)	275-280	Nil	96,700	740,000	1,110-1,115	85-90	Nil	29,300+	325,000	440-445
Full year equivalent salary						*265-270*				
Vice Chief of the Defence Staff										
Admiral Sir Tim Fraser CB ADC (to 26 May 2022)	30-35	Nil	8,500	(24,000)	15-20	190-195	Nil	47,300+	43,000	285-290
Full year equivalent salary	*200-205*									
General Gwyn Jenkins (from 5 September 2022)	110-115	Nil	29,200	373,000	510-515	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Full year equivalent salary	*190-195*									

	2022-2023[5]					2021-2022				
	Salary	Annual Performance Award	Benefits-in-kind	Pension Benefits[1]	Total	Salary	Annual Performance Award	Benefits-in-kind[2]	Pension Benefits	Total
	£000	£000	£ (to the nearest £100)	£ (to the nearest £1,000)	£000	£000	£000	£ (to the nearest £100)	£ (to the nearest £1,000)	£000
Director General Finance										
Charlie Pate	145-150	5-10	Nil	9,000	165-170	140-145	0-5	Nil	70,000	210-215
Non-Executive Board Members										
Brian McBride[6]	5-10	Nil	Nil	Nil	5-10	5-10	Nil	Nil	Nil	5-10
Simon Henry to 1 April 2022	Nil	Nil	Nil	Nil	Nil	20-25	Nil	Nil	Nil	20-25
Robin Marshall[4]	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Danuta Gray (to 31 July 2021)	Nil	Nil	Nil	Nil	Nil	5-10	Nil	Nil	Nil	5-10
Full year equivalent salary						*15-20*	Nil	Nil	Nil	*15-20*
Kate Guthrie[6] (from 1 Jan 2022)	10-15	Nil	Nil	Nil	10-15	0-5	Nil	Nil	Nil	0-5

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 increase excludes increases due to inflation or any increases or decreases due to transfer of pension rights.
2. 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 +
3. Laurence Lee's pension costs are borne by his home department. £37,000 (rounded to the nearest thousand) was reimbursed for 2022-23.
4. Robin Marshall has elected to waive the fee of between £15k – £20k to which he is entitled.
5. Pension benefits can be a positive and negative. There are a number of factors that will impact on the value of a pension benefit in a particular year. These include change in salary, time in service in that year and the prevailing economic climate.
6 Fees are paid on a daily rate claimable for up to 28 days per year and include an estimate for boards attended but not yet claimed.

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 2022-23 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 Pensions

(This section is subject to audit)

Pension benefits for individuals who served on the Defence Board are set out in this section. NEDs are not employees and are therefore not enrolled in an employee related pension scheme. The real increase in the pension from 2022-23 and where applicable the real increase in the lump sum payment, are shown in italics and in bands of £2,500 in the first column of the following table.

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

	Total Accrued Pension at Retirement as at 31 Mar 23		CETV at 31 Mar 22 or date of Appointment if Later	CETV at 31 Mar 23 or on Cessation of Appointment if Earlier	Real Increase in CETV
	£000	£000	£000	£000	£000
Secretary of State for Defence					
The Rt Hon Ben Wallace MP					
Minister of State for Defence in the House of Lords					
Baroness Goldie DL					
Minister of State for Defence Procurement					
The Rt Hon Jeremy Quin MP (to 6 September 2022)					
The Rt Hon Alec Shelbrooke MP (from 7 September 2022 to 25 October 2022)					
The Rt Hon Alex Chalk KC MP (from 26 October 2022)	See Minister’s Pensions TableC				
Minister of State for the Armed Forces					
The Rt Hon James Heappey MP					
Parliamentary Under Secretary of State and Minister for Defence Veterans, Reserves and Personnel					
Leo Docherty MP (to 6 September 2022)					
Sarah Atherton MP (from 20 September 2022 to 26 October 2022)					
The Rt Hon Dr Andrew Murrison MP (from 30 October 2022)					
Permanent Under Secretary of State	**Pension**	**Lump[2] Sum**			
David Williams CB (from 6 April 2021)	**85-90**	**165-170**	1,420	**1,576**	**(14)**
	0-2.5	*0-2.5*			
2nd Permanent Under Secretary of State					
Laurence Lee[1] (from 3 June 2021)	Nil	Nil	Nil	Nil	Nil
	Nil				
Chief of the Defence Staff					
Admiral Sir Tony Radakin KCB ADC	**150-155**	**430-435**	3,002	**3,829**	**734**
(from 30 November 2021)	*32.5-35*	*80-82.5*			

	Total Accrued Pension at Retirement as at 31 Mar 23		CETV at 31 Mar 22 or date of Appointment if Later	CETV at 31 Mar 23 or on Cessation of Appointment if Earlier	Real Increase in CETV
	£000	£000	£000	£000	£000
Vice Chief of the Defence Staff					
Admiral Sir Tim Fraser CB ADC (to 26 May 2022)	**95-100**	**290-295**	2,420	**2,417**	**5**
	7.5-10	*(2.5-5)*			
General Gwyn Jenkins (from 5 September 2022)	**85-90**	**185-190**	1,637	**2,047**	**410**
	15-17.5	*40-42.5*			
Director General Finance					
Charlie Pate	**60-65**	**15-20**	741	**819**	**(11)**
	0-2.5	*0-2.5*			

1. Laurence Lee's pension costs are borne by his home department. £37,000 (rounded to the nearest thousand) was reimbursed for 2022-23.
2. Pension benefits can be a positive and negative. There are a number of factors that will impact on the value of a pension benefit in a particular year. These include change in salary, time in service in that year and the prevailing economic climate. Taking account of inflation, the CETV funded by the employer has decreased in real terms.

Pension benefits for Senior Civil Service are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). Further information on these schemes can be found at the pension scheme website[29].

29 https://www.civilservicepensionscheme.org.uk/

As a result of the McCloud judgement, members of the PCSPS were moved to the alpha scheme from April 2022.

Pension benefits for Military members of the Board are provided by Armed Forces Pension Schemes, details of which can be found at the pension scheme website[30].

NEDs are not employees and are therefore not enrolled in an employee related pension scheme.

Further details of other pension schemes available to Armed Forces personnel and MOD employees can be found at Note 13 of the accounts – Retirement Benefit Schemes.

30 https://www.gov.uk/guidance/pensions-and-compensation-for-veterans

Fair Pay Disclosure

(This section has been subject to audit)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

Remuneration of the highest paid Defence Board Members 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 lower, median and upper quartile remuneration. The civilian disclosure is 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.

The mid-point of the banded remuneration of the highest paid military director during 2022-23 was £372,500. This was 10.2 (2021-22 10.0) times the median remuneration of the military workforce, which was £36,656 (2021-22 £35,302).

The mid-point of the banded remuneration of the highest paid civilian director during 2022-23 was £182,500. This was 5.2 (2021-22 5.3) times the median remuneration of the civilian workforce, which was £34,916 (2021-22 £33,500).

It is not currently possible to include Benefits-in-Kind information for all personnel in the calculations. The calculations underlying the analysis below are comparable and captured on the same basis as the prior year.

Salary ranges of Military and Civilian Staff

	Military		Civilian	
Salary Ranges	**2022-23**	**2021-22**	**2022-23**	**2021-22**
Mid-point of Banded remuneration of highest paid board member	£372,500	£352,500	£182,500	£177,500
Number of employees in receipt of remuneration above the highest paid board member	1	0	6	8
Salary range for all employees	£16,847-£417,200	£16,238-£352,500	£18,831-£276,014	£17,143 – £382,190

Percentage change from previous year in total salary & allowances and performance pay & bonuses for the highest paid director and the staff average

	2022-23		2021-22	
Salary & Allowances	**Military**	**Civilian**	**Military**	**Civilian**
Highest paid director	5.67%	2.82%	-4.08%	-7.79%
Staff average	4.12%	7.01%	-0.60%	1.18%
Performance Pay & Bonuses[1]				
Highest paid director			–	–
Staff average		2.47%	–	-2.04%

1 No performance pay or bonuses were paid to highest paid directors in 2022-23. Military salaries do not attract performance pay.

Ratio between the highest paid directors' total remuneration and the lower quartile, median and upper quartile for staff pay

	Military			Civilian		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
2022-23	13.5:1	10.2:1	8.1:1	6.6:1	5.2:1	4.1:1
2021-22	13.2:1	10.0:1	7.9:1	6.7:1	5.3:1	4.0:1

Lower quartile, median and upper quartile for staff pay for salaries and total pay

	Lower Quartile		Median		Upper Quartile	
	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22
	Military					
Salary	27,512	26,614	36,656	35,302	46,659	44,818
Total Pay	27,512	26,614	36,656	35,302	46,659	44,818
	Civilian					
Salary	27,361	25,565	34,330	33,000	44,044	41,353
Total Pay	27,490	26,656	34,916	33,500	45,025	44,131

Staff Report

Staff Numbers

(This section has been subject to audit)

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.

Number of Senior Civil Service (SCS) Staff by Pay Band at 31 March 2023

SCS PAY BAND	2022-23	2021-22
Band 1	**229**	240
Band 2	**60**	55
Band 3	**9**	8
Band 4	**2**	2

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:

Number of DE&S Senior Leadership Group (SLG) Staff as at 31 March 2023

SLG PAY BAND	2022-23	2021-22
Band 1	**87**	87
Band 2	**16**	18
Band 3	**3**	3
Band 4	**1**	1

Number of SDA Senior Leadership Group (SLG) Staff as at 31 March 2023

SLG PAY BAND	2022-23	2021-22
Band 1	**25**	23
Band 2	**7**	6
Band 3	**1**	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 the start of the financial year. 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 includes Senior Civil Servants, Senior Military Officers (1* & above), Dstl, DE&S and SDA Senior Leadership Groups.

Of the Defence Board Members, 2 of the male directors and 1 of the female directors are NEDs (2021-22: Male 3 Female 1). In 2022-23, the staff composition of DE&S SLG was: Male 76 Female 31 (2021-22: Male 82 Female

27). For SDA SLG the staff composition was Male 24 Female 9 (2021-22: Male 22 Female 8)

Analysis of the Number of Persons of Each Gender

	2022-23			2021-22		
Gender[1]	Defence Board Members	SCS and equivalent	Military/ Civilian Employees	Defence Board Members	SCS and equivalent	Military/ Civilian Employees
Male	11	716	158,048	12	725	163,272
Female	2	200	39,711	2	179	39,242

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

Analysis of Staff Numbers

The average number of full-time equivalent persons employed are set out in the table below.

Analysis of the Number of Full-time Equivalent Persons Employed

	2022-23		2021-22	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Civilian Staff	55,330	64,571	55,580	64,811
Other Staff[1]	6,009	6,268	5,487	5,770
Ministers	5	5	5	5
Special Advisors	3	3	2	2
Armed Forces	155,857	155,857	161,611	161,611
Totals	**217,204**	**226,704**	222,685	232,199

1 Other is defined as those who are engaged on the objectives of the Department, but are not permanent civilian staff. Includes short term contract staff, agency & temporary staff, locally engaged staff overseas.

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. These figures are not comparable with the workforce size disclosed in the Protect Our People "People" section of the Performance Report as that figure is Full Time Equivalent Strength as at 1 April 2023.

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

The Armed Forces figure in the table above is made up of the yearly average of UK Regular Forces. It also includes other trained and untrained full-time service personnel namely, Nursing Services, Full Time Reserve Service personnel, Gurkhas and Locally Engaged Personnel, Mobilised Reservists, Military Provost Guard Service and Non-Regular Permanent Staff. This figure is not comparable with the workforce size disclosed in the Protect Our People "People" section of the Performance Report as that figure is Full Time Trained Strength as at 1 April 2023.

More information on the Department's staff numbers, and the statistical calculations used, is available on the website[31].

Staff Turnover

Departmental Staff turnover percentages

	2022-23		2021-22[1]	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Civilian Staff Turnover	11.2%	10.7%	11.0%	10.4%

1. The 2021-22 values have been corrected due to transposition error

	UK Regular Forces Trained Outflow rate in the 12 Months ending 31 Mar 23	UK Regular Forces Trained Outflow rate in the 12 Months ending 31 Mar 22
Military	10.3%	8.0%

1. Figures show outflow from the Trained (RN/RM and RAF) and Trade Trained (Army) UK Regular Forces, including personnel leaving the Services, deaths and recalled Reservists on release. They do not include promotion from Ranks to Officers or flows between Services..
2. Rates are the number of people who leave per 100 of the mean average trained strength.
3. UK Regulars Full time Service personnel, including Nursing Services, but excluding Full Time Reserve Service (FTRS) personnel, Gurkhas, mobilised Reservists, Military Provost Guard Service (MPGS), Locally Engaged Personnel (LEP), Non Regular Permanent Staff (NRPS), High Readiness Reserve (HRR) and Expeditionary Forces Institute (EFI) personnel. Unless otherwise stated, includes trained and untrained personnel.
4. Outflow figures here comprise all Regular personnel who completed their Phase 2 training, i.e. Trained (RN/RM & RAF) and Trade Trained (Army).

31 Statistics at MOD - Ministry of Defence - GOV.UK (www.gov.uk)

Staff Costs

(This section has been subject to audit)

Analysis of Staff Costs

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

					2022-23[1]	2021-22
	Civilian Staff	Armed Forces	Other staff[2]	Ministers	Departmental Group	Departmental Group
					Total	Total
	£M	£M	£M	£M	£M	£M
Salaries and Wages[3]	**2,516.7**	**6,891.4**	**418.0**	**0.1**	**9,826.2**	9,420.7
Social Security Costs	**283.0**	**668.3**	**0.2**	**–**	**951.5**	870.3
Pension Costs	**583.6**	**4,067.4**	**1.1**	**–**	**4,652.1**	4,560.9
Sub Total	**3,383.3**	**11,627.1**	**419.3**	**0.1**	**15,429.8**	14,851.9
Less capitalised staff costs	**(52.7)**	**(13.7)**	**(10.8)**	**–**	**(77.2)**	(22.7)
Less Recoveries in Respect of Outward Secondments	**(19.2)**	**(32.8)**	**–**	**–**	**(52.0)**	(54.4)
Total net costs	**3,311.4**	**11,580.6**	**408.5**	**0.1**	**15,300.6**	14,774.8

1. Staff costs are also disclosed in Note 4.1 to the accounts.
2. Other staff is defined as personnel who are engaged on the objectives of the Department but do not fall under the definition of civilian staff. This includes short term contract staff, agency and temporary staff, locally engaged staff overseas
3. Severance payments are now included in the cost of salaries; the 2021-22 comparator has been restated

For the year to 31 March 2023, of the total pension contributions for the Departmental Group in the table above, £584.7 million (2021-22: £582.3 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 £529.7 million (2021-22: £511 million); the movement on non-PCSPS pension provision of £-6.9 million (2021-22: £18.4 million); and contributions to non-PCSPS of £61.9 million (2021-22: £52.9 million).

Where employees have opened a stakeholder pension with an employer contribution, the Department has made contributions of £4.66 million (2021-22 £4.64 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 £0.82 million (2021-22 £0.79 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 are unfunded, non-contributory, defined benefit, salary related, occupational pension schemes. For the year to 31 March 2023 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £4,067.4 million (2021-22 £3,978.6 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 13 – Retirement Benefits, in the Annual Accounts section.

As a result of the McCloud judgement, the Government has been working to address the discrimination identified by the Court of Appeal with the transitional protection arrangements that were put in place when public service pension schemes were reformed between 2014 and 2016. The Government has announced that due to interactions with wider pension policies, completion of the 2016 valuation process and the review of the cost control mechanism, any changes to employer contribution rates resulting from the 2020 valuations will be delayed from April 2023 to April 2024.

Special Advisors Costs and Severance Payments

From August 2019, all special advisors have been paid by the Cabinet Office and therefore no Special Advisors costs fell to the Department in 2022-23.

Civil Service and Other Compensation Schemes – Exit Packages

(This section has been subject to audit)

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), a statutory scheme made under the Superannuation Act 1972. For ill health retirements, where there is a cost to the Department, these individuals are included in the table that follows; 110 individuals retired early on ill-health grounds during 2022-23 (2021-22 86); their total accrued pension liabilities for the year were £0.3 million (2021-22 £0.2 million).

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 following table shows both 2022-23 and for comparison 2021-22 numbers and resource costs in £ million.

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.

Number of Exit Packages and Resource Costs

	2022-23 (2021-22)					
	Core Department & Agencies			Departmental Group		
Exit Package Cost Band	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
<£10,000	0 (2)	22 (32)	22 (34)	1 (9)	32 (47)	33 (56)
£10,000 – £25,000	0 (2)	22 (35)	22 (37)	0 (3)	29 (44)	29 (47)
£25,000 – £50,000	0 (3)	38 (39)	38 (42)	1 (3)	40 (42)	41 (45)
£50,000 – £100,000	0 (1)	23 (17)	23 (18)	1 (1)	23 (21)	24 (22)
£100,000 – £150,000	–	1 (1)	1 (1)	–	1 (1)	1 (1)
£150,000 – £200,000	–	1 (0)	1 (0)	–	1 (0)	1 (0)
£200,000 – £250,000	–	–	–	–	–	–
£250,000 – £300,000	–	–	–	–	–	–
Total Number of Exit Packages	**0 (8)**	**107 (124)**	**107 (132)**	**3 (16)**	**126 (155)**	**129 (171)**
Total Resource Cost £million	**0 (£0.236)**	**£3.713 (£3.438)**	**£3.713 (£3.674)**	**£0.116 £0.274**	**£3.953 (£4.059)**	**£4.068 (£4.333)**

Prior year numbers are shown on backets

Staff Sickness

Levels of sickness absence for MOD civil servants, including UKHO, have increased slightly over the year. The average working days lost per person for the 12 months ending 31 March 2023 was 6.47 (5.23 days for the 12 months ending 31 March 2022). Mental and behavioural disorders continue to be the highest cause of sickness absence at 25% of all absences (2021-22: 23%). The percentage of staff with no sick absence for the 12 months ending 31 March 2023 was 51% (2021-22: 59%).

Reducing sickness absence is identified by the Health and Wellbeing Leadership Team (HWLT) as a priority and is included in the action plan to support the delivery of the Defence People Health and Wellbeing Strategy 2021 – 2026.

Health and Safety

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 was published in Summer 2023[32].

Civilian Staff Policies Applied During the Financial Year

The MOD continues to be dedicated to achieving a more diverse and inclusive civilian workforce and is committed to recruiting the best people from as broad a range of backgrounds as possible. This year Defence has taken on the responsibilities to deliver Access to Work (previously provided by the Department for Work and

32 Defence personnel health and safety statistics: financial year 2022/23 - GOV.UK (www.gov.uk)

Pensions). This requirement has been integrated into our policies and procedures to ensure continuity of provision for our personnel.

The Civil Service as a whole does not discriminate against disabled people and Defence positively encourages disabled candidates to apply for jobs within the organisation, participating in the Disability Confident Scheme. The MOD has been an accredited ‘Disability Confident Leader, Level 3’ 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. We monitor progress against these aims through qualitative and quantitative data and evidence.

To encourage and support applications from a more diverse applicant pool, we do not require minimum educational qualifications for entry roles to the Civil Service. Managers may use, if appropriate, selection tests including the Civil Service Verbal, Numerical and Situational Judgement tests, which have all been independently audited for accessibility, to assess particular skills / behaviours required for a role. Since 2018 MOD has used Civil Service Success Profiles for recruitment, enabling managers to assess candidate’s suitability for the role using a range of selection methods (including personal statements, CVs, online tests etc). We have improved our guidance to managers on selection panels including emphasising the importance of having diverse panels. We have introduced bite size learning videos including how to write a better job advert (to ensure it's inclusive and does not discriminate). We have implemented the use of Textio, an augmented writing software tool to ensure job adverts are inclusive, using gender neutral language and avoiding jargon. We have improved guidance on how to sift, ensuring where the Disability Confident Scheme (DCS) is used that people are offered a guaranteed interview if they meet the minimum criteria. We have developed and published new guidance for managers on supporting reasonable adjustments during recruitment. Recruiting managers are required to complete Equality and Diversity training prior to recruiting to help minimise the possibility of unconscious bias within the selection process.

For recruitment into the Senior Civil Service (SCS), all selection panels must be gender balanced and at least one panel member must be from an ethnic minority and/or have a disability (this could be a hidden disability)

The DBS HR Advice & Casework Service provides HR functions, advice and support to all MOD main employees.

MOD adopted the Redeployment Interview Scheme (RIS) in April 2022, which gives Civil Service employees at risk of redundancy more support in securing alternative employment both within the Department and the wider Civil Service. It operates similarly to the Disability Confident Scheme (DCS) (and Great Place to Work for

Veterans Scheme (GPTW) where applicants self-identify on the Civil Service Jobs website by ticking a box when completing their application form that they want to apply for the vacancy using RIS. All MOD Civil Service employees, including the Senior Civil Service (SCS), who are at risk of redundancy, are eligible to use RIS to apply for vacancies on level move and downgrade. RIS applies to all internal, across government and external vacancies.

MOD has successfully adopted MyHR Oracle Fusion Cloud (software as a service) as the new HR system underpinning our civilian people services. This catalysed the improvement to policy and process needed to adopt industry standard ways of working and enables a more agile approach to leveraging the quarterly updates from Oracle to deliver policy effect. Early explorative work has begun to establish how this technology can be further optimised to improve employee experiences and whether it will be adopted to serve the military and/or other user populations across defence.

Civil Service Talent

Our aim is to ensure we are developing the potential of all staff; acknowledging individual aspiration and recognising that we require a mixture of talent, skills and experience to deliver defence outputs now and in the future. We want to maximise the potential of all employees, whether that be growing in their current role, getting a breadth of experience at their current grade, or reaching promotion. We provide access to a range of opportunities for staff to learn and develop, provide line managers with frameworks to hold effective career conversations, utilise tools to identify those showing the highest potential and support these individuals to accelerate their development through corporate talent schemes. Development schemes are available to staff at all levels of the organisation, from delegated grades to SCS. We are continuing to grow our apprenticeship programme to mirror all the levels of the qualifications framework and ensuring inclusivity of access regardless of where our workforce is based. This includes attracting a broad range of participants to the schemes so that we can build a more diverse talent pipeline for the future. Defence continues to nurture the talent of its civil servants with our in-house Rise and Elevate talent programmes aimed at nurturing our junior talent for more demanding senior roles in the future; these also attract apprenticeships to complement the schemes. During 2021-22, over 400 people in MOD were on talent schemes such as Fast Stream, Future Leaders Scheme and Rise and Elevate and there were 415 apprenticeships enrolled on in 2022-23.

Civil Service Reform

On 15 June 2021 HM Government published the Declaration on Government Reform, setting an ambitious programme to ensure we serve the whole country better and improve the clarity, quality, and speed of prioritisation and decision-making within government.

Converged corporate functions are set to improve the user experience, data collection and increase productivity, efficiency and performance. Common elements of change will include policy, process, organisation design, information management and the introduction of cloud-based enterprise resource planning (ERP) solution. This will add value, drive innovation, and make government more effective.

The places for growth programme aims to decentralise government out of Whitehall and relocate significant numbers of Civil Servants out of London (including the Senior Civil Service) to ensure our policy and decision making reflect the communities we serve. The MOD has continued to deliver on its commitments to relocate roles as part of this agenda in year, and work is underway to review our footprint at other locations. Senior Civil Service reform has introduced a new performance management process – better linked to Departmental objectives as set out in Outcome Delivery plans. The reform agenda ensures the government attracts talent and expertise from more diverse backgrounds. As a Department we continue to consider how best to use loans and secondments to help address key capability gaps and partner with industry to achieve this.

Encouraging recruitment from outside of the Department and increasing secondment opportunities are fundamental commitment to build our skills and capability across the Civil Service. It is the golden thread running through all the People actions in the Declaration on

Government Reform; for MOD this means a focus on increasing external SCS hires (including recent adopting of External by Default) and developing and embedding the approach to inward and outward secondments, working closely with Cabinet Office, internally with TLBs and Head of Profession and externally with industry partners.

Aspirations to transform how Civil Service staff learn were published in January 2021, articulating the aims for a new cross-government curriculum and a campus for government skills, focusing on five work strands; foundation of public administration, working in government, leading and managing, specialist skills and domain knowledge.

‘HR is being enabled by Defence Corporate Services Modernisation, covered in more detail the Performance Report, which is a key means of delivering on the Government Reform agenda.’

Strategic Workforce Planning (SWP)

Defence’s approach to SWP provides the agility to respond to persistent and future workforce challenges to mitigate risk. Our SWP process provides Top Level Budget holders the freedoms and incentives to design their whole-force workforce, within a work force cost envelope, to maximise outcomes while driving value for money and productivity.

We are now improving the ability to cohere the workforce picture to develop pan-Defence interventions across critical workforce segments to assure we have the right people, at the right time, in the right location to deliver Defence outputs.

Our work over the last year has set the foundation to better understand new capabilities and align with future workforce skill requirements to deliver competitive advantage in the digital era, and lever modern technology so that our workforce becomes more efficient and productive. It also provides the opportunity to respond to wider government reform agenda through initiatives such as Places for Growth and Levelling Up. We are also investing in whole force people data analytics solutions to assure our understanding of Whole Force (WF) risk and developing modern software tools to provide better and more agile insight to Defence people.

From TLB workforce plans we have aggregated and distilled several cross-cutting WF capability risks, identified opportunities and wider dependencies to be integrated into Departmental plans and activity, developed a Civil Service Workforce Strategy, and continue to progress the pan-Defence Skills Framework (PDSF).

The acquisition and retention of key skills in a challenging external employment market is a common theme, with critical whole force skills collectively highlighted risking nuclear, digital and cyber, commercial, engineering/

STEM, medical and health, programme and project delivery WF segments. We will develop a pan-Defence whole force skills picture over 5 and 10 years, drawing on TLB Plans and major people transformation programmes. Through this approach, and through collaboration across Defence, we will look to address and treat critical WF risks. There is work ongoing on Civil Service Modernisation and Reform priorities, such as improving workforce flexibility within the Defence enterprise and reducing reliance on contingent labour. Within our resourcing strategy, and aligned to Corporate Services Modernisation, opportunities for further automation are to be investigated and aligned with our strategic intent of ensuring we have the right workforce to deliver Defence outputs.

Other Employee Matters

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

As an organisation, Defence offers a vast range of career opportunities irrespective of protected characteristic.

We continue to deliver the Defence's Diversity and Inclusion Strategy[33], setting out our approach to ensuring we safeguard the nation's security and stability through creating an inclusive organisation. We continuously improve and refresh this strategy as the organisation develops and society changes.

33 Defence diversity and inclusion strategy 2018 to 2030: A force for inclusion - GOV.UK (www.gov.uk)

We are taking practical steps to make Defence and the Armed Forces a career of choice for more women and those from underrepresented ethnic minority groups.

A broad range of interventions has been implemented to support the significant work of the MOD's vast array of networks in ensuring all of our people are heard and championed. Our diversity statistics are included in the Performance Report and we continue to implement a number of people strategies including the Armed Forces People Programme, to strengthen the Defence People function, delivering the workforce of the future while meeting the evolving requirements of MOD.

MOD continues to bear down on bullying, harassment and discrimination (BHD) following the Wigston report. We have introduced new processes which replace line management in the decision-making role in BHD cases, with independent decision makers from other parts of the Department. In this way, we are able to assure those that have been subject to BHD, that their complaints will be heard in an independent and impartial way. The number of complaints has doubled since this was introduced, suggesting that complainants feel more confident in the system and are happier to come forward.

MOD continues to undertake consultation with our people on an ongoing basis, and through two key annual surveys (the AFCAS[34] and MOD People Survey[35]). MOD

34 https://www.gov.uk/government/statistics/armed-forces-continuous-attitude-survey-2022
35 https://www.gov.uk/government/publications/civil-service-people-survey-2022-results

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 (i.e., facility time) so they may undertake union activities alongside their role with the Department.

The Armed Forces Covenant is enshrined in law and exists to ensure that those who serve, or have served, and their families are treated fairly and are at the forefront of our policy-making and delivery. Furthermore, MOD continues to focus heavily on the health and wellbeing of its people. We have introduced several initiatives aimed at increasing the health and wellbeing of our people, and work continues to improve and enhance health and wellbeing.

Expenditure on Consultancy and Temporary Staff

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 an increased 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.

The MOD, including On Vote Agencies and ALBs, spent the following on consultancy and temporary staff (also known as Contingent Labour) in 2022-23.

Analysis of Consultancy and Temporary Staff

	2022-23		2021-22	
	Consultancy	Temporary Staff[2]	Consultancy	Temporary Staff[2]
Body	**£M**	**£M**	**£M**	**£M**
Ministry of Defence Main	126.061	205.787	113.324	325.140
On Vote Agencies				
Defence Equipment & Support Bespoke Trading Entity	5.184	129.208	1.255	97.313
Defence Science & Technology Laboratory	–	–	–	20.925
Submarine Delivery Agency	0.198	15.286	2.063	12.469
Executive Non-Departmental Public Bodies				
National Museum of the Royal Navy	0.342	–	0.230	0.036
National Army Museum	0.020	–	–	–
Royal Air Force Museum	0.085	0.015	0.241	–
Single Source Regulations Office	0.049	–	–	0.307
Atomic Weapons Establishment[3]	16.020	24.390	15.591	25.996
Armed Forces Covenant Fund Trust	–	–	0.019	0.030
Other Bodies[1]	1.146	1.227	2.219	1.231
Total Expenditure	**149.105**	**375.913**	**134.942**	**483.447**

1 Other Bodies comprises Commonwealth War Graves Commission, Royal Hospital Chelsea, Reserve Forces and Cadet Associations and International Military Services Ltd.
2 Cabinet Office definitions show Contingent Labour as Temporary Staff.
3. The value of AWE expenditure for 2021-22 has been restated following further review and validation.

Consultancy is the provision to management of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the 'business-as-usual' environment when in-house skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance with the implementation (but not the delivery) of the solutions.

Temporary staff describes the provision of workers to cover business-as-usual or service delivery activities within an organisation. Temporary staff are also often referred to as “Contingent Labour”.

The reduction in reported in Temporary Staff expenditure is due to decreased requirements in Strategic Command, particularly in Defence Digital as staffing of new programmes transitioned to more permanent workforce.

Off-Payroll Engagements

HM Treasury requires departments to publish information on their high paid and/or senior off-payroll engagements. HMT requires all engagements irrespective of length to be reported.

On 31 March 2023 there were 2,235 existing off-payroll engagements. This is a 16% increase over the previous year; 1,928 reported on 31 March 2022.

Off-Payroll Engagements Earning More than £245 Per Day as at 31 March 2023

	Core Department	ALBs	Departmental Group
Number of existing engagements as of 31 March 2023	2,063	172	2,235
Of which...			
Number that have existed for less than one year	1,308	70	1,378
Number that have existed for between one & two years	494	41	535
Number that have existed for between two and three years	121	14	135
Number that have existed for between three and four years	100	14	114
Number that have existed for four or more years	40	33	73

The use of workforce substitutes enables the MOD to supplement its capability and capacity more quickly than building a core workforce. This route offers more flexibility and better value for money overall than trying to build a permanent workforce with the spare capacity to cover every potential addition to our programmes of work. MOD retain several long-standing arrangements, particularly in circumstances where specialist skills or experience are critical in providing input to projects/programmes.

Additional analysis

Further analysis of these engagements is shown in the following table:

Analysis of Off – Payroll engagements lasting over 3 years

	Between 3 and 4 Years	over 4 years
Submarine Delivery Agency	2	1
Defence Science & Technology Laboratory	57	-
UK Strategic Command	14	20
Air	1	-
Defence Equipment and Support	24	13
Atomic Weapons Establishment	14	33
Defence People Team	-	5
Defence Infrastructure Organisation	1	–
Defence Nuclear Organisation	1	–
MOD Saudi Armed Forces Projects	–	1
Total	**114**	**73**

The number of longer-term engagements has increased by 73% overall: between 3- and 4-year engagements increased by 66 (138%), and 4 years or more increased by 13 (22%) compared to 2021-22. The majority represent specialist contractors holding niche skill sets, which are incredibly hard to resource within the permanent job market. The majority of the overall increase is represented by Defence Science and Technology Laboratory, which has grown following the merger with the Centre for Applied Science and Technology. Having this specialist contractor continuity is a determining factor within project teams, especially when working with our counterparts in the US Department of Defense.

All temporary Off-Payroll workers engaged at any point during the year ended 31 March 2023, paid more than £245 Per Day

	Core Department	ALBs	Departmental Group
No. of off-payroll workers engaged during the year ended 31 March 2023	3,131	173	3,304
Of which:			
Not subject to off-payroll legislation	3,007	75	3,082
Subject to off-payroll legislation and determined as in-scope of IR35	76	-	76
Subject to off-payroll legislation and determined as out-of-scope of IR35	48	98	146
No. of engagements reassessed for compliance or assurance purposes during the year	1,903	104	2,007
Of which: no. of engagements that saw a change to IR35 status following review	1	11	12

Off-payroll legislation does not apply to sole traders or workers that are employed by and on the payroll of an umbrella company, agency or other organisation in the supply chain. The total above, 3,304 (2,742 in 2021-22) includes a large number of workers 3,082, (2,331 in 2021-22) who fall into the category in which the IR35 legislation does not apply.

Of the total engagements of 3,304 a breakdown of the route to market by number and percentage is listed below:

- Crown Commercial Services (CCS) Public Sector Resourcing and Temporary Healthcare Worker frameworks account for 40% (1,329 in number) of the total engagements; 33% (899 in number) in 2021-22

- DE&S Delivery Partner arrangements placed 51% (1,674 in number) of engagements with specialist recruiters; 42% (1,141 in number) in 2021-22
- Fee Earners, such as guest speakers, lecturers, piano tuners, musicians, represent 8% (249 in number) of engagements; 14% (395) in 2021-22
- Other CCS frameworks account for the remaining 2% (52 in number) of engagements; 11% (307) in 2021-22.

Note: 29% (943 in number) of our off-payroll engagements are short term (less than 6 months) in nature, 15% (422) in 2021-22.

On-Payroll Engagements of Board Members and/or Senior Officials with Significant Financial Responsibility between 1 April 2021 and 31 March 2023

	Core Department	ALBs	Departmental Group
Number of off-payroll engagements of board members and/or senior officials, with significant financial responsibility during the financial year.	0	0	0
Total number of individuals, on payroll and off-payroll, that have been deemed "board members and/or senior officials with significant financial responsibility" during the financial year.	29	17	46

In determining those with 'significant financial responsibility' within the Department and its Arm's Length Bodies, the Department has considered the individual's level of authority over the organisation's budget and wider public sector spending.

Trade Union Facility Time

The following is a summary of trade union officials and facility time incurred during 2022-23

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
114	108

Percentage of Time Spent on TU Facility Time

Percentage of time	Number of employees
0%	40
1-50%	74
51%-99%	–
100%	–

Percentage of Pay Bill Spent on TU Facility Time

Percentage of pay bill spent on facility time	
Total cost of facility time	£197,540
Total pay bill	£3,383,300,000
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%

No paid time is given for union activities. Staff conduct TU activities through facility time rather than being paid TU employees.

The Parliamentary Accountability and Audit Report

The Parliamentary Accountability and Audit Report describes how we have been financed through the Supply 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 within the Performance Report.

Statement of Outturn against Parliamentary Supply (SOPS)

(This section has been subject to audit)

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FReM) requires us to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons. The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year. Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SOPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn does not exactly tie to cash spent) and administration. The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in the SoCNE, to tie the SOPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and an analysis of income payable to the Consolidated Fund (note 4).

The figures in the summary tables below cover outturn against the Parliamentary Control Totals. Refer to the Supply Estimates guidance manual available on gov.uk, for detail on the control limits voted by Parliament. The SOPS and Estimates are compiled against the budgeting framework is as described in the Performance Report - Financial Performance Summary.

Summary of Resource and Capital Outturn 2022-23

				2022-23	2021-22
	SOPS	Total Voted Outturn	Total Voted Estimate	Outturn compared to Estimate: Savings/ (Excess)	Outturn
	Note	£000	£000	£000	£000
Departmental Expenditure Limit (DEL)					
Resource	1.1	**39,847,790**	**40,881,151**	**1,033,361**	39,737,516
Capital	1.2	**20,304,031**	**20,472,404**	**168,373**	14,179,994
Total		**60,151,821**	**61,353,555**	**1,201,734**	53,917,510
Annually Managed Expenditure (AME)					
Resource AME	1.1	**(13,855,977)**	**(8,500,000)**	**5,355,977**	10,786,644
Total Budget					
Resource	1.1	**25,991,813**	**32,381,151**	**6,389,338**	50,524,160
Capital	1.2	**20,304,031**	**20,472,404**	**168,373**	14,179,994
Total		**46,295,844**	**52,853,555**	**6,557,711**	64,704,154

The majority of the Resource Departmental Expenditure Limit (RDEL) variance (£1.033 billion) relates to lower than expected Depreciation and Impairment charges (£0.895 billion) reflecting uncertainty over the potential impact of the Integrated Review Refresh. The biggest factor in respect to the remainder of the variance (£0.138 biliion) was lower expenditure on administration of the Department.

The Capital Departmental Expenditure Limit (CDEL) outturn variance was £0.168 billion and related to an underspend on operations (£0.133 billion) and minor movements on other capital investment programmes (£0.035 billion).

For Annually Managed Expenditure (AME), which by its nature is demand led and volatile, the outturn was substantially below budget reflecting the significant change to Treasury Discount Rates used in the valuation of long-term nuclear decommissioning provisions which was reported late in the financial year.

Net Cash Requirement 2022-23

				2022-23	2021-22
	SOPS	Outturn	Estimate	Outturn compared to Estimate: Savings/ (Excess)	Outturn
	Note	£000	£000	£000	£000
Net Cash Requirement	3	**48,565,081**	**53,103,785**	**4,538,704**	43,874,288

Administration Costs 2022-23

				2022-23	2021-22
	SOPS	Outturn	Estimate	Outturn compared to Estimate: Savings/ (Excess)	Outturn
	Note	£000	£000	£000	£000
Administration Costs	1.1	**1,757,739**	**1,810,479**	**52,740**	1,753,062

Although not a separate voted limit, any breach of the administration budget will also be deemed an excess vote.

SOPS Note 1 Outturn detailed by Estimate Line

SOPS Note 1.1 – Analysis of Net Resource Outturn by Estimate Line

								2022-23	2021-22
Resource Outturn in Departmental Expenditure	Administration Expenditure	Programme Expenditure	Programme Income	Total Net Resource Outturn	Total Net Resource Estimate	Virements	Total Net Resource Estimate Including Virements	Total Net Resource Outturn Compared to Estimate	Total Net Resource Outturn
Limits (DEL) – Voted Expenditure	£000	£000	£000	£000	£000	£000	£000	£000	£000
A. Provision of Defence Capability – Service Personnel Costs	–	10,623,288	–	**10,623,288**	10,628,469	(5,181)	10,623,288	–	10,390,528
B. Provision of Defence Capability – Civilian Personnel Costs	–	1,642,062	–	**1,642,062**	1,953,992	(311,930)	1,642,062	–	1,612,148
C. Provision of Defence Capability – Infrastructure Costs	–	4,816,706	–	**4,816,706**	5,146,483	(329,777)	4,816,706	–	5,063,419
D. Provision of Defence Capability – Inventory Consumption	–	1,607,774	–	**1,607,774**	1,600,909	6,865	1,607,774	–	1,360,704
E. Provision of Defence Capability – Equipment Support Costs	–	7,818,594	–	**7,818,594**	7,750,517	68,077	7,818,594	–	7,537,696
F. Provision of Defence Capability – Other Costs and Services	–	2,114,922	–	**2,114,922**	1,560,749	554,173	2,114,922	–	2,187,387

								2022-23	2021-22
Resource Outturn in Departmental Expenditure	**Administration Expenditure**	**Programme Expenditure**	**Programme Income**	**Total Net Resource Outturn**	**Total Net Resource Estimate**	**Virements**	**Total Net Resource Estimate Including Virements**	**Total Net Resource Outturn Compared to Estimate**	**Total Net Resource Outturn**
Limits (DEL) – Voted Expenditure	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
G. Provision of Defence Capability – Receipts and Other Income	–	–	(1,367,549)	**(1,367,549)**	(1,517,000)	149,451	(1,367,549)	–	(1,218,848)
H. Provision of Defence Capability – Depreciation and Impairment Costs	–	7,351,151	–	**7,351,151**	8,246,070	–	8,246,070	894,919	7,987,529
I. Provision of Defence Capability – Cash Release of Provisions	–	376,475	–	**376,475**	359,740	16,735	376,475	–	383,636
M. Provision of Defence Capability – Research and Development Costs	–	202,193	–	**202,193**	162,986	39,207	202,193	–	224,828
P. Operations – Service Personnel Staff Costs	–	28,412	–	**28,412**	38,000	–	38,000	9,588	25,630
Q. Operations and Peacekeeping – Civilian Personnel Staff Costs	–	1,623	–	**1,623**	3,000	–	3,000	1,377	3,269
R. Operations – Infrastructure Costs	–	158,523	–	**158,523**	155,500	3,023	158,523	–	107,081
S. Operations – Inventory Consumption	–	164,426	–	**164,426**	91,000	73,426	164,426	–	69,433
T. Operations – Equipment Support Costs	–	417,130	–	**417,130**	435,000	–	435,000	17,870	235,490
U. Operations – Other Costs and Services	–	7,563	–	**7,563**	107,000	(77,436)	29,564	22,001	(3,770)

								2022-23	2021-22
Resource Outturn in Departmental Expenditure	**Administration Expenditure**	**Programme Expenditure**	**Programme Income**	**Total Net Resource Outturn**	**Total Net Resource Estimate**	**Virements**	**Total Net Resource Estimate Including Virements**	**Total Net Resource Outturn Compared to Estimate**	**Total Net Resource Outturn**
Limits (DEL) – Voted Expenditure	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
V. Operations – Receipts and Other Income	–	–	(6,513)	**(6,513)**	(7,500)	987	(6,513)	–	(4,271)
Y. Arm's Length Bodies Costs	–	234,987	–	**234,987**	215,870	19,117	234,987	–	226,707
AA. Defence Capability DE&S	–	1,216,547	–	**1,216,547**	1,247,994	–	1,247,994	31,447	1,095,298
AB. War Pensions Benefits	–	606,730	–	**606,730**	605,930	800	606,730	–	622,575
AC. Conflict, Stability and Security Fund	–	75,007	–	**75,007**	78,426	–	78,426	3,419	77,985
Administration Costs[1]									
N. Provision of Defence Capability Administration – Civilian Personnel Costs	663,464	–	–	**663,464**	704,720	(39,201)	665,519	2,055	636,425
O. Provision of Defence Capability Administration – Other Costs and Services	291,964	–	–	**291,964**	478,396	(149,451)	328,945	36,981	345,877
Z. Provision of Defence Capability Administration – Service Personnel Costs	797,079	–	–	**797,079**	829,900	(19,117)	810,783	13,704	767,735
AD Cash Release of Provisions	5,232	–	–	**5,232**	5,000	232	5,232	–	3,025
Total Spending in Resource DEL	**1,757,739**	**39,464,113**	**(1,374,062)**	**39,847,790**	**40,881,151**	**–**	**40,881,151**	**1,033,361**	39,737,516

								2022-23	2021-22
Resource Outturn in Departmental Expenditure	Administration Expenditure	Programme Expenditure	Programme Income	Total Net Resource Outturn	Total Net Resource Estimate	Virements	Total Net Resource Estimate Including Virements	Total Net Resource Outturn Compared to Estimate	Total Net Resource Outturn
Limits (DEL) – Voted Expenditure	£000	£000	£000	£000	£000	£000	£000	£000	£000
AE. Provision of Defence Capability - Depreciation and Impairment Costs	–	(95,076)	–	**(95,076)**	202,197	–	202,197	297,273	129,504
AF. Provision of Defence Capability - Provisions Costs	–	(13,371,447)	–	**(13,371,447)**	(8,585,447)	–	(8,585,447)	4,786,000	11,737,047
AG. Provision of Defence Capability - Cash Release of Provisions Costs	–	(381,707)	–	**(381,707)**	(364,740)	–	(364,740)	16,967	(386,661)
AH. Movement on the Fair Value of Financial Instruments	–	(7,747)	–	**(7,747)**	247,990	–	247,990	255,737	(693,246)
Total Spending in Resource AME	**–**	**(13,855,977)**	**–**	**(13,855,977)**	**(8,500,000)**	**–**	**(8,500,000)**	**5,355,977**	10,786,644
Total Resource Outturn	**1,757,739**	**25,608,136**	**(1,374,062)**	**25,991,813**	**32,381,151**	**-**	**32,381,151**	**6,389,338**	50,524,160

1 The Department does not record any income as Administrative.

SOPS Note 1.2 – Analysis of Net Capital Outturn by Estimate Line

								2022-23	2021-22
Capital Outturn in Departmental Expenditure	Administration Expenditure	Programme Expenditure	Programme Income	Total Net Capital Outturn	Total Net Capital Estimate	Virements	Total Net Capital Estimate Including Virements	Total Net Capital Outturn Compared to Estimate	Total Net Capital Outturn
Limits (DEL) – Voted Expenditure	£000	£000	£000	£000	£000	£000	£000	£000	£000
J. Provision of Defence Capability – Capital – Single Use Military Equipment	–	8,487,084	–	**8,487,084**	8,521,128	(5,174)	8,515,954	28,870	8,462,664
K. Provision of Defence Capability – Other Capital (Fiscal)	–	7,666,258	–	**7,666,258**	7,592,110	74,148	7,666,258	–	3,878,886
L. Provision of Defence Capability – Fiscal Assets/ Estate Disposal	–	–	(74,580)	**(74,580)**	(120,000)	45,420	(74,580)	–	(79,453)
M. Provision of Defence Capability – Research and Development Costs	–	2,050,462	–	**2,050,462**	2,174,000	(119,568)	2,054,432	3,970	1,836,383
W. Operations Capital Single Use Military Equipment	–	733,643	–	**733,643**	1,054,000	(186,888)	867,112	133,469	–
X. Operations Other Capital (Fiscal)	–	1,291,888	–	**1,291,888**	1,105,000	186,888	1,291,888	–	(9,055)
Y. Arm's Length Bodies	–	27,400	(19,725)	**7,675**	2,501	5,174	7,675	–	2,575
AA. Defence Capability DE&S	–	141,601	–	**141,601**	143,665	–	143,665	2,064	87,994
AC. Conflict, Stability and Security Fund	–	–	–	**–**	–	–	–	–	–
Total Capital Outturn	**–**	**20,398,336**	**(94,305)**	**20,304,031**	**20,472,404**	**–**	**20,472,404**	**168,373**	**14,179,994**

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further information on virements are provided in the Supply Estimates Manual, available on gov.uk. The outturn vs estimate column is based on the total including virements. The estimate total before virements have been made is included so that users can tie the estimate back to the Estimates laid before Parliament

SOPS Note 2 Reconciliation of Net Resource Outturn to Net Expenditure

		2022-23	2021-22
	Note	£000	£000
Total Net Resource Outturn	SOPS 1.1	**25,991,813**	50,524,160
Adjustment for changes in discount rates not passing through net expenditure		**246,814**	(73,097)
Adjustment for Service Concession Arrangements treated as on-SoFP for Accounts, but treated as off-SoFP for Estimates and Budgets and therefore excluded from net resource outturn, but included in net expenditure		**317,543**	35,853
Income in respect of donated assets and asset disposals, treated as capital income		**–**	(40,764)
Loss/(gain) on foreign exchange in respect of Capital purchases and other adjustments to net resource outturn		**(133,535)**	133,333
Movements on capitalised and other provisions included in resource or capital outturn but not passing through net expenditure		**2,772,922**	(2,334,352)
Adjust for the net effect of capital: grants, income and grants-in-kind included in net expenditure but excluded from net resource outturn		**1,438,209**	30,165
Movement on payables not passing through net expenditure		**–**	(385,897)
Add capitalised research and development costs included in net expenditure but excluded from net resource outturn		**1,968,119**	1,742,162
Net expenditure Lfor the year in the Statements of Comprehensive Net Expenditure	SoCNE	**32,601,885**	49,631,563

As noted in the introduction to the SOPS above, Outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from IFRS. Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SOPS to the financial statements.

SOPS Note 3 Reconciliation of Net Outturn to Net Cash Requirement

	Note	Outturn £000	Estimate £000	Outturn compared to Estimate: Savings/(Excess) £000
Total Resource Outturn	SOPS 1.1	**25,991,813**	32,381,151	6,547,337
Total Capital Outturn	SOPS 1.2	**20,304,031**	20,472,404	172,873
Adjustments for Arm's Length Bodies (ALBs):				
Remove voted outturn (Resource and Capital)		**(242,662)**	(218,371)	24,291
Add cash Grant in Aid and other Departmental expenditure on behalf of ALBs		**247,731**	214,671	(33,060)
Adjustments to remove non-cash items:				
Depreciation and impairment		**(7,274,121)**	(8,696,257)	(1,424,046)
New provisions and adjustments to previous provisions		**13,371,447**	8,585,447	(4,948,500)
Other non-cash items		**(2,801,558)**	–	(4,489,331)
Adjustment to reflect movements in working capital:				
Increase/(Decrease) in Inventory		**372,100**	–	(372,100)
Increase/(Decrease) in Receivables		**(68,500)**	–	68,500
(Increase)/Decrease in Payables		**(1,719,100)**	–	9,011,700
Use of provisions and unfunded pensions		**383,900**	364,740	(18,960)
Net cash requirement		**48,565,081**	**53,103,785**	**4,538,704**

As noted in the introduction to the SOPS above, Outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

The variation between estimate and outturn reflects judgements and assumptions made over the timing of payments/accruals in forecast outturns. The Department is implementing improved management information to drive greater accuracy in cash forecasting.

SOPS Note 4 Analysis of Income Payable to the Consolidated Fund

No income received by the Department in 2022-23 needed to be surrendered to the Consolidated Fund.

Parliamentary Accountability Disclosures

Fees and Charges

(This section has been subject to audit)

Where we have irreducible 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 volume and value of such instances remain immaterial to Defence and are therefore not shown separately. Details are held within the Department.

Remote Contingent Liabilities and Financial Guarantees

(This section has been subject to audit)

Quantifiable

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.

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. The details and value of quantifiable remote liabilities as at 31 March 2023, are shown in the following table:

Quantified Remote Contingent Liabilities and Financial Guarantees	£M
Sensitive	
There are some liabilities where details are not given due to the reasons of commercial and/or national security. There are also some sensitive items where the liability is unquantifiable.	869.9
Special and Generic Risk Indemnities	
Generic indemnities for the Department cover 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 and Helicopter support Risks. In addition there are remote unquantifiable liabilities related to Generic and Special Risks.	883.5
Contract Terms	
Limits or indemnities have been provided in relation to Babcock Group, Lockheed Martin, Agusta Westland, NavBlue and Leonardo for non-nuclear risks resulting from claims for damage to property or death and personal injury to a third party. Elements of these liabilities are also unquantifiable.	662.2
Contractor’s liability relating to explosion or ignition of Authority owned ammunition or explosives.	2.0
Indemnity has been provided for claims that relate to damage to property or death and personal injury to third party, relating to post flight checks.	0.2
An indemnity in respect of submarine production by British Aerospace Systems.	101.0
People	
The MOD has provided a guarantee to the NAAFI pensions Trustees’ underwriting the ability to pay full benefits to members.	28.0
There is a potential redundancy liability in several circumstances: • USVF re-basing as part of US European Infrastructure Consolidation (EIC) • Employees at the Defence College of Technical Training • Redundancy following contractorisation	10.9
Environmental	
Compensation to landowners where the Government Pipeline and Storage System (GPSS) is laid outside deviation limits or where the SofS’ rights in respect of GPSS are lost.	5.6
Some clean-up costs have been identified, but it is not practicable or cost effective to identify all possible requirements and any possible liability.	1.5
Other Remote Contingent Liabilities	
Cover for risk to exhibits on loan to the Armed Forces museums.	2.9
Foreign Military Sales activity.	3.3
Protection for locum medical staff working within MOD, against clinical negligence claims.	0.2
Financial Guarantees.	
Crown Guarantee for the AWE Pension Scheme.	150.0
Total	2,721.2

Unquantifiable Contingent Liabilities

Several remote contingent liabilities are considered unquantifiable. Liabilities 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 means that it is not feasible to estimate values. Furthermore, objective evidence to support valuations of these liabilities is not available and hence we cannot measure them with sufficient reliability. The Department routinely reviews the status of remote unquantified liabilities to determine whether circumstances or evidence has arisen that would support quantification. The details of any remote unquantifiable remote contingent liabilities are shown in the following table:

Unquantified Remote Contingent Liabilities
Contract Terms
There is an unquantified liability 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. The cap is unquantifiable because the cap is per incident rather than total liability.
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 several companies relating to the handling of fissile materials, nuclear risk and risks under the Nuclear Installations Act 1965. These liabilities are unquantifiable. These companies include Rolls-Royce, BAE Systems and Babcock Group.
An indemnity has been issued to Rolls-Royce Submarines for the noninsurance of the Rolls-Royce Core Manufacturing Facility and the Neptune Test Reactor facility for death and personal injury to a third party.

Unquantified Remote Contingent Liabilities
There is an unquantified liability relating to the Atomic Weapons Establishment (AWE) to cover employees' involvement with Nuclear Accident Response Team activities, property damage and business interruption, public and product liability, nuclear risks resulting from claims for damage to property or death and personal injury to a third party and nuclear risks under the Nuclear Installations Act 1965.
People
There is a guarantee to NAAFI that the Department will reimburse 90% of their additional costs arising from changes in MOD's service requirements. This covers the costs of redundancy (on a 90/10 basis) of any structural changes that would affect NAAFI operations. The Department is unable to value this as it will depend on the individual length of service and the grade of those NAAFI employees involved.
Environmental
Indemnity to cover possible environmental losses incurred by QinetiQ arising from certain defined materials at specific properties before the formation of QinetiQ on 1 July 2001.
An 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.
Private Finance Initiative (PFI)
Indemnity to SERCO under the Marine Services PFI contract for losses and costs incurred due to the unintended detonation of explosives while being handled in performance of the contract. The liabilities associated with this indemnity cannot be accurately estimated.
Potential liabilities from the use of PFI standard terms and conditions in schemes in relation to circumstances such as qualifying changes in law. These liabilities cannot be accurately estimated due to their uncertainty as they cover a wide variety of events including qualifying changes in law, environmental damage, latent defects and uninsurable events.
Other Remote Contingent Liabilities
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.

Unquantifiable 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 plc 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 into UK ports, should the foreign nation default on payment of the invoice.

Accountability to Parliament

Ministers have accounted to Parliament during the financial year 2022-23 on all aspects of the Ministry of Defence's business. Defence Ministers participated in 28 debates on Defence issues in Parliament. Ministers responded to 12 debates in the House of Commons and 3 debates in Westminster Hall. There were 2 debates on Defence in the House of Lords. In addition, there were 11 debates on legislation in both Houses. Details are published in Hansard.

Ministers made 9 oral statements to the House of Commons and 8 to the House of Lords. Details are published in Hansard. A total of 4,191 oral and written Parliamentary Questions were answered. Ministers also made 42 Written Ministerial Statements to the House of Commons and the House of Lords. Details are published on the Parliamentary written questions and answers system.[36]

Accounting Officer Assessments

The MOD has published four Accounting Officer Assessments of Major Projects. Details of these assessments can be found on Gov.uk.[37]

Ministerial Correspondence

From 1 April 2022 to 31 March 2023, Defence Ministers responded to 2,727 items of correspondence from Members of Parliament, Peers and members of the public where a Ministerial response was appropriate. Of these, 2,417(89%) were answered within the target of 20 working days.

Evidence to the Defence Select Committee

Since 1 April 2022, the Ministry of Defence has given evidence to the Defence Select Committee on several 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 on the Parliament Website.[38]

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36 http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statements/

37 https://www.gov.uk/government/publications/government-major-projects-portfolio-accounting-officer-assessments-mod

38 https://committees.parliament.uk/committee/24/defence-committee/publications

Government responses submitted by the Ministry of Defence to Committee reports published during this reporting period are listed in the table that follows.

Parliamentary Session 2022-23: MOD responses to reports published in previous Parliamentary Session

Report	Title	Publication Date
HC 187	Treatment of MOD Ancillary Staff	26-May-22
HC 180	The Integrated Review, Defence in a Competitive Age and the Defence and Security Industrial Strategy	10-Nov-22
HC 552	Third Report – Defence Space: through adversity to the stars?	19-Oct-22

Financial Year 2022-23: Defence Select Committee Reports (Government responses, if published are listed in brackets after the report to which they relate)

Report	Title	Publication Date
HC 184	US, UK, NATO	07-Mar-23
HC 725	Withdrawal from Afghanistan	10-Feb-23

Financial Year 2022-23: Evidence to Defence Committee Inquiries without Reports

Select Committee	Inquiry
Defence Select Committee	ARAC 2021-22
Defence Select Committee	Work of the OVA (Office for Veterans' Affairs)
Defence Select Committee	Shipbuilding
Defence Select Committee	Operation Isotrope
Defence Select Committee	Women in the Armed Forces
Defence Select Committee	Climate Change and Indo-Pacific
Defence Select Committee	Land Acquisition and Army Procurement

Financial Year 2022-23: Visits by the Defence Committee to UK Armed Forces

Date of Visit	Establishment	Related Inquiry
18-Jan-23	RAF Marham	1) Climate Change 2) Air Procurement

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

Since 1 April 2022, the Ministry of Defence has also given written and oral evidence on House of Commons:

Financial Year 2022-23: Other Select Committee Reports

(Government responses, if published, are listed in brackets after the report to which they relate)

Select Committee	Subject	Publication Date
Lords International Relations and Defence Committee	UK defence policy: from aspiration to reality?	12-Jan-23
Scottish Affairs Committee	Defence in Scotland: military shipbuilding	27-Jan-23

Financial Year 2022-23: Evidence to Other Select Committee Inquiries without Reports.

Select Committee	Inquiry
Lords International Relations and Defence Committee	Secretary of State for Defence, work of Department
Lords International Relations and Defence Committee	SONAC, CSA, Science and Defence

Financial Year 2022-23: Visits by Other Select Committees to UK Armed Forces

Select Committee	Date of Visit	Establishment	Related Inquiry
Lords International Relations and Defence Committee	01-Sep-22	HMNB Clyde	N/A
Lords International Relations and Defence Committee	30-Sep-22	Bahrain and Qatar	Integrated Review

Public Accounts Committee

The Permanent Secretary as the MOD's Accounting Officer, is accountable to Parliament.

All Committee publications, including published evidence given to the Committees, are available on the Parliament website.[39]

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

Report	Title	Hearing Date	Publication Date
HC 727	The Defence Digital Strategy	14-Nov-22	03-Feb-23
HC 731	MOD Equipment Plan 2022 – 2032	15-Dec-22	19-Apr-23

Performance in Responding to Correspondence from the Public

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 at Gov.uk. Other categories of information are only available on request.

39 https://www.parliament.uk/business/committees/committees-a-z/

Freedom of Information

MOD performance under the Freedom of information Act is published as part of the Cabinet Office FOI statistics.[40]

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 2022-23, the PHSO received 11 complaints about the MOD (including Veterans UK). The following information applies to these complaints.

The number of complaints accepted for investigation by the Parliamentary Ombudsman in the year		6
The number of investigations reported on by the Parliamentary Ombudsman in the year		0
of those reports where the complaint was	upheld in full	0%
	upheld in part	0%
	not upheld	0%
The number of Ombudsman recommendations	complied with	0%
	not complied with	0%

40 https://www.gov.uk/government/collections/government-foi-statistics

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.[41]

The Department discloses Losses, Special Payments and Gifts when the associated value can be reliably estimated. In accordance with Managing Public Money, losses are reported on an accruals basis. Disclosure is based on closed cases that are fully transacted through the accounts including where an accrual or provision has been expensed. The distinction between Advance Notifications and Closed Cases reported in previous years has been removed.

41 https://www.gov.uk/government/publications/managing-public-money

Losses

Cases Closed	2022-23 Core Department and Agencies	2022-23 Departmental Group	2021-22 Core Department and Agencies	2021-22 Departmental Group
Total Number of Losses	**15,062**	**15,062**	15,820	15,820
Total Value of Losses (£'000)	**805,652**	**805,652**	133,682	133,682

Details of Closed Cases over £300,000

Details of Losses over £300,000	£000	£000	£000	£000
Cash and Overpayment Losses				
Exchange Rate Loss relating to Hellfire Foreign Military Sale[1]	**2,481**	**2,481**		
Fossil Fuels – Incorrect supplier payment unable to recover as Imperial Bank Kenya in receivership[1]	**305**	**305**		
Total Cash and Overpayment Losses	**2,786**	**2,786**		
Constructive Losses				
Integrated Review closure of the Warrior Capability Sustainment Programme[1]	**473,467**	**473,467**		
Fort Austin and Rosalie withdrawal from service[1]	**41,731**	**41,731**		
Early withdrawal of CUTLASS from service	**36,317**	**36,317**		
HMS ATHERSTONE withdrawal from service[2]	**18,927**	**18,927**		
Reduction in Asset Life of Plant, Property and Equipment at HMNB Devonport	**13,046**	**13,046**		
Project Shadow Cancellation	**11,543**	**11,543**		
BATCIS, Termination of contract for delivery of Falcon Cryptographic Solution[2]	**7,406**	**7,406**		
Warrior SDSR 2010[2]	**5,470**	**5,470**		
Aspire	**3,142**	**3,142**		
Integrated Review Cancellation of Hawk Collision Warning System[1]	**1,980**	**1,980**		
Project Flagship	**1,842**	**1,842**		
Patrol Craft loss	**1,691**	**1,691**		
Project Doubtfulness	**1,533**	**1,533**		

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Details of Losses over £300,000	£000	£000	£000	£000
Army Basing Programme	**1,329**	**1,329**		
Near Zero Energy Building project	**1,251**	**1,251**		
Project Bodywork[2]	**1,068**	**1,068**		
Project GRACE cancelled	**851**	**851**		
Total Constructive Losses	**622,594**	**622,594**	70,085	70,085
Stores Losses				
F-35B aircraft, ZM152[2]	**84,398**	**84,398**		
Watchkeeper heavy landing at sea	**5,976**	**5,976**		
Watchkeeper (WK006) Unmanned Aerial System aircraft	**4,106**	**4,106**		
Loss of Active Dipping Sonar Winch	**463**	**463**		
Total Stores Losses	**94,943**	**94,943**	9,921	9,921

1. Items included in the 2020-21 Annual Report and Accounts as an Advance Notification loss relating to decisions taken in the Defence Command Paper in March 2021. Reported again here to confirm the final loss value.
2. Other items previously disclosed as Advance Notification losses in earlier Annual Report and Accounts. Reported again here to confirm final loss value.

Details of Losses over £300,000	£000	£000	£000	£000
Fruitless Payments				
Reconstruction of Multi Threat Wall for Typhoon Synthetic Trainers	**4,710**	**4,710**		
The MOD's budget for 2023-24 will be reduced as a result of the Department's cash forecasting performance during 2022-23.	**864**	**864**		
Total Fruitless Payments	**5,574**	**5,574**	26,098	26,098
Claims Abandoned or Waived				
Repayments due from HMRC	**781**	**781**		
Tri-Service Legacy charges for Movement and Storage of Personnel Effects (MSPE).	**638**	**638**		
Total Claims Abandoned or Waived	**1,419**	**1,419**	2,975	2,975
TOTAL CLOSED CASES OVER £300,000	**727,316**	**727,316**	116,999	116,999

1 Items included in the 2020-21 Annual Report and Accounts as an Advance Notification loss relating to decisions taken in the Defence Command Paper in March 2021. Reported again here to confirm the final loss value.

2 Other items previously disclosed as Advance Notification losses in earlier Annual Report and Accounts. Reported again here to confirm final loss value.

3 Based upon NAO recommendations with effect from 2021-22, from 2022-23 closed cases refer to all cases that have either been accrued/provisioned or closed in full. This is a change to prior years where Provisions/Accruals were notified as Advanced Notifications. Prior year data is therefore not comparable.

The movement in Losses principally relates to confirmation of the final loss value of items disclosed as Advanced Notifications in 2021-22 or before (see note 1 above). It is therefore important to stress that these are not new losses arising during 2022-23.

As set out in Managing Public Money, one of the definitions of Constructive Losses relates to situations in which the Department has made investments in programmes, the utility of which has reduced following a change in policy (e.g. programme cancellations and earlier retirements from service as a result of strategic reviews). Constructive Losses therefore reflect the value of sunk investments that will not now deliver the intended benefit. These decisions may result in departments avoiding previously planned expenditure meaning that the funding can be used for the benefit of higher priority programmes. In respect of the Constructive Losses disclosed above relating to the March 2021 Defence Command Paper, it is noted that the value of the sunk investments is less than the value of the planned future expenditure.

Special Payments

Details of Special Payments over £300,000

	2022-23		2021-22	
	Core Departments and Agencies	Departmental Group	Core Departments and Agencies	Departmental Group
Total Number of Special Payments	**4,609**	**4,609**	3,869	3,869
Total Value of Special Payments £'000	**114,530**	**114,530**	4,966	4,966

Details of Special Payments over £300,000	£000	£000	£000	£000
Settlements of Other Personal Injury[1]	**14,927**	**14,927**		
Settlements of Clinical Negligence[1]	**8,894**	**8,894**		
Settlements of Vehicle Accidents[1]	**5,248**	**5,248**		
Settlements for Non-Freezing Cold Injuries[1]	**4,310**	**4,310**		
Settlements for Asbestos-related diseases[1]	**3,231**	**3,231**		
Settlements due to Bullying, Harassment & Discrimination[1]	**2,541**	**2,541**		
Settlements relating to Northern Ireland Legacy[1]	**2,037**	**2,037**		
Settlements for Noise-Induced hearing loss[1]	**1,563**	**1,563**		
Common Law Structured Settlements[1]	**1,482**	**1,482**		
MS Instruments Ltd/ Training Enhancement Partition System	**959**	**959**		
Land Remediation Payment	**321**	**321**		
TOTAL CLOSED CASES OVER £300,000	**45,513**	**45,513**	2,698	2,698

1 The table includes for the first time in 2022-23 disclosures of payments made in settlement of compensation claims made by personnel or other individuals impacted by Defence activities. The values reflect the cumulative value of payments made by category as it is not considered appropriate to disclose details of individual settlements >£300K.

Special Severance Payments

During 2022-23, 14 Special Severance Payments totalling £556,000 were approved. Further details (to the nearest £1,000) are:

Analysis of Special Severance Payments

	(to the nearest £1,000)
Maximum Payment	130,000
Median Payment	37,067
Minimum Payment	1,000

Gifts

During 2022-23, 2,539 Gifts with a total value of £138,000 (to the nearest £1,000) were made. There has been no individual gift with a value of £300,000 or more.

David Williams CB
Accounting Officer

18 July 2023

The Certificate and Report 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 2023 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 2022. The financial statements comprise: the department's and the departmental group's:

- Statement of Financial Position as at 31 March 2023;
- Statement of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards.

In my opinion, the financial statements:

- give a true and fair view of the state of the department and the departmental group's affairs as at 31 March 2023 and their net expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2023 and shows that those totals have not been exceeded;
- the Votes A statement presented in Annex A properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2023 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)*. 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 2019*. I am independent of the department and its group in accordance with the ethical requirements that are relevant to my audit of 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.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of authorities	
Authorising legislation	Government Resources and Accounts Act 2000
Parliamentary authorities	Supply and Appropriations Acts
HM Treasury and related authorities	Managing Public Money

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the department and its group's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the department or its group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the department and its group is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

I consider the key audit matters below to be those matters that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified through the course of my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the presumed audit risk on the potential for management override of controls, an area where my work has not identified any matters to report. Similarly I do not include information relating to the audit work undertaken in respect of Property, Plant & Equipment and Intangible Assets as these did not have the greatest effect on my overall audit strategy, the allocation of resources and my direction of the efforts of the audit team.

The key audit matters were discussed with the Defence Audit and Risk Assurance Committee. Their report on matters that they considered to be significant to the financial statements is set out on page 69.

Valuation of nuclear decommissioning provisions
Description of risk
The department's nuclear programme involves the use of radioactive materials. The department is responsible for the ultimate safe disposal of these materials along with the facilities and equipment that have been exposed to them, this is known as decommissioning. In accordance with the requirements of accounting standards the department is required to recognise provisions for these obligations. This is an accounting estimate based on the anticipated future costs of decommissioning activities, discounted to their net present value.
The nuclear decommissioning provisions are material to the department's Statement of Financial Position. The valuation of the provisions relies on cost estimates, assumptions in respect of the timing of those costs and assumptions in respect of both future inflation and discount rates. The department uses the inflation and discounts rates provided by HM Treasury.
Nuclear decommissioning is a technologically evolving field with advances being made which can fundamentally change the cost, timeline and how the facilities and equipment are used and subsequently decommissioned. Therefore the cost estimates used in the calculations are susceptible to estimation uncertainty and judgement.
The valuations are prepared using a series of models which are susceptible to methodological errors when adjustments and adaptations are implemented.
Key judgements, estimation uncertainties and sensitivities are disclosed in note 12.3-12.31

<table>
<tr><td rowspan="2">How the scope of my audit responded to the risk</td><td>My response to addressing the risk of material misstatement in this area included:
• Assessing the design and implementation of controls relevant to the cost estimates and judgments applied in the valuation of the provision
• Assessing the design and implementation of controls relevant to the development and maintenance of the models
• For a sample of the individual models
– Obtain evidence to support and challenge the value and timing of anticipated cashflows assumptions
– Confirm that appropriate inflation rates and discount rates have been used
– Confirm the integrity of the model methodology by reperforming the calculations
• Where management have used experts to provide cost estimates, I have evaluated the competence, capabilities and experience of those experts. This has included confirming that the scope of their work is appropriate and sufficient for the purposes relied upon by management.
• Reviewing disclosures within the financial statements to confirm that management has included appropriate analysis and explanation of the sensitivity of the provisions particularly to changes in the cost estimates and cashflow assumptions.
• Consideration of any events after the reporting date that may impact on the valuation and related disclosures.</td></tr>
<tr><td>Key observations
Based on the sample of individual models tested I found the inputs, judgements, and assumptions generally to be based on appropriate reliable evidence sufficient to support materially appropriate valuations. The mathematical integrity of the models was sufficiently robust to provide reliable valuations and to enable sensitivity analysis to be performed.</td></tr>
</table>

Implementation of IFRS 16: leases

Description of risk

The department has implemented the new leasing standard, IFRS 16: Leases, with effect from 1 April 2022. This replaces IFRIC 4 – Determining Whether an Arrangement Contains a Lease and IAS 17 – Leases. The department's accounting policy for leases is included within the accounting policies in note 1. The components of right-of-use assets and lease liabilities are set out in notes 6 and 16 respectively.

My 2022 opinion was qualified for the 13th consecutive year due to a potentially material omission of assets and associated finance lease liabilities. The department did not have the accounting records to enable them to identify lease arrangements which required recognition under IFRIC 4 and IAS17.

The department has fully implemented IFRS 16 with effect from 1 April 2022. There was greater risk in this exercise given the historical issues reflected in my qualified opinion in 2022 and due to the complex nature of contracts. With the agreement of HM Treasury, IFRS 16 was applied to legacy contracts in existence prior to 1 April 2022 as set out in note 1.16. The department carried out a comprehensive review of all existing contracts in preparation for IFRS16 implementation, and since 1 April 2020 lease assessments of new contracts and extensions has been implemented as business as usual.

IFRS 16 introduces lease identification criteria based on whether the contract gives the right to control the use of an identified asset through the right to obtain substantially all of its economic benefits and the right to direct its use. The contract assessment exercise was performed in accordance with these criteria and included the department's more complex contracts which contain embedded lease liabilities and associated right-of-use assets not previously recognised as leases. The financial impact of transition is outlined in note 1.21.

<table>
<tr><th colspan="2">Implementation of IFRS 16: leases</th></tr>
<tr><td rowspan="2">How the scope of my audit responded to the risk</td><td>My response to addressing the risk of material misstatement in this area included:
• Assessing the design and implementation of controls relevant to the completeness of the transitional and business-as-usual lease identification exercises
• Assessing the design and implementation of controls relevant to the department’s Lease Accounting Tool, which is used by the department to account for all leases.
• Review of the department’s Lease Accounting Tool to confirm compliance with IFRS 16 and that outputs are mathematically accurate.
• Detailed testing of the completeness and accuracy of the IFRS 16 transitional contract reassessment exercise. This work was performed in the year ended 31 March 2022 and used to inform my overall conclusions.
• Testing a sample of contracts which were determined not to include leases to confirm that the correct conclusion had been reached.
• Review of the contract assessments of complex site arrangements which contained embedded lease liabilities and associated assets not previously recognised under IAS 17.
• Evaluation of the completeness and accuracy of transitional disclosures relating to leases in the financial statements to confirm they are in line with the financial reporting framework.</td></tr>
<tr><td>Key observations
The department successfully implemented a comprehensive programme to identify all leases and arrangements containing a lease, including those not previously identified. The Lease Accounting Tool employed by the department appropriately calculates the lease liability, right of use asset value and associated accounting entries. The complex sites, whose omission under IAS17 was the reason for me qualifying my opinion, have been appropriately analysed and recognised under IFRS16. The disclosures within the financial statements are clear and complete.</td></tr>
</table>

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the department and its group's financial statements as a whole as follows:

	Departmental group	Department
Materiality	£1.25 billion	£1.2 billion
Basis for determining materiality	Approximately 1% of net assets of £148 billion (1% of net assets of £125 billion in 2021-22)	Approximately 1% of net assets of £147 billion (1% of net assets of £125 billion in 2021-22)
Rationale for the benchmark applied	The departmental group's large asset base is fundamental to its activities. Alongside its personnel, the assets enable the departmental group to fulfil its objective of defending the nation. I have elected to use net assets due to the large nuclear decommissioning provisions which are intrinsically linked to the department's nuclear assets.	The department's large asset base is fundamental to its activities. Alongside its personnel, the assets enable the department to fulfil its objective of defending the nation. I have elected to use net assets due to the large nuclear decommissioning provisions which are intrinsically linked to the department's nuclear assets. The materiality for the department and departmental group are similar in value because the core department contains over 99% of the group's net assets.

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality of the financial statements as a whole. Group performance materiality was set at 75% of Group materiality for the 2022-23 audit (2021-22: 63%). In determining performance materiality for this year, I considered the reduction in the number and value of uncorrected misstatements identified in the previous period.

Other Materiality Considerations

Apart from matters that are material by value (quantitative materiality), there are certain matters that are material by their very nature and would influence the decisions of users if not corrected. Such an example is any errors reported in the Related Parties note in the financial statements. Assessment of such matters needs to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing my audit work to support my opinion on regularity and in evaluating the impact of any irregular transactions, I considered both quantitative and qualitative aspects that would reasonably influence the decisions of users of the financial statements.

Error Reporting Threshold

I agreed with the Defence Audit and Risk Assurance Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Defence Audit and Risk Assurance Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements.

Total unadjusted audit differences reported to the Defence Audit and Risk Assurance Committee would have increased net expenditure by £603 million.

Audit scope

The scope of my group audit was determined by obtaining an understanding of the core department, the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

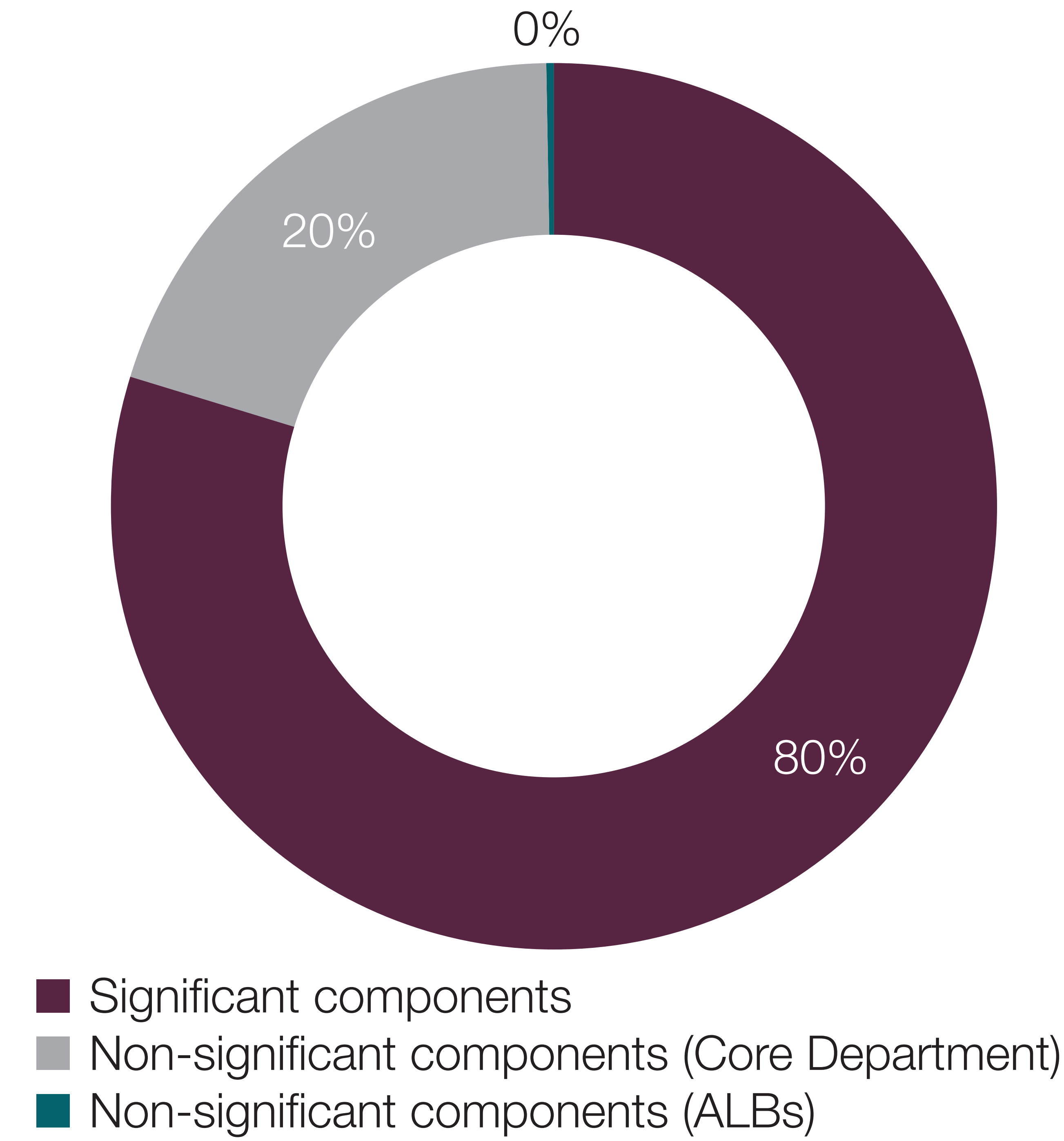
The core department operates on a devolved model with a well-established formal governance structure in place for each operating division: known as Top Level Budgets (TLBs). Each TLB has its own finance function, including financial controller and Chief Finance Officer, their own Chief Executive Officer (Civilian) or Head of Service

(Military), Audit & Risk Assurance Committees and Boards. In addition to the TLBs there are a number of key central and enabling organisations which support the financial reporting of the TLBs, most significantly cash and payroll.

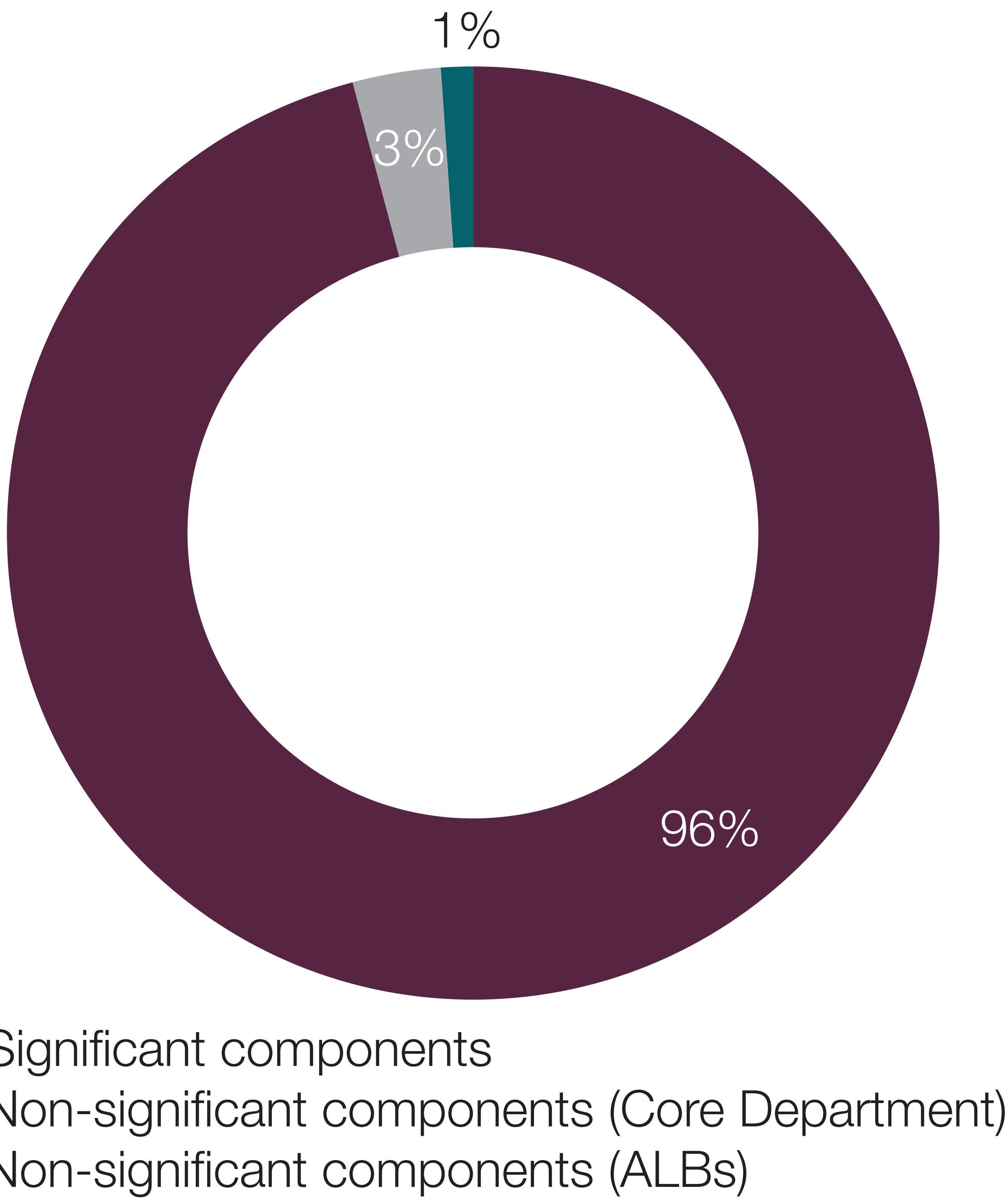
The core department prepares its financial statements through the consolidation of workbooks prepared by the TLBs, therefore in my audit approach I have considered the core department to be a group under ISA600. I have performed analysis on TLB level financial information and identified the following as significant components: Defence Equipment and Support (DE&S), Defence Infrastructure Organisation (DIO), Defence Nuclear Organisation (DNO), cash and payroll. I have performed a full audit of the financial information of these components. For our non-significant components in the core department, I have performed analytical procedures, risk assessment procedures and other targeted testing based on risk. This work was undertaken by one group audit team carrying out work on all components.

The departmental group is comprised of the core department and arm's length bodies, I have performed a financial analysis of the wider departmental group and have not identified further significant components. I have performed analytical procedures on all ALBs and performed risk assessment procedures, including the testing of the significant defined benefit pension scheme at AWE plc.

Gross expenditure of components of the Ministry of Defence group (as at 31 March 2023)



Gross assets of components of the Ministry of Defence group (as at 31 March 2023)



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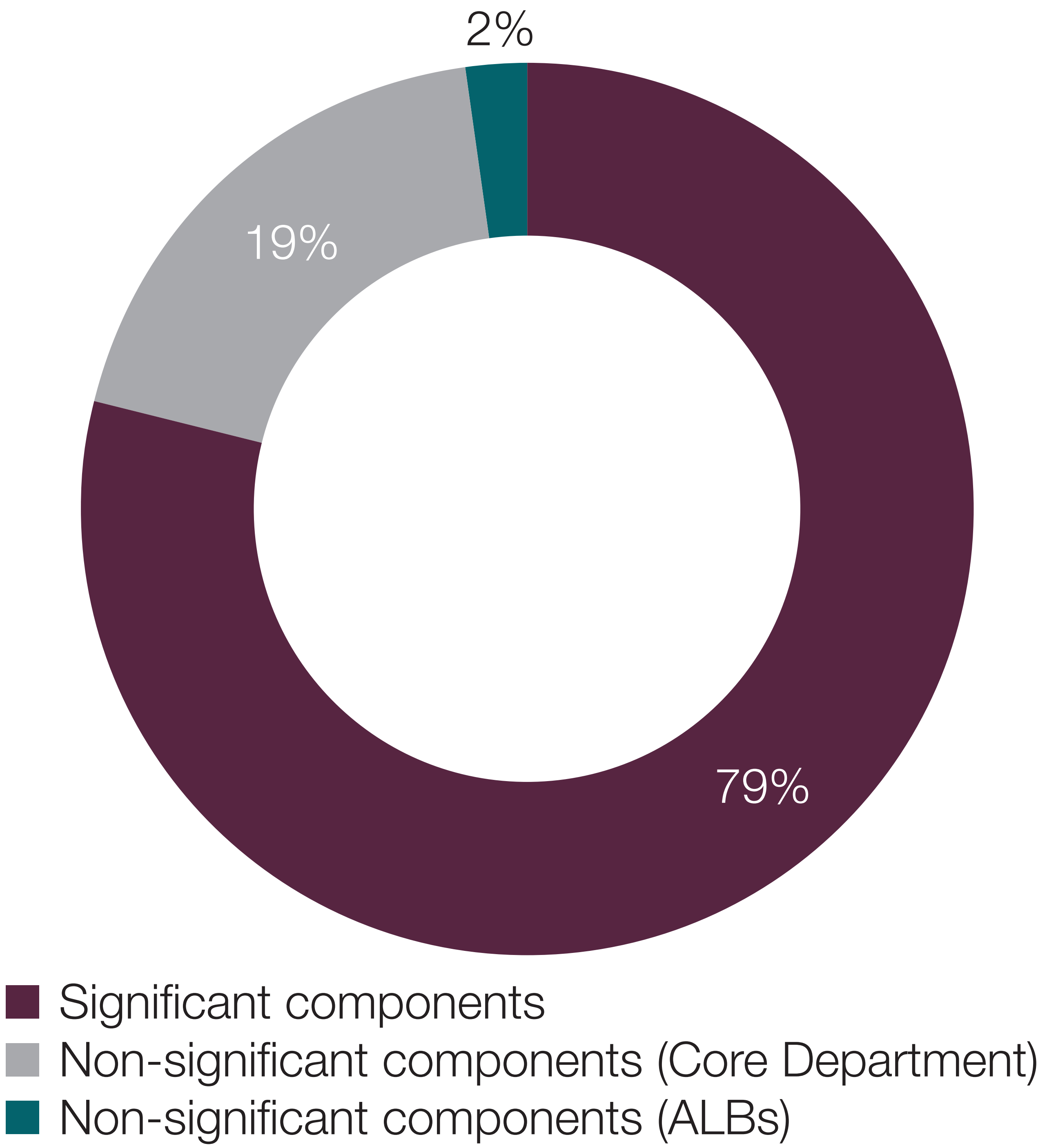
Gross liabilities of components of the Ministry of Defence group (as at 31 March 2023)



This work covered substantially all of the group's assets and liabilities, and together with the procedures performed at group level, gave me the evidence I needed for my opinion on the group financial statements as a whole.

Other Information

The other information comprises information included in the Annual Report but does not include the financial statements and my auditor's certificate and report thereon. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- 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 and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the department and its Group and their environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Reports.

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

- Adequate accounting records have not been kept by the department and its group or returns adequate for my audit have not been received from branches not visited by my staff; or
- I have not received all of the information and explanations I require for my audit; or
- the financial statements and the parts of the Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

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:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the department and its Group from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- ensuring that the annual report, which includes the Remuneration and Staff Report, is prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- assessing the department and its group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the department and its Group will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of the department and its group's accounting policies, key performance indicators and performance incentives.
- inquired of management, the department's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the department and its group's policies and procedures on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of fraud; and the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the department and its group's controls relating to the department's compliance with the Government Resources and Accounts Act 2000 and Managing Public Money;

- inquired of management, the department's head of internal audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations;
  - they had knowledge of any actual, suspected, or alleged fraud,
- discussed with the group engagement team and the relevant internal specialists, IT audit, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the department and its group for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the department and group's framework of authority and other legal and regulatory frameworks in which the department and group operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the department and its group. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Managing Public Money, Supply and Appropriation (Main Estimates) Act 2022, health and safety legislation and relevant employment law and tax legislation.

I performed specific risk assessments relating to fraud, non-compliance with laws and regulations and regularity, including considering knowledge gained through enquiries of Fraud Defence and the Defence Safety Authority to understand the governance and control processes relating to compliance with laws and regulations and key investigations undertaken during the year.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Defence Audit and Risk Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;

- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business;
- I reviewed the Defence Safety Authority's annual assurance report and key reports prepared in the year;
- I confirmed that the department and its group has complied with the Parliamentary control totals set out in the Supply and Appropriations (Main Estimates) Act 2022 by confirming that the outturn is within the limits approved by Parliament, that the allocation of amounts to those control totals is appropriate and that management have not vired amounts inappropriately between control totals; and
- I confirmed that relevant approvals required under Managing Public Money have been obtained by management, and that the disclosures required by Managing Public Money are complete and have been appropriately included within the financial statements.

I also communicated relevant identified laws and regulations and potential risks of fraud to all group engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain appropriate evidence sufficient to give reasonable assurance that the Statement of Outturn against 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 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.

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 I identify during my audit.

Report

In previous years I have provided a separate report describing the department's progress towards fully compliant recognition and accounting for their leases and arrangements containing a lease. As described above the department has successfully completed the transition to IFRS16 recognising all relevant arrangements. I have no other matters to report to you and consequently do not provide a separate report.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SWIW 9SP

Date 18 July 2023

Financial Statements

Financial Statements

Consolidated Statements of Comprehensive Net Expenditure (SoCNE)

for the year ended 31 March 2023

		2022-23		Reclassified 2021-22[1]	
		Core Department & Agencies	Departmental Group[2]	Core Department & Agencies	Departmental Group[2]
	Note	£M	£M	£M	£M
Income from provision of supplies and services	3.1	(1,035.7)	(1,035.4)	(865.3)	(865.3)
Other income	3.1	(585.2)	(744.9)	(683.4)	(795.0)
Total income		(1,620.9)	(1,780.3)	(1,548.7)	(1,660.3)
Staff costs	4.1	14,849.6	15,300.6	14,439.0	14,774.8
Purchase of goods and services	4.2	18,759.0	18,481.8	17,478.1	17,290.3
Depreciation, amortisation, impairment, write-(ons)/offs and disposals	4.3	8,065.4	8,081.8	8,678.6	8,691.5
Provision expense	4.4	2,310.6	2,310.6	1,100.0	1,100.0
War pensions/benefits		606.5	606.5	622.6	622.6
Other expenditure	4.5	2,292.5	2,253.0	832.3	775.1
Total operating expenditure		**46,883.6**	**47,034.3**	**43,150.6**	**43,254.3**
Net operating expenditure		**45,262.7**	**45,254.0**	**41,601.9**	**41,594.0**
Finance income	3.2	(13,629.4)	(13,629.4)	(606.7)	(606.7)
Finance expense	4.6	976.7	977.3	8,644.3	8,644.3
Net expenditure for the year		**32,610.0**	**32,601.9**	**49,639.5**	**49,631.6**
Non-operating loss on the transfer of AWE plc to the Department[3]		–	–	–	445.9
Net expenditure for the year including the non-operating loss on the transfer of AWE plc to the Department		**32,610.0**	**32,601.9**	**49,639.5**	**50,077.5**

		2022-23		Reclassified 2021-22[1]	
		Core Department & Agencies	Departmental Group[2]	Core Department & Agencies	Departmental Group[2]
	Note	£M	£M	£M	£M
Other Comprehensive Expenditure					
revaluation of property, plant and equipment	SoCiTE	(4,149.9)	(4,102.6)	(6,020.2)	(6,011.0)
revaluation of intangible assets	SoCiTE	(1,510.7)	(1,510.9)	304.7	304.4
revaluation of assets held for sale	SoCiTE	15.6	15.6	2.9	2.9
revaluation of right-of-use assets[4]	SoCiTE	2,359.6	2,360.1	–	–
revaluation of pensions	SoCiTE	(291.2)	(128.7)	49.7	(321.1)
revaluation of capitalised decommissioning liabilities	SoCiTE	(2,930.3)	(2,930.3)	2,713.5	2,713.5
assets written-off or written-on or transferred in	SoCiTE	–	0.9	–	(37.9)
Comprehensive net expenditure for the year		**26,103.1**	**26,306.0**	**46,690.1**	**46,728.3**

1. From 2022-23 the detail of finance expense (Note 4.6) and finance income (Note 3.2) are disclosed separately. The prior year figures above have been reclassified to align with the new disclosures.
2. The Departmental Group includes income and expenditure by Arm's Length Bodies, it is reported as: Other income, Staff costs, Purchase of goods and services - property management, Depreciation, amortisation, impairment, write-(ons)/offs and disposals, Finance income or expense or Other expenditure-other costs. Further details of income and expenditure by Arm's Length Bodies is at Annex F.
3. On 1 July 2021 AWE plc was re-classified as a Non-Departmental Public Body and became part of the MOD's Group Accounts.
4. A reassessment of the liability for Service Families' Accommodation leased from Annington Homes led to an increase on remeasurement of the Dwellings right-of-use assets. As the assets are already held at fair value, the 'revaluation of right-of-use assets' includes an off-setting downward revaluation to return the assets to their fair value; see also Note 1.21.

Notes 1 to 21 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Consolidated Statements of Financial Position (SoFP)

as at 31 March 2023

		31 March 2023		31 March 2022	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£M	£M	£M	£M
Non-current assets					
Intangible assets	5	33,822.3	33,823.1	31,005.2	31,005.7
Property, plant and equipment	6	128,533.4	129,164.9	128,667.4	129,335.5
Right-of-use assets	16	11,015.0	11,064.3	–	–
Retirement benefit scheme assets	13	–	17.4	–	8.9
Financial assets	7	123.8	123.8	76.0	76.0
Receivables due after more than one year	9	910.2	986.0	584.9	588.1
Total non-current assets		**174,404.7**	**175,179.5**	160,333.5	161,014.2
Current assets					
Non-current assets held for sale		6.4	6.4	26.9	26.9
Inventories	8	4,141.3	4,149.4	3,759.6	3,767.7
Receivables due within one year	9	3,212.4	3,246.3	3,623.5	3,670.2
Financial assets	7	259.3	306.5	359.6	404.9
Cash at bank and in hand	10	1,045.1	1,347.6	974.9	1,243.6
Total current assets		**8,664.5**	**9,056.2**	8,744.5	9,113.3
Total assets		**183,069.2**	**184,235.7**	169,078.0	170,127.5
Current liabilities					
Payables due within one year	11	(14,385.9)	(14,631.7)	(12,911.8)	(13,130.4)
Provisions due within one year	12	(558.6)	(559.2)	(418.5)	(419.4)
Financial liabilities	7	(105.4)	(105.4)	(161.3)	(161.3)
Total current liabilities		**(15,049.9)**	**(15,296.3)**	(13,491.6)	(13,711.1)
Total assets less current liabilities		**168,019.3**	**168,939.4**	155,586.4	156,416.4
Non-current liabilities					
Provisions due after one year	12	(11,778.5)	(11,784.0)	(25,462.2)	(25,466.9)

		31 March 2023		31 March 2022	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£M	£M	£M	£M
Retirement benefit scheme liabilities	13	(424.0)	(686.3)	(725.7)	(817.0)
Payables due after more than one year	11	(8,762.1)	(8,884.4)	(4,810.5)	(4,811.6)
Total non-current liabilities		**(20,964.6)**	**(21,354.7)**	(30,998.4)	(31,095.5)
Total assets less total liabilities		**147,054.7**	**147,584.7**	124,588.0	125,320.9
Taxpayers' equity and other reserves					
General fund	SoCiTE	111,551.2	111,551.2	93,559.3	93,559.3
Revaluation reserve	SoCiTE	35,503.5	35,503.5	31,028.7	31,028.7
Arm's Length Bodies' reserves		–	530.0	–	732.9
Total equity		**147,054.7**	**147,584.7**	124,588.0	125,320.9

David Williams CB
Accounting Officer

18 July 2023

Notes 1 to 21 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 2023

		2022-23		2021-22	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£M	£M	£M	£M
Cash flows from operating activities					
Net expenditure for the year	SoCNE	32,610.0	32,601.9	49,639.5	49,631.6
Adjustments for non-cash transactions[1]		3,147.2	3,189.8	(17,220.7)	(16,856.3)
Movement in trade and other receivables	SoFP	(85.8)	(26.0)	130.6	116.7
Adjustment for movements on receivables relating to items not passing through operating costs		17.3	(54.9)	1.2	(96.2)
Movement in net inventories and financial assets held for sale		372.1	372.1	188.3	199.9
Movement in trade payables	SoFP	(5,425.7)	(5,574.1)	(1,843.4)	(1,935.2)
Adjustment for movements in payables relating to items not passing through operating costs		3,710.6	3,776.7	1,053.6	858.3
Dividends and equity repayments		12.5	12.5	25.8	25.8
Realised (gain) or loss on derivatives		(137.3)	(137.3)	149.3	149.3
Use of provisions and unfunded pensions		383.9	383.9	355.4	355.4
Net cash outflow from operating activities		**34,604.8**	**34,544.6**	32,479.6	32,449.3
Cash flows from investing activities					
Purchase of property, plant and equipment	6	12,078.1	12,101.1	9,897.8	9,909.7
Purchase of intangible assets	5	2,396.1	2,396.5	2,409.8	2,410.1
Adjustment for non-cash movements relating to PPE and intangibles		(985.5)	(985.5)	(1,172.8)	(1,172.8)

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		2022-23		2021-22	
		Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	£M	£M	£M	£M
Proceeds on disposal of property, plant and equipment		(177.7)	(177.7)	(240.2)	(240.2)
Dividends, equity repayments and other income from investments		(12.5)	(12.5)	(25.8)	(25.8)
Recognition of cash balance on absorption of AWE in 2021-22		-	-	-	(99.8)
Other investments		54.9	54.9	66.3	66.3
Net cash outflow from investing activities		**13,353.4**	**13,376.8**	10,935.1	10,847.5
Cash flows from financing activities					
Consolidated Fund (Supply) – current year	SoCiTE	(48,572.0)	(48,572.0)	(43,878.8)	(43,878.8)
Repayment of loans from the National Loans Fund		2.5	2.5	2.5	2.5
Capital element of payments in respect of leases and Service Concession Arrangements		604.4	607.4	457.1	457.1
Movement on collaborative projects		(63.3)	(63.3)	31.9	31.9
Net financing		**(48,028.4)**	**(48,025.4)**	(43,387.3)	(43,387.3)
Net increase or (decrease) in cash and cash equivalents in the period		70.2	104.0	(27.4)	90.5
Cash and cash equivalents at the beginning of the period	10	974.9	1,243.6	1,002.3	1,153.1
Cash and cash equivalents at the end of the period	10	**1,045.1**	**1,347.6**	974.9	1,243.6

1. The main reasons for the adjustment for non-cash transactions in 2022-23 are depreciation, amortisation and impairment on non-current assets of -£8.0 billion and a £10.6 billion change in provisions. In 2021-22 the main reasons were depreciation, amortisation and impairment on non-current assets of -£7.5 billion; and a -£9.5 billion change in provisions.

Notes 1 to 21 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 2023

		Core Department and Agencies			Departmental Group	
	Note	General Fund1 £M	Revaluation Reserve1 £M	Taxpayers Equity £M	ALBs' Reserves[1] £M	Total Reserves £M
Balance at 31 March 2021		98,030.4	29,756.1	127,786.5	771.1	128,557.6
Parliamentary Funding – drawn down in-year	SoCF	43,878.8	–	43,878.8	–	43,878.8
Parliamentary Funding – deemed funding		380.8	–	380.8	–	380.8
Parliamentary Funding – Supply payable	11	(385.3)	–	(385.3)	–	(385.3)
Payment of amounts due to the Consolidated Fund		(385.7)	–	(385.7)	–	(385.7)
Non-cash charge – auditors remuneration	4.5	3.0	–	3.0	–	3.0
Net expenditure for the year	SoCNE	(49,639.5)	–	(49,639.5)	7.9	(49,631.6)
Other net comprehensive expenditure Net gain or (loss) on:						
revaluation of property, plant and equipment	SoCNE	–	6,020.2	6,020.2	(9.2)	6,011.0
revaluation of intangible assets	SoCNE	–	(304.7)	(304.7)	0.3	(304.4)
revaluation of assets held for sale	SoCNE	–	(2.9)	(2.9)	–	(2.9)
revaluation of pensions	SoCNE	(49.7)	–	(49.7)	370.8	321.1
revaluation of capitalised decommissioning liabilities	SoCNE	–	(2,713.5)	(2,713.5)	–	(2,713.5)
assets written-off or written-on or transferred in – including loss on transfer of AWE plc to the MOD	SoCNE	–	–	–	(408.0)	(408.0)
Transfers between reserves		1,726.5	(1,726.5)	–	–	–
Balance at 31 March 2022		93,559.3	31,028.7	124,588.0	732.9	125,320.9
Adjustment for the first time adoption of IFRS 16		–	1.5	1.5	–	1.5
Balance at 1 April 2022		93,559.3	31,030.2	124,589.5	732.9	125,322.4
Parliamentary Funding – drawn down in-year	SoCF	48,572.0	–	48,572.0	–	48,572.0
Parliamentary Funding – deemed funding		385.3	–	385.3	–	385.3

		Core Department and Agencies			Departmental Group	
	Note	General Fund1 £M	Revaluation Reserve1 £M	Taxpayers Equity £M	ALBs' Reserves[1] £M	Total Reserves £M
Parliamentary Funding – Supply payable	11	(392.2)	–	(392.2)	–	(392.2)
Non-cash charge – auditors remuneration	4.5	3.2	–	3.2	–	3.2
Net expenditure for the year	SoCNE	(32,610.0)	–	(32,610.0)	8.1	(32,601.9)
Other net comprehensive expenditure Net gain or (loss) on:						
revaluation of property, plant and equipment	SoCNE	–	4,149.9	4,149.9	(47.3)	4,102.6
revaluation of intangible assets	SoCNE	–	1,510.7	1,510.7	0.2	1,510.9
revaluation of assets held for sale	SoCNE	–	(15.6)	(15.6)	–	(15.6)
revaluation of right-of-use assets[2]	SoCNE	–	(2,359.6)	(2,359.6)	(0.5)	(2,360.1)
revaluation of pensions	SoCNE	291.2	–	291.2	(162.5)	128.7
revaluation of capitalised decommissioning liabilities	SoCNE	–	2,930.3	2,930.3	–	2,930.3
assets written-off or written-on or transferred in	SoCNE	–	–	–	(0.9)	(0.9)
Transfers between reserves		1,742.4	(1,742.4)	–	–	–
Balance at 31 March 2023		**111,551.2**	**35,503.5**	**147,054.7**	**530.0**	**147,584.7**

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. A reassessment of the liability for Service Families' Accommodation leased from Annington Homes led to an increase on remeasurement of the Dwellings right-of-use assets. As the assets are already held at fair value, the 'revaluation of right-of-use assets' includes an off-setting downward revaluation to return the assets to their fair value; see also Note 1.21.

Notes 1 to 21 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 (FReM) 2022-23 issued by HM Treasury.

1.2 Where the FReM permits a choice, the accounting policy which has been judged to be the most appropriate to the circumstances of the Department for the purpose of giving a true and fair view has been selected.

1.3 Accounting policies have been applied consistently in dealing with items that are considered material and to comply with the requirements of the FReM.

Accounting Convention

1.4 These financial statements have been prepared on an accruals basis under the historic cost convention, modified by the revaluation of intangible assets, property, plant and equipment assets and some financial instruments such as foreign currency forward purchase contracts and fuel fixed price swap contracts.

Going Concern

1.5 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 and the Supply and Appropriation (Anticipation and Adjustments) Act. The Defence Board considers there is no reason to believe that future approvals will not be forthcoming and therefore it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.6 The Department has also specifically considered the financial position of the entities within its accounting boundary (listed at Note 20) and has concluded that, other than for one entity (International Military Services Ltd (IMS)), the going concern remains a valid assumption for these organisations given ongoing Supply funding for on vote agencies and support for other bodies where appropriate. IMS will be liquidated following the settlement of any remaining liability; work has begun to dissolve the company. The latest assessment of IMS assets and liabilities are reflected in the consolidated accounts and subsequent liquidation is not considered material to these Accounts.

Basis of Consolidation

1.7 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).

1.8 The operating costs of the ALBs are included in the Group Accounts as: 'staff costs', 'depreciation, amortisation, impairment, write-(ons)/offs and disposals', 'property management', 'finance expense' and 'other expenditure'. ALBs operate a lower capitalisation threshold for property, plant and equipment than the Department, no adjustments have been made and all ALB property, plant and equipment balances are consolidated into the accounts. Further details of income and expenditure by ALBs are at Annex F.

1.9 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

1.10 The one significant change to the 2022-23 FReM is the adoption of IFRS 16: *Leases*, which has had a significant impact on the Department's Accounts for 2022-23.

1.11 The implementation of IFRS 16 by the Department is in line with the mandatory adoption of the Standard by public bodies from 1 April 2022.

IFRS 16 – Leases

The Nature of the Change in Accounting Policy

1.12 IFRS 16: *Leases* replaces IFRIC 4 and IAS 17: *Leases* (as well as SIC15: *Operating Leases – Incentives* and SIC 27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*).

1.13 IFRS 16 introduces different lease identification criteria. This is based on whether the contract gives the right to control the use of an identified asset through the right to obtain substantially all its economic benefits and the right to direct its use.

1.14 The Standard measures of leases by introducing a single lessee accounting model which removes the classification of operating and finance leases.

1.15 The Standard requires the recognition of all leases except where the lease term is for 12 months or less, or where 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, and a corresponding 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.

Transitional Provisions

1.16 The change in accounting policy has been made in accordance with the transitional provisions in the FReM. On transition, the Department:

- has recognised the cumulative effects of initially applying IFRS 16 recognised on 1 April 2022 as an adjustment to the opening balances of taxpayers' equity. Hence, as mandated by the FReM, prior year figures and comparatives have not been re-stated for the impact of IFRS 16. There have been no adjustments made to periods before those presented;
- has obtained HM Treasury approval to apply IFRS 16 to legacy contracts not previously accounted for under IAS 17 and IFRIC 4 and account for any changes as an adjustment to the opening balances of taxpayers' equity as part of IFRS 16 implementation in these 2022-23 accounts. This was because in prior years, the Department did not recognise its most significant lease type arrangements where

IFRIC 4 was likely to apply, for example, where suppliers' facilities (such as a shipyard) are used entirely on Departmental contracts. The Department had concluded, with HM Treasury support, that because of complex, resource intensive and costly practical issues, IFRIC 4 would not be applied to contracts on the grounds that it did not represent value for money. The Department has focused on the implementation of IFRS 16 and has re-assessed all contracts with a value over £25,000 against the IFRS 16 lease criteria to consider whether they contain a lease under the new Standard;

- has not recognised the right-of-use asset and lease liability of short-term leases, where the lease term is less than 12 months, and leases where the underlying asset is of low value (see paragraph 1.18). The Department has recognised lease payments associated with these leases as an expense;
- has used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease; and
- has discounted lease liabilities at transition using the discount rate mandated by HM Treasury at transition of 0.95%.

1.17 The carrying amount of the assets and liabilities of the Department's finance leases at 1 April 2022 was the carrying amount immediately before 1 April 2022 under IAS 17. IFRS 16 has then been applied to these contracts from 1 April 2022.

1.18 The Department has not applied IFRS 16 to contracts which have a value of less than £25,000 (unless the contract meets the definition of a peppercorn lease), or where the cost of the underlying asset (when new) is less than £25,000, unless there are groups of leases of similar items where application of the threshold would have a material impact, such as car leases. This threshold is consistent with the Department's capitalisation threshold for owned assets as detailed in paragraph 1.26. Where there are right-of-use assets from leases embedded in other contracts, and these right-of-use assets have been fully charged to the Department (either in the current or in previous contracts), then these right-of-use assets have been excluded as the Department will have no further liability.

1.19 In most cases, the IFRS 16 cost model is an appropriate proxy for current value in existing use or fair value. This is because the right-of-use assets will generally have shorter useful lives than their corresponding underlying assets and contracts have conditions to update lease payments to market rates. However, this does not apply to all contracts and the revaluation model has been applied to the Department's contract for the leasing of accommodation for Service personnel and for peppercorn leases.

The Impact on the Current Period

1.20 The new leasing Standard has had a significant initial impact on the Department by bringing right-of-use assets and liabilities onto the Statement of Financial Position (SoFP). This has been the result of:

- the recognition of operating leases as right-of-use assets and their associated liabilities;
- the recognition of right-of-use assets and their associated liabilities of leases not previously recognised under IAS 17 and IFRIC 4 (as detailed in paragraphs 1.16); and
- remeasuring finance leases (after initial application on 1 April 2022) on an IFRS 16 basis that were previously measured on an IAS 17 basis.

1.21 The Department has measured its lease liabilities and associated right-of-use assets for its leases previously classified as operating leases under IAS 17 together with the lease liabilities and associated right-of-use assets embedded within contracts not previously recognised as a lease. The financial impact of recognising these right-of-use assets and liabilities on 1 April 2022 under IFRS 16 is £2.0 billion and £1.9 billion respectively. Note 16.9 reconciles the operating lease commitments disclosed applying IAS 17 at 31 March of the 2021-22 reporting period and lease liabilities recognised applying IFRS 16 in the SoFP at 1 April 2022 of this 2022-23 reporting period. As shown in Note 16.7, the overall impact on the Statement of Comprehensive Net Expenditure (SoCNE) in 2022-23 is not viewed as material. The financial impact of re-measuring finance leases after transition on 1 April 2022 is £2.3 billion with the increase in liability being charged to the reserves. This remeasurement reflects the impact of a rent review which took effect from January 2022, but under IAS 17 was correctly not recognised within the lease liability. Together these changes have increased the Department's right-of-use assets by £1.9 billion and increased liabilities by £4.2 billion.

The Potential Impact on Future Periods

1.22 The future impact on the Department's Accounts, based on known contracts and contract renewals, is not viewed as material – i.e. the additional right-of-use assets and liabilities resulting from new leases on the SoFP. Also, the impact on the SoCNE is not viewed as material.

Changes Impacting the Preparation of Future Annual Accounts

1.23 There is a change to the policy on the measurement of Public Private Partnership (PPP) arrangements and one significant change to Accounting Standards that impact future annual accounts.

Public Private Partnerships

1.24 For PPP including Private Finance Initiative (PFI) arrangements that 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. As a result of the application of IFRS 16, as mandated by the FReM from 1 April 2023, subsequent measurement of these infrastructure assets will follow the guidance in IFRS 16 and IAS 16, as applied by the FReM. The change may impact PPP/PFI liabilities that have indexed linked payments. This is not expected to have a material impact on the Department's Accounts.

IFRS 17 – Insurance Contracts

1.25 IFRS 17: *Insurance Contracts* replaces IFRS 4: *Insurance Contracts* and is scheduled to be included in the FReM for mandatory implementation from 2025-26. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of this Standard. The Department will undertake a detailed assessment on the impact of the Standard when its application to the public sector is determined in the FReM.

Property, Plant and Equipment Non-Current Assets

Recognition

1.26 The Department classifies and measures its Property, Plant and Equipment in accordance with IAS 16: *Property, Plant and Equipment* as adapted by the FReM. The Department's capitalisation threshold is £25,000. However, individual non-current assets that are less than £25,000 are capitalised as part of a group where the items are generically similar and due to their total value, are grouped and capitalised. 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.

1.27 Assets under construction are capitalised during the period of construction and on completion (either of the whole project, or at defined milestones where the contract has separate deliverables) balances are transferred to 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.

1.28 The capitalisation threshold is not applied to individual capital spares (defined in paragraph 1.36) and assembled Guided Weapons Missiles and Bombs (GWMB). Instead, these items are grouped together and accounted for accordingly.

Valuation

1.29 All tangible non-current assets are carried at fair value at the reporting date. This is undertaken via full revaluation or indexation. To ensure accurate values for assets under construction, the Department, at the end of each reporting period, considers whether there is any indication that assets may be impaired and if necessary, adjusts the carrying value. Fair value reviews are conducted and documented on reclassification of these assets into use. There is a £5 million threshold over which these fair value reviews are performed. Assets under construction are not subject to indexation where the cost of the work done as specified in the underlying contract price is deemed to reflect fair value. This is because the contract costs already include price inflation.

1.30 For both property (including land) and non-property assets, prospective indices appropriate for the category of asset are forecast and applied annually in the month of May each financial year. The carrying values of the assets are revised at the year-end via an accrual to reflect the difference between the forecast indices applied in May and revised indices at the year-end (based on actual movements for the first three quarters with a forecast movement for the final quarter of the financial year). The value of the overseas property estate assets is also adjusted to take account of the year-end exchange rates and movements in the country's GDP – also see paragraph 1.115.

1.31 Land and property assets are also subject to a Quinquennial Revaluation (QQR) by internal and external valuers in accordance with IAS 16: *Property, Plant and Equipment* as interpreted by the FReM. Assets which are held for their service potential (i.e. operational assets) and are in use, are measured at current value in existing use. For non-specialised assets current value in existing use is interpreted as market value for existing use, defined as Existing Use Value. For specialised assets, current value in existing use is interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential, i.e. depreciated replacement cost method. Land is valued considering geographical region and type i.e. land use. Where applicable, key assumptions were made by the valuer regarding the maintenance programme and residual economic lives. Property assets are valued as at November 2022 and adjustment made to closing balances if material differences are identified. QQR is further explained in Note 6 – Property, Plant and Equipment.

1.32 Assets available for immediate sale in their present condition, which is highly probable, are valued in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations*. This is at the lower of their carrying amount before classification and fair value less cost to sell. Assets held to earn rentals or for capital appreciation or both are valued in accordance with IAS 40*: Investment Property*. They are measured at fair value.

1.33 Surplus assets no longer in use are valued at fair value using IFRS 13: *Fair Value*. However, they are measured at current value in existing use if there are restrictions on the Department or the asset which would prevent access to the market at the reporting date. 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

1.34 All assets are depreciated on a straight-line basis other than some capital spares which use the diminishing balance depreciation method (see paragraph 1.36). 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 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 or other strategic reviews. On addition to the Non-Current Asset Register, assets are within the useful lives' range outlined in paragraph 1.35 below, although over time assets may cease to be within this range following useful life changes such as extensions or impairments. There is an exception whereby additions may not adhere to the accounting policy, for example, if the asset lives are being aligned to have the same out of service date as the corresponding parent asset/ major platform.

1.35 The principal asset categories, together with their expected useful lives, are set out in the table below:

Main Category	Sub-Category	Useful Life (Years)
Land and Buildings	Land	Not depreciated unless held under agreement with The Federal Republic of Germany or as part of a 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 – 40
	Plant and Machinery	5 – 30
Transport		3 – 35
IT and Communications Equipment	Office Machinery	3 – 10
	Communications Equipment	3 – 30

1.36 Capital Spares are items of repairable material retained for the purpose of replacing parts of an asset undergoing repair, refurbishment, maintenance, servicing, modification, enhancement or conversion. Non-embodied capital spares are generally included in the Single Use Military Equipment category whilst embodied capital spares are included within the asset category of the prime equipment they support and are depreciated over their useful life, which is consistent with the useful life of this prime equipment. Some capital spares which have ‘rolling’ out of service dates (i.e. their out of service dates are reviewed and extended each year) use the diminishing balance depreciation method as this more closely reflects the expected pattern of consumption of the future economic benefits embodied in the capital spares.

1.37 Capitalised provisions are those that are capitalised in the cost of the asset to which the provision relates. They are included in the asset category of the associated asset and depreciated over its useful life. Further details are at paragraph 1.87.

Componentisation and Subsequent Expenditure

1.38 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 QQR 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, as appropriate, when their value is consumed by the Department over a different period from the life of the corresponding core asset.

Impairment

1.39 Impairment refers to the permanent reduction in value of the Department's assets below its carrying value as shown in the financial statements. Impairment charges reduce the carrying amount of intangible and property, plant and equipment assets to their recoverable amount.

1.40 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. Other impairments are charged directly to the revaluation reserve, to the extent that there is one for the asset, with any remaining impairment charged to the SoCNE.

1.41 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.

1.42 The FReM has interpreted IAS 36 to state that where the asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential.

1.43 The Department considers that these assets continue to be held to meet Departmental objectives and they are still expected to generate their intended future economic benefits.

Disposal

1.44 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.

1.45 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.

1.46 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

1.47 The Department's main leases are for properties used for Service family accommodation and for administrative purposes. It also leases equipment assets and vehicles. This is done to maximise efficiency, flexibility and value for money. This is achieved, for example, through leasing assets for a shorter period than their entire life, when compared to purchasing an asset, and/or where there is an established leasing market. The Department also benefits from property leases under arrangements which are peppercorn (i.e. nominal or nil consideration). While not extensive, the Department does make use of extension and termination options in some lease contracts where there is a requirement for increased flexibility.

1.48 The Department also leases assets owned by contractors where the leased assets are embedded in other contracts, such as a contract for the construction of equipment assets. Examples are leases of construction and refit/maintenance facilities, such as a shipyard where the Department has the right to substantially all of the economic output. The lease payments represent the component of the contract payments that relate to the use of the asset. Where existing contracts are extended or new contracts placed that require the use of the asset, the Department remeasures the lease liability and corresponding right-of-use asset to reflect the revised lease payments. Note 16 contains further details on the Department's most significant leases.

1.49 The Department accounts for its leases in accordance with IFRS 16: *Leases* (as adapted in the FReM). The Department assesses all contracts with a value over £25,000 against the IFRS 16 lease criteria to consider whether they contain a lease. This includes right-of-use assets implicitly specified in a contract, for example, a shipyard used to fulfil a contract to construct ships.

1.50 The Department has not applied IFRS 16 to contracts which have a value of less than £25,000 (unless the contract meets the definition of a peppercorn lease), or where the cost of the underlying asset (when new) is less than £25,000, unless there are groups of leases of similar items where application of the threshold would have a material impact, such as car leases. Where there are right-of-use assets from leases embedded in other contracts, and these right-of-use assets have been fully charged to the Department (either in the current or in previous contracts), then these right-of-use assets have been excluded as the Department has no further liability.

1.51 Where the leases are short-term, i.e. a lease term of 12 months or less and do not contain a purchase option, the Department does not recognise a right-of-use asset or liability. Instead, the lease payments are expensed as shown in Note 16.7. The Department's portfolio of short-term leases committed to at the end of the reporting period is not dissimilar to the portfolio of leases for which comprises the short-term lease expense in Note 16.3. While there are likely to have been more short-term leases for 2022-23 due to the transitional requirement to account for leases as short-term where the lease term is less than 12 months at transition, this is not viewed as material.

1.52 The lease liability and right-of-use asset exclude VAT payments. Irrecoverable VAT on lease payments is charged to the SoCNE when the VAT liability is recognised in accordance with IFRIC 21: *Levies.*

1.53 Lease payments are discounted using the interest rate implicit in the lease. When this cannot be readily determined, the discount rate mandated by HM Treasury is used.

1.54. The FReM requires that the subsequent measurement basis of all right-of-use assets should be consistent with the subsequent measurement of owned assets. Hence, right-of-use assets should be measured at either fair value or current value in existing use (i.e. the revaluation model should be used rather than the cost model).

1.55. In most cases, however, the FReM recognises that the cost measurement model in IFRS 16 will be an appropriate proxy for current value in existing use or fair value. This is because leases will often have terms that require lease payments to be updated for market conditions, which will be captured in the IFRS 16 cost model provisions. In addition, right-of-use assets generally have shorter useful lives and lower values than their respective underlying assets.

1.56. For some right-of-use assets, the cost model will not be an appropriate proxy for current value in existing use or fair value. This is likely to be the case where:

- a longer-term lease has no terms that require lease payments to be updated for market conditions (such as rent reviews), or there is a significant period of time between those updates; and
- the fair value or current value in existing use of the underlying asset is likely to fluctuate

significantly due to changes in market prices. This is more likely to be the case with property assets.

1.57 The revaluation model has been applied to the Department's contract for the leasing of accommodation for Service personnel and for peppercorn leases. The revaluation is undertaken as part of the Department's revaluation of its owned land and buildings under the QQR process. Details of this are given in Notes 6.1 and 6.2. As the right-of-use assets for the leasing of accommodation for service personnel are revalued as part of the QQR process, when there are lease rent reviews, the lease liability is remeasured with the corresponding entry charged to the revaluation reserve.

1.58 Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the asset. However, if the lease transfers ownership of the underlying asset to the Department by the end of the lease term or the right-of-use asset cost reflects the exercise of a purchase option, the period of expected use and depreciation period is the useful life of the asset.

1.59 The depreciation charge for a right-of-use asset will be usually recognised in the SoCNE. However, if the right-of-use asset's benefits are absorbed in producing other assets, then it will be a directly attributable cost of producing the other asset and should be included in its carrying amount.

1.60 For contractor owned sites/assets where leased asset(s) have been identified from contracts, the overhead costs charged to the Department for the use of the contractor owned site/assets are the basis on which the right-of-use asset and lease liability have been costed. Depreciation on these right-of-use assets may also be capitalised into other asset(s) where appropriate, for example, the Non-Current Assets being constructed at the contractor owned site.

1.61 Peppercorn leases are defined as leases for which the consideration paid is nil or nominal (i.e. significantly below market value). Peppercorn leases are in the scope of IFRS 16 as applied by the FReM. The Department measures its peppercorn right-of-use assets at current value in existing use or fair value and the difference to the lease liability is recognised as income.

1.62 The Department’s policy of the subsequent measurement of peppercorn right-of-use assets is to maintain them at their initial valuation where the impact is not judged material. The threshold is £1 million for the right-of-use asset valuation (at initial valuation). No further revaluation of peppercorn lease right-of-use assets will be undertaken where their initial valuation is less than that. Peppercorn lease right-of-use assets of an initial value of £1 million and above will be subsequently revalued.

Intangible Non-Current Assets

1.63 Research costs are charged to the SoCNE in the period in which they are incurred.

1.64 Development costs and other intangible assets 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 1.35 states the useful lives for principal tangible non-current asset categories). Amortisation commences when the asset type first enters operational service. Other intangible assets are amortised over their estimated useful life, which ranges from over one year to 60 years.

1.65 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 Depreciated Replacement Cost (DRC) or, if the asset is income generating, to value in use if lower than DRC. This is a key estimation uncertainty as described in paragraph 1.117.

1.66 Intangible assets under construction are not subject to indexation where the cost of the work done as specified in the underlying contract price is deemed to reflect fair value. To ensure accurate values for assets under construction, the Department, at the end of each reporting period, considers whether there is any indication that assets may be impaired and if necessary, adjusts the carrying value.

Public Private Partnerships (PPP) Including Private Finance Initiative (PFI) Arrangements

1.67 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. This occurs when the Department controls the use of the infrastructure assets and any significant residual interest in the infrastructure at the end of the arrangement (or there is no residual interest). Any new assets and liabilities are initially measured following the guidance in IFRS 16 and all new and existing assets and liabilities are subsequently measured in alignment with relevant standards, such as IAS 17 and IAS 16 as applied by the FReM, in the same way as other assets of that type. Unitary charges are apportioned between reduction in the capital obligation and charges to the SoCNE for service performance and finance costs. Where the contract is not separable into these elements, this apportionment is estimated by reference to factors such as the contract, the fair value of the asset and the interest rate implicit in the contract or, where this is not practicable to determine, the HM Treasury's discount rate for investment appraisals.

1.68 Where PPP including PFI arrangements are outside the scope of IFRIC 12, the arrangement should be assessed to establish whether it contains a lease under IFRS 16. If it does contain a lease, the lease is initially accounted for in accordance with IFRS 16. Where the arrangement does not contain a lease, the expenditure will be recognised as it falls due.

Financial Instruments

1.69 The Department classifies and measures its financial assets in accordance with IFRS 9: *Financial Instruments* 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.

1.70 Almost all of the Department's financial assets, 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.

1.71 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 7 – Financial Instruments and Investments.

1.72 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 and applies 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.

1.73 The expected credit loss percentages are based on the actual bad debts incurred previously adjusted for future uncertainties. This adjustment is a multiplier factor based on the Department's judgement of the potential impact of events on future economic conditions. Sensitivity analysis was undertaken to test the significance of changes to this judgement and the impact was not material (see paragraph 1.76).

1.74 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.

1.75 Expected credit loss provisions are also made against specific receivables.

1.76 The Department has reviewed its assumptions used in its expected credit loss provisions matrix and has also undertaken further sensitivity analysis on the expected credit losses to assess the potential impact of differing assumptions and the impact was not viewed as material.

1.77 Liabilities covering trade payables and accruals are initially measured at fair value and subsequently at amortised 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 1.70.

Inventories

1.78 Raw Material and Consumables (RMC) inventory are recognised in accordance with IAS 2: *Inventories* as interpreted by the FReM and 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).

1.79 Capital Spares (CS) and Guided Weapons Missiles and Bombs (GWMB) are recognised in accordance with IAS 16: *Property, Plant and Equipment* as adapted by the FReM and are valued at fair value as at the financial year-end.

1.80 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.

1.81 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 8 – Inventories.

1.82 Some items of inventory, for example munitions, have a limited shelf life and are written down on a straight-line basis, on the gross cost of these items, throughout the life of these items.

Cash and Cash Equivalents

1.83 Cash balances are held by the Government Banking Service, commercial banks and cash in hand. Cash in hand includes deposits denominated in foreign currencies held in foreign bank accounts.

1.84 The Department holds US Dollar and Euro denominated bank accounts and uses foreign currency forward purchase contracts, denominated in US Dollars and Euros, to reduce the risk of changes in exchange rates for the use of its two most significant foreign currencies.

Provisions for Liabilities and Charges

1.85 Provisions for liabilities and charges are recognised in line with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets* and are based on reliable estimates of the expenditure required to settle legal or constructive obligations.

1.86 Contingent liabilities are disclosed where it is not probable that expenditure will be required to settle the obligation, see Note 18. Disclosures are not required under IAS 37 where there is only a remote likelihood that expenditure will be required. However, disclosures are made in the Accountability Report for such remote contingent liabilities in accordance with Managing Public Money. Annex G contains a reconciliation between contingent liabilities reported in the Supply Estimates and those reported in this Annual Report and Accounts.

1.87 On initial recognition, provisions are charged to the SoCNE unless the provision results from an obligation to dismantle and decommission a specific item of property, plant and equipment, in which case a capitalised asset provision is created. Changes to 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 12 – 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 asset provision is valued using the Depreciated Replacement Cost (DRC) methodology.

1.88 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 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 any deviation from this (as per the rebuttable presumption) is detailed on a provision-by-provision basis. 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 12 – Provisions for Liabilities and Charges.

1.89 Provisions and other liabilities were valued using appropriate mechanisms and discount rates at 31 March 2023. For nuclear provisions that utilise indices provided by Defence Analysis-Economics, no material changes to the underlying indices have been identified.

1.90 An onerous contract (as defined by IAS 37) provision is accounted for in the period in which the contract is identified as onerous. At 31 March 2023, the Department had not identified any contracts as onerous and expects to recover all value reported.

Foreign Currency

1.91 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. Where material, 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.

1.92 As noted in paragraph 1.84, the Department holds US Dollar and Euro denominated bank accounts and uses foreign currency forward purchase contracts, denominated in US Dollars and Euros, to reduce the risk of changes in exchange rates for the use of its two most significant foreign currencies.

Income

1.93 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.

1.94 Income from contracts with customers is recognised in accordance with IFRS 15: *Revenue from Contracts with Customers* which has been applied, as adapted by the FReM, in full. The Department follows the five-step model in IFRS 15, by applying the following steps:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise the revenue when (or as) the entity satisfies a performance obligation

1.95 The bulk of what the Department provides to external customers is the provision of services on a rolling basis such as 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.
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.

1.96 The FReM adapts IFRS 15 to expand the definition of a contract and so the Department includes, within the scope of IFRS 15, arrangements covered by Memoranda of Understanding (MoU) even though these are not legally enforceable. MoUs are assessed on a case-by-case basis against the five-step model set out in IFRS 15. The Department does not include income from sales of non-current assets within the scope of IFRS 15 as, in accordance with IAS 16, such gains shall not be classed as revenue. The Department has included rental income under IFRS 15 to the extent that it is not within the scope of leasing. The Department has invoked the practical expedient in IFRS 15 and does not discount 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.

1.97 The amounts recognised under IFRS 15 are not significant in the context of the Department's accounts. The Department considers that the amounts recognised are appropriate and not materially misstated.

1.98 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.

Expenditure

1.99 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 and telecommunication costs. Costs are charged to the SoCNE in the period in which they are incurred and matched to any related income. Unless software licences meet the capitalisation criteria in IAS 38: *Intangible Assets* (as adapted in the FReM) and the Department's capitalisation threshold, their costs are expensed. Where software licences are expensed, there is a £10,000 threshold for prepayments of software licences. As such, prepayments are recognised for licences greater than £10,000 and those costs less than £10,000 are expensed to the SoCNE. Costs of contracted-out services are included net of recoverable VAT.

Salaries, Wages and Employment-Related Payments

1.100 Short-term benefits, i.e. 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 financial year end are recognised on an accruals basis in the financial statements. Further details are given in the Accountability Report.

War Pensions/Benefits

1.101 The War Pension Scheme (WPS) compensates for any injury, illness or death which was caused by service in the Armed Forces before 6 April 2005. Claims can only be made under the WPS after the claimant has left service.

1.102 There are 2 main types of WPS awards, which are dependent on the level of disablement:

- a gratuity lump sum payment for disablement less than 20%;
- an ongoing payment paid weekly or monthly for disablement more than 20%.

1.103 The rules of the WPS and the value of the payments awarded are set by Parliament. The value of the payments increase each year in line with the CPI. WPS is accounted for on an accruals basis.

1.104 The Government's commitment to provide for those injured, and the families of those killed, as a result of service is in part met by awards made under the War Pension Scheme. The awards are statutory entitlements payable to ex-service members or their dependants and can fluctuate depending on circumstances and can be ended/withdrawn if conditions subsequently improve. The Departmental accounts do not include a liability for future WPS payments. This is because payments are only recognised when they fall due and therefore accounted for as expenditure in the SoCNE in the period to which they relate. The two main payment categories are ongoing payments for disablement and ongoing payments to widows.

Retirement Benefit Costs

1.105 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, defined benefit or multi-employer defined benefit schemes where the Department's shares of assets and liabilities cannot be identified. In accordance with IAS 19: *Employee Benefits*, these are thus also treated as defined contribution schemes. Examples of the two largest of the main schemes are: the Principal Civil Service Pension Scheme; and the Armed Forces Pension Scheme. All other Departmental schemes, detailed in Note 13 – Retirement Benefit Schemes, are consolidated into the financial statements as defined benefit schemes and IAS 19 has been adopted to account for them. As a result of the McCloud judgement, the Government has been working to address the judgement of the Court of Appeal on the transition from legacy pension schemes. The Government has announced that due to interactions with wider pension policies, completion of the 2016 valuation process and the review of the cost control mechanism, any changes to employer contribution rates resulting from the 2020 valuations will be delayed from April 2023 to April 2024.

1.106 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.

1.107 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.

1.108 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)

1.109 The Department is registered for VAT. Costs of contracted-out services are included net of recoverable VAT. In other cases where VAT is recoverable, the related expenditure is shown net of VAT.

1.110 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.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

1.111 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.

1.112 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.

1.113 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

1.114 Non-current intangible and property, plant and equipment assets are expressed at their fair value, such as Depreciated Replacement Cost (DRC). Specialist land and property assets are valued at DRC and this is a critical estimation uncertainty. It relies on key judgements (e.g. on modern equivalent replacements) and estimates for current land values as well as construction costs.

1.115 UK and Overseas Land and property assets are professionally revalued every 5 years through the rolling QQR programme in accordance with FReM requirements. Between professional valuations, the

Department updates UK and Overseas land and property values through the application of Modified Historical Cost Accounting (MHCA) indices, with the UK indices provided by the Valuation Office Agency and the Overseas indices calculated internally based on exchange rate movements at the year-end and individual countries GDPs. The GDP figures are provided by Defence Analysis-Economics within the Department who source the GDP Deflators from Oxford Economics.

1.116 Non property assets are revalued using indices provided by Defence Analysis-Economics. To determine the indices, historic inflation figures for Departmental assets are taken directly from industry and labour specific indices that are produced by the Office for National Statistics (ONS). Where no appropriate index is available, the GDP Deflator is used as a general measure of inflation. The indices are output based to reflect the cost of the manufacture of the particular category, the coverage of each index being defined under the corresponding Standard Industrial Classification (SIC) system for categorising economy output. Forecasts for these indices are either directly based on those produced by the Office for Budgetary Responsibility (OBR) or calculated by Defence Analysis-Economics – Price Indices using data for key economic indicators taken from the OBR and Oxford Economics.

1.117 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.

1.118 The indices used for both property and non-property assets are considered to remain valid and the best available information. The Department's valuers were consulted on the potential impact on property valuations. In line with the Royal Institution of Chartered Surveyors guidance and direction, the valuers subsequently confirmed that, based on latest market information, there is no evidence that the indices and the values provided as part of the QQR as at 31 March 2023 have materially changed.

1.119 There is uncertainty in the valuation of land in the scope of the Defence Estate 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.

1.120 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.

Discount Rates

1.121 The change in discount rate is treated as a change in estimate (processed in-year) under IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*. HM Treasury specifies nominal rates (applied to cash flows which include inflation) to discount general provisions. The impact is that the Department 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 12 – Provisions for Liabilities and Charges. The Department has discounted lease liabilities using the discount rates mandated by HM Treasury. The exception is for the leased housing for Service Personnel under a contract with Annington Homes. The rate used to remeasure the lease liability was 6%, which is the same as the discount rate used to measure the finance lease liability under IAS 17.

Impairments

1.122 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. Impairment reviews through the Asset Verification Exercise looks at assets with a Net Book Value greater than £100,000 or initial costs greater than £10 million. Where such an indication exists, the Department makes a judgement as to the impairment required to bring the asset to fair value.

Accruals

1.123 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 11 – Trade Payables and Other Liabilities. The Department only recognises manual accruals above £10,000.

Provisions

1.124 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 AWE 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.

1.125 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 future storage and decommissioning; the VAT rate; the inflation 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 12 – Provisions for Liabilities and Charges.

1.126 The Department holds a number of other provisions. Judgement is used to recognise 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.

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. Further information on how Defence is structured is available in the publication How Defence Works.[42]

2.2 The Department's Head Office supports the Secretary of State, Ministers, the Permanent Secretary and the Chief of the Defence Staff in the delivery of their responsibilities, directing the relevant parts of Defence as necessary by undertaking: Policy, Strategy, Planning and Governance activities.

2.3 Head Office is made up of a number of director-general, or 3-star, led business areas and enabling organisations providing strategic leadership and direction to the whole of MOD in two related ways:

- as the top-level decision-making body for MOD as a government department; and
- as the Military Strategic Headquarters for the UK's Armed Forces, providing military advice to the government and directing the generation of forces.

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

2.4 Strategic Command (UKStratCom) provides Multi-Domain Integration to ensure that the Royal Navy, the Army and the Royal Air Force can respond to threats across all five domains (Air, Land, Sea, Cyber and Space); it also manages overseas joint operations.

2.5 Defence Nuclear Organisation was created for the purpose of delivering all the UK's submarines, from procurement, through to disposing of them safely when they reach the end of their life. It is also responsible for nuclear warheads, nuclear skills and related infrastructure, and day-to-day nuclear policy.

2.6 Defence Equipment and Support (DE&S) is responsible for procurement and support to equipment, excluding submarines.

2.7 The Defence Infrastructure Organisation (DIO) is responsible for managing the Defence Estate.

2.8 Forecasts of expenditure against budgets are regularly reviewed by the Defence Board when considering performance and resource allocation. The following tables set out the detail of this net expenditure, by segment (where the Board consider the net expenditure at that level of detail).

2.9 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 their recording and transfer is centrally managed to ensure the net effect on the Department's consolidated accounts remains correct.

	2022-23	2021-22
Resource and Capital Outturn Reviewed by the Board	**£M**	**£M**
Royal Navy	8,431.8	7,586.2
Army	11,845.8	11,052.0
Royal Air Force	7,885.0	8,539.7
Strategic Command	6,743.9	6,321.2
Defence Equipment & Support	1,366.5	1,185.1
Defence Infrastructure Organisation	3,570.4	979.4
Head Office and Enabling Organisations1	2,312.5	2,512.0
Defence Nuclear Organisation	5,944.3	5,245.4
Strategic Programme	1,551.7	1,188.7
Unallocated Equipment Plan2	(14.5)	(3.3)
War Pension Benefits	606.7	622.6
Sub total of Resource and Capital reviewed by the Board during the financial year	50,244.1	45,229.0
Outturn (Resource and Capital) for Cost of Operations (excluding depreciation, impairments, provisions)	2,871.7	501.8
Balance of Resource and Capital Outturn (depreciation, impairment, provisions, Annually Managed Expenditure (AME) and Arm's Length Bodies' expenditure)	(6,820.0)	18,973.4
Total Resource and Capital Outturn (See Statement of Outturn against Parliamentary Supply (SOPS))	**46,295.8**	64,704.2
Reconciliation to Net Expenditure[3]:		
Adjustment for items included in Resource Outturn but not included in Net Expenditure	6,610.1	(892.6)
Adjustment for capital expenditure not included in Net Expenditure	(20,304.0)	(14,180.0)
Total Net Expenditure (See Statement of Comprehensive Net Expenditure)	**32,601.9**	49,631.6

1. Includes: Dstl, DECA and organisations delivering services such as HR, payroll, and policing.
2. Includes a share of receipts from contractors, for products sold to third parties, that have been developed using MOD funding.
3. From 2022-23 onwards (and including the adjusted prior year figures) the reconciliation is from outturn to Group Net Expenditure.

	2022-23	2021-22
Equipment Plan Outturn	**£M**	**£M**
Equipment Plan – Resource Outturn		
Royal Navy	1,490.3	1,434.4
Army	1,132.2	1,132.3
Royal Air Force	2,278.8	2,162.3
Strategic Command	2,281.6	2,327.9
Defence Equipment & Support[1]	(14.5)	(3.3)
Defence Nuclear Organisation	1,188.2	1,084.7
Strategic Programme	361.7	373.1
Equipment Plan – Total Resource Outturn	**8,718.3**	8,511.4
Equipment Plan – Capital Outturn		
Royal Navy	2,631.3	1,976.7
Army	1,873.4	1,399.8
Royal Air Force	1,957.0	2,553.5
Strategic Command	996.9	868.5
Defence Equipment & Support	8.3	1.8
Defence Nuclear Organisation	4,340.4	3,795.0
Strategic Programme	1,190.0	815.6
Equipment Plan – Total Capital Outturn	**12,997.3**	11,410.9

1. Includes a share of receipts from contractors, for products sold to third parties, that have been developed using MOD funding.

Infrastructure Plan Outturn	2022-23 £M	2021-22 £M
Infrastructure Plan – Resource Outturn		
Royal Navy	187.0	189.3
Army	1,144.5	1,086.1
Royal Air Force	305.2	284.0
Strategic Command	352.8	318.7
Defence Equipment & Support	93.0	108.5
Defence Infrastructure Organisation	495.8	402.2
Head Office and Enabling Organisations[1]	113.1	109.5
Defence Nuclear Organisation	4.0	4.0
Infrastructure Plan – Total Resource Outturn	**2,695.4**	2,502.3
Infrastructure Plan – Capital Outturn		
Royal Navy	140.2	183.9
Army	319.5	191.4
Royal Air Force	140.2	139.2
Strategic Command	127.3	134.3
Defence Equipment & Support	33.5	22.6
Defence Infrastructure Organisation[2]	2,617.5	153.6
Infrastructure Plan – Total Capital Outturn	**3,378.2**	825.0

1. Includes: Dstl, DECA and organisations delivering services such as HR, payroll, and policing.
2. The large variance in DIO's Capital Outturn is due to the implementation of IFRS 16 for the Annington Homes contract. The increase in liability is purely an accounting adjustment but scores to Capital Outturn (and not initial recognition as for the other effects of the first time adoption of IFRS 16) because Annington Homes was already a Finance Lease in the accounts.

3.1 Operating income

	2022-23		Reclassified 2021-22[1]	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
Receipts – revenue from contracts with customers	324.5	324.5	233.0	233.0
Receipts – supplies and services	253.8	253.5	236.5	236.5
Receipts – NATO/UN/US Forces/ Foreign Governments	378.6	378.6	332.2	332.2
Receipts from sale of fuel	12.5	12.5	7.3	7.3
Rental income – property	66.3	66.3	56.3	56.3
Sub total – Income from provision of supplies and services	1,035.7	1,035.4	865.3	865.3
Income Other – receipts personnel	287.4	287.4	290.4	290.4
Income Other – proceeds from the sale of property, plant, equipment and intangible assets	216.1	216.1	276.6	276.6
Income Other – including: dividends, donated assets, ALBs' income, commercial exploitation levies and sundry sales	81.7	241.4	116.4	228.0
Total Income	**1,620.9**	**1,780.3**	1,548.7	1,660.3

1. From 2022-23 the detail of finance income (Note 3.2 below) and finance expense (Note 4.6) are disclosed separately. The prior year income figures above have been reclassified

.3.2 Finance income

	2022-23		2021-22	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
Dividends and interest received	14.9	14.9	27.5	27.5
Notional interest on unwinding discounted provisions, receivables and liabilities[1,2]	12,957.5	12,957.5	–	–
Foreign currency gains	158.0	158.0	93.5	93.5
Movement on derivatives (forward purchase foreign exchange rate contracts and fuel swaps)	499.0	499.0	485.7	485.7
Total	**13,629.4**	**13,629.4**	606.7	606.7

1. The movement in provisions, receivables and payables that results from changes in the interest rates used for discounting is now shown separately; above at Note 3.1 – Finance Income for decreases or at Note 4.6 – Finance Expense for increases.
2. Long term receivables, provisions and other liabilities are discounted, using HM Treasury interest rates, to convert future cash flows to current values. The significant increases in these rates this year has reduced the overall value of the cash flows; with the reduction in nuclear decommissioning liabilities being the most significant change and the main reason for the value of the notional interest shown. The prior year change in interest rates created an overall increase in the value of these discounted items and that interest is shown as a prior year cost in Note 4.6. Further information on nuclear decommissioning is at Note 12.

4. Expenditure

4.1 Staff costs

	2022-23		2021-22	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
Staff costs comprise[1]:				
Salaries and wages	9,345.5	9,697.0	9,080.2	9,343.6
Social security costs	900.7	951.5	834.4	870.3
Pension costs	4,603.4	4,652.1	4,524.4	4,560.9
Total	**14,849.6**	**15,300.6**	14,439.0	14,774.8
Paid to:				
Armed Forces	11,580.6	11,580.6	11,290.3	11,290.3
Civilian	3,269.0	3,720.0	3,148.7	3,484.5
Total	**14,849.6**	**15,300.6**	14,439.0	14,774.8

1. Information on staff numbers, exit packages and other relevant disclosures (including relating to Ministers) is included in the Remuneration and Staff Report in the Accountability Report.

4.2 Purchase of goods and services

	2022-23		2021-22	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
Equipment management[1]:				
Equipment support	6,179.7	5,730.4	5,777.0	5,436.9
Contractor logistic and operational equipment support contracts	1,074.4	1,074.4	1,008.5	1,008.5
Plant and equipment under Service Concession Arrangements	388.9	388.9	356.9	356.9
Estate management[1]:				
Property management	1,611.0	1,888.5	1,927.1	2,159.2
Property management under Service Concession Arrangements	693.5	693.5	686.0	686.0
Utilities	455.0	455.0	336.5	336.5
Accommodation charges	280.0	280.0	327.4	327.4
Inventory:				
Inventory consumption	1,183.4	1,183.4	975.7	975.7
Fuel consumption	346.3	346.3	278.6	278.6
Information Technology and communications[1]:				
IT and telecommunications	1,831.8	1,831.8	1,805.9	1,805.9
IT and telecommunications under Service Concession Arrangements	183.1	183.1	250.5	250.5
Transport and Travel[1]:				
Cost of travel, subsistence, relocation, and movement of stores and equipment	863.5	863.5	539.9	539.9
Transport under Service Concession Arrangements	40.2	40.2	55.7	55.7
Other costs:				
Research and development	1,701.6	1,596.2	1,582.0	1,502.2
Professional fees	1,281.5	1,281.5	984.9	984.9
Training, safety and welfare	645.1	645.1	585.5	585.5
Total	**18,759.0**	**18,481.8**	17,478.1	17,290.3

1. Following the adoption of IFRS 16, expenditure and liabilities arising from leases are, from 2022-23 onwards, disclosed separately in Note 16. Where separate figures for leases were disclosed in previous years they have been included in the main comparator figures for each type of expenditure above. A reorganisation of expenditure under Service Concession Arrangements has also occurred.

4.3 Depreciation, impairment, writes on/off and disposals

	2022-23		2021-22	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
Depreciation of property, plant and equipment	5,726.0	5,737.8	6,367.2	6,379.5
Depreciation of right-of-use assets	419.3	423.1	–	–
Amortisation of intangible assets	1,379.4	1,379.7	1,324.6	1,324.7
Impairments – intangible assets, property, plant and equipment, right-of-use assets and assets held for sale	479.8	479.8	1,133.5	1,133.5
Impairment reversals – intangible assets, property, plant and equipment, right-of-use assets and assets held for sale	(485.5)	(485.5)	(674.3)	(674.3)
Adjustments to inventory, capital projects, and bad debts[1]	(1,005.1)	(1,005.1)	82.6	82.6
Non-cash cost of disposal of property, plant and equipment and intangible assets	112.9	112.9	114.7	114.7
Net movement in intangible, property, plant and equipment, and right-of-use assets – written-on and written-off	1,438.6	1,439.1	330.3	330.8
Total	**8,065.4**	**8,081.8**	8,678.6	8,691.5

1. Further details of inventory adjustments are at Note 8.3.

4.4 Provision expense

	2022-23		Reclassified 2021-22[1]	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
Increase or (decrease) in : Nuclear and non-nuclear decommissioning provisions[2]	2,107.0	2,107.0	892.8	892.8
Other provisions	203.6	203.6	207.2	207.2
Total	**2,310.6**	**2,310.6**	1,100.0	1,100.0

1. From 2022-23 the detail of finance income (Note 3.2) and finance expense (Note 4.6) are disclosed separately. The prior year provisions expense figures above have been reclassified .
2. The increase/(decrease) in nuclear provisions does not include all movements on capitalised provisions; some pass through Other Comprehensive Expenditure. More information on nuclear provisions can be found at Note 12.

4.5 Other expenditure

	2022-23		Reclassified 2021-22[1]	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
Other costs – including recruitment, insurance, public relations, funeral expenses and cadet forces pay	570.3	759.4	525.5	693.9
Grants-in-Aid and Grants-in-Kind (including to bodies within the accounting boundary)[2]	1,703.1	1,489.6	277.6	77.5
Other grants to bodies within the accounting boundary	15.9	-	26.2	–
Auditors' remuneration (for audit work only) – notional (non-cash) cost in respect of the Core Department and Agencies	3.2	3.2	3.0	3.0
Auditors' remuneration (for audit work only) – in respect of Arm's Length Bodies	–	0.8	–	0.7
Total	**2,292.5**	**2,253.0**	832.3	775.1

1. From 2022-23 the detail of finance income (Note 3.2) and finance expense (Note 4.6) are disclosed separately. The prior year other expenditure figures above have been reclassified .
2. The significant increase in Grant-in-Kind is a result of a full year's support to Ukraine. Further information regarding this support is shown in the Performance Report.

4.6 Finance expense

	2022-23		2021-22	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
Interest payable including bank interest, and interest on lease contracts, PFI contracts, loans and commercial debt	462.8	463.4	337.5	337.5
Movement due to changes in interest rates including notional interest on unwinding of discounted provisions, receivables and payables[1,2]	256.5	256.5	8,214.0	8,214.0
Movement on derivatives (forward purchase foreign exchange rate contracts and fuel swaps) and foreign currency losses	257.5	257.5	92.8	92.8
Total	**976.7**	**977.3**	8,644.3	8,644.3

1. The movement in provisions, receivables and payables that results from changes in the interest rates used for discounting is now shown separately; above at Note 4.6 – Finance Expense for increases, or at Note 3 – Finance Income for decreases.
2. Long term receivables, provisions and other liabilities are discounted, using HM Treasury interest rates, to convert future cash flows to current values. The prior year change in interest rates created an overall increase in the value of these discounted items, mainly caused by the increase in the value of nuclear decommissioning liabilities. That interest is shown above as a prior year cost. The significant increases in the HM Treasury rates this year has reduced the overall value of the cash flow, most significantly the nuclear decommissioning liability, and the effect is included as notional interest in Note 4.6. Further information on nuclear decommissioning is at Note 12.

5. Consolidated Departmental Group – Intangible Assets

Intangible assets include development expenditure in respect of non-current assets in use and assets under construction (AUC).

	Single Use Military Equipment	Transport	AUC	Others	Total
	£M	£M	£M	£M	£M
Cost or Valuation					
Balance at 1 April 2021	25,794.1	7,225.9	12,591.2	3,247.6	48,858.8
Additions[1]	–	–	2,396.5	13.6	2,410.1
Write-ons/(offs)	(180.6)	(79.2)	(35.9)	(804.7)	(1,100.4)
Impairments[2]	(45.5)	(16.8)	(3.6)	(2.9)	(68.8)
Impairment reversals[2]	–	–	3.9	0.2	4.1
Revaluations[3]	(402.1)	(212.4)	0.7	28.6	(585.2)
Reclassifications[4]	1,051.5	192.8	(1,024.9)	(61.3)	158.1
Balance at 31 March 2022	26,217.4	7,110.3	13,927.9	2,421.1	49,676.7
Additions[1]	–	–	2,373.7	22.8	2,396.5
Write-ons/(offs)	(662.5)	(23.3)	(14.4)	(242.7)	(942.9)
Impairments[2]	–	–	(3.9)	(4.2)	(8.1)
Impairment reversals[2]	85.4	38.8	–	6.6	130.8
Revaluations[3]	2,481.5	496.6	(0.7)	172.4	3,149.8
Reclassifications[4]	214.8	72.3	(343.1)	307.2	251.2
Balance at 31 March 2023	**28,336.6**	**7,694.7**	**15,939.5**	**2,683.2**	**54,654.0**
Amortisation					
Balance at 1 April 2021	(12,403.0)	(3,995.0)	–	(2,317.5)	(18,715.5)
Charged in Year	(910.2)	(282.3)	–	(132.2)	(1,324.7)
Write-(ons)/offs	182.3	79.2	–	804.4	1,065.9
Impairments[2]	19.1	3.9	–	2.0	25.0
Impairment reversals[2]	(0.5)	–	–	(2.8)	(3.3)
Revaluations[3]	163.0	136.5	–	(18.7)	280.8
Reclassifications[4]	0.7	0.1	–	–	0.8
Balance at 31 March 2022	(12,948.6)	(4,057.6)	–	(1,664.8)	(18,671.0)
Charged in Year	(929.9)	(231.0)	–	(218.8)	(1,379.7)
Write-(ons)/offs	662.4	23.1	–	240.9	926.4
Impairments[2]	–	–	–	0.2	0.2
Impairment reversals[2]	(42.0)	(25.2)	–	(0.7)	(67.9)
Revaluations[3]	(1,226.2)	(294.1)	–	(118.6)	(1,638.9)
Reclassifications[4]	–	–	–	–	–
Balance at 31 March 2023	**(14,484.3)**	**(4,584.8)**	**–**	**(1,761.8)**	**(20,830.9)**
Net Book Value					
Balance at 1 April 2021	13,391.1	3,230.9	12,591.2	930.1	30,143.3
Balance at 31 March 2022	13,268.8	3,052.7	13,927.9	756.3	31,005.7

	Single Use Military Equipment	Transport	AUC	Others	Total
	£M	£M	£M	£M	£M
Balance at 31 March 2023	**13,852.3**	**3,109.9**	**15,939.5**	**921.4**	**33,823.1**
Of the total					
Core Department and Agencies	13,852.3	3,109.9	15,939.5	920.6	33,822.3
Arm's Length Bodies	–	–	–	0.8	0.8
Total	**13,852.3**	**3,109.9**	**15,939.5**	**921.4**	**33,823.1**

1. Additions include accruals of £1,114.5 million (2021-22: £1,012.4 million). Information on Frascati compliant R&D expenditure can be found on the website: https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics
2. 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.
3. Revaluations include changes due to Modified Historic Cost Accounting through indexation. For AUC the price inflation embedded within contracts provides for a reasonable estimate of value and therefore the additional annual application of indexation is not required for this category of asset. To ensure accurate values for AUC, MOD conducts reviews annually on its AUC and on their reclassification to assets in use.
4. Reclassifications include assets classified from property, plant and equipment of £250.5 million (2021-22: to property, plant and equipment of £158.7 million).

5.1 Movement in the revaluation reserve relating to intangible assets

	2022-23	2021-22
	£M	£M
Balance at 1 April	2,150.8	2,718.6
Revaluation	1,510.9	(304.4)
Realised reserve transferred to the General Fund	(248.3)	(263.4)
Balance at 31 March	**3,413.4**	2,150.8

5.2 Intangible assets with a net book value greater than £500 million

Development costs and other intangible assets associated with the following platforms and equipment[1]:	Net Book Value 31 March 2023 £M	Remaining Useful Economic Life (to the nearest year)
Typhoon	4,732.0	17 years
Lightning II	1,610.5	46 years
Merlin Helicopter	1,191.9	17 years
Type 45 destroyer	1,073.0	16 years
AJAX armoured vehicles	859.6	Under Construction
Type 26 global combat ship	828.4	Under Construction
Airbus A400M Atlas	763.5	27 years
SPEAR 3 air-to-surface missile	729.7	Under Construction
Typhoon Radar Mk2	649.9	Under Construction
Lynx Wildcat helicopter	599.7	22 years
Protector -remotely piloted aircraft	533.2	Under Construction
Development costs and other intangible assets associated with the following platforms and equipment[1]:	**Net Book Value 31 March 2022 £M**	**Remaining Useful Economic Life (to the nearest year)**
Typhoon	5,013.5	18 years
Lightning II	1,646.2	26 years
Merlin Helicopter	1,226.7	8 years
Type 45 destroyer	1,138.9	17 years
AJAX armoured vehicles	837.3	Under Construction
Type 26 global combat ship	826.1	Under Construction
Airbus A400M Atlas	778.7	29 years
Lynx Wildcat helicopter	630.1	23 years
SPEAR 3 air-to surface missile	616.5	Under Construction

1. In the interests of national security, details of other platforms with intangible assets valued in excess of £500 million (net book value) are not disclosed.

6. Consolidated Departmental Group – Property, Plant and Equipment

	Land Dwellings	Land Other Buildings	Dwellings	Other Buildings	Single Use Military Equipment (SUME)	Plant and Machinery	Transport	IT and Communi-cations Equipment[6]	AUC (SUME)	AUC (Other)	Total
Cost or Valuation	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
Balance at 1 April 2021	3,006.0	7,320.9	20,050.7	34,693.4	83,773.9	4,444.6	18,850.7	4,570.8	20,944.4	8,003.9	205,659.3
Additions[1]	–	–	78.6	9.0	440.7	10.3	11.1	102.5	6,144.4	3,113.1	9,909.7
Write-ons/(offs)	(69.1)	4.6	(176.4)	(81.1)	(2,618.8)	(359.5)	(505.4)	(351.2)	(41.5)	(27.2)	(4,225.6)
Impairments[2]	(21.0)	(15.3)	(134.2)	(553.9)	(321.4)	(25.5)	–	(6.1)	(103.0)	(4.2)	(1,184.6)
Impairment reversals[2]	328.7	58.8	152.8	349.0	2.6	22.1	329.1	5.7	–	–	1,248.8
Reclassifications[3]	8.8	(54.6)	88.5	1,363.2	3,906.4	184.5	347.8	341.2	(4,244.3)	(2,219.4)	(277.9)
Revaluations[4]	168.5	276.2	2,998.9	3,876.2	4,632.5	146.7	(468.9)	14.8	–	(2.1)	11,642.8
Balance at 31 March 2022	3,421.9	7,590.6	23,058.9	39,655.8	89,815.9	4,423.2	18,564.4	4,677.7	22,700.0	8,864.1	222,772.5
Transfer to right-of-use assets on first time adoption of IFRS 16	(2,526.0)	(8.7)	(9,875.2)	(89.9)	–	–	(141.3)	(12.9)	–	–	(12,654.0)
Balance at 1 April 2022	895.9	7,581.9	13,183.7	39,565.9	89,815.9	4,423.2	18,423.1	4,664.8	22,700.0	8,864.1	210,118.5
Additions	3.6	0.1	202.2	12.3	711.9	889.2	27.1	51.0	6,562.9	3,640.8	12,101.1
Write-ons/(offs)	5.3	(25.3)	(42.2)	(60.0)	(2,540.5)	(1,020.2)	(995.6)	(188.9)	(82.9)	(96.4)	(5,046.7)
Impairments[2]	(4.3)	–	(92.1)	(302.1)	–	(3.5)	–	(9.7)	(90.1)	(8.6)	(510.4)
Impairment reversals[2]	4.6	62.7	27.0	194.8	328.9	27.8	132.2	14.6	–	–	792.6
Reclassifications[3]	(32.0)	41.2	129.3	676.8	2,028.3	164.2	260.4	10.9	(1,616.4)	(1,707.6)	(44.9)
Revaluations[4]	93.7	303.3	330.7	2,851.8	4,276.3	433.7	1,222.7	249.5	19.8	10.5	9,792.0
Balance at 31 March 2023	**966.8**	**7,963.9**	**13,738.6**	**42,939.5**	**94,620.8**	**4,914.4**	**19,069.9**	**4,792.2**	**27,493.3**	**10,702.8**	**227,202.2**
Depreciation											
Balance at 1 April 2021	(301.1)	(2.3)	(7,818.6)	(19,475.1)	(43,382.6)	(2,307.0)	(8,796.1)	(3,104.5)	–	–	(85,187.3)
Charged in Year	(23.2)	(0.6)	(415.7)	(918.0)	(3,400.2)	(206.8)	(998.4)	(416.6)	–	–	(6,379.5)

Cost or Valuation	Land Dwellings £M	Land Other Buildings £M	Dwellings £M	Other Buildings £M	Single Use Military Equipment (SUME) £M	Plant and Machinery £M	Transport £M	IT and Communi-cations Equipment[6] £M	AUC (SUME) £M	AUC (Other) £M	Total £M
Write-(ons)/offs	62.7	–	101.8	107.7	2,521.6	318.5	498.8	318.2	–	–	3,929.3
Impairments[2]	1.3	–	–	82.0	–	8.3	–	3.3	–	–	94.9
Impairment reversals[2]	(21.6)	–	(82.7)	(93.8)	(40.5)	(16.5)	(315.7)	(4.5)	–	–	(575.3)
Reclassifications[3]	0.3	–	6.7	(164.3)	312.4	28.3	129.5	(0.2)	–	–	312.7
Revaluations[4]	(25.5)	–	(1,288.6)	(2,618.7)	(1,851.6)	(81.8)	238.8	(4.4)	–	–	(5,631.8)
Balance at 31 March 2022	(307.1)	(2.9)	(9,497.1)	(23,080.2)	(45,840.9)	(2,257.0)	(9,243.1)	(3,208.7)	–	–	(93,437.0)
Transfer to right-of-use assets on first time adoption of IFRS 16	186.8	0.6	3,262.0	8.6	–	–	118.1	0.6	–	–	3,576.7
Balance at 1 April 2022	(120.3)	(2.3)	(6,235.1)	(23,071.6)	(45,840.9)	(2,257.0)	(9,125.0)	(3,208.1)	–	–	(89,860.3)
Charged in Year	(13.1)	(0.4)	(289.1)	(923.9)	(3,092.0)	(197.4)	(910.7)	(311.2)	–	–	(5,737.8)
Write-(ons)/offs	(3.3)	–	8.9	67.3	2,397.5	198.3	933.0	178.7	–	–	3,780.4
Impairments[2]	–	–	46.2	50.7	–	0.3	2.1	4.0	–	–	103.3
Impairment reversals	–	–	(4.5)	–	(263.0)	(26.1)	(107.1)	(9.6)	–	–	(410.3)
Reclassifications[3]	–	–	44.2	69.6	(393.0)	(10.3)	63.7	2.6	–	–	(223.2)
Revaluations	(54.0)	–	(152.4)	(1,887.7)	(2,552.9)	(245.2)	(614.1)	(183.1)	–	–	(5,689.4)
Balance at 31 March 2023	**(190.7)**	**(2.7)**	**(6,581.8)**	**(25,695.6)**	**(49,744.3)**	**(2,537.4)**	**(9,758.1)**	**(3,526.7)**	**–**	**–**	**(98,037.3)**
Net Book Value											
Balance at 1 April 2021	2,704.9	7,318.6	12,232.1	15,218.3	40,391.3	2,137.6	10,054.6	1,466.3	20,944.4	8,003.9	120,472.0
Balance at 31 March 2022	3,114.8	7,587.7	13,561.8	16,575.6	43,975.0	2,166.2	9,321.3	1,469.0	22,700.0	8,864.1	129,335.5
Balance at 1 April 2022	775.6	7,579.6	6,948.6	16,494.3	43,975.0	2,166.2	9,298.1	1,456.7	22,700.0	8,864.1	120,258.2
Balance at 31 March 2023[5]	**776.1**	**7,961.2**	**7,156.8**	**17,243.9**	**44,876.5**	**2,377.0**	**9,311.8**	**1,265.5**	**27,493.3**	**10,702.8**	**129,164.9**
Owned	700.6	7,858.9	6,081.7	15,831.1	44,876.5	2,127.2	7,679.4	1,165.7	27,493.3	10,702.8	124,517.2

1. Additions include accruals of £3,156 million (2021-22: £3,597 million).
2. 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.

3. Reclassifications do not net to zero because they include assets reclassified in and out of PPE. In 2022-23 these movements include reclassifications: to inventory of £160.5 million, to intangible assets of £250.5 million to assets held for sale of £55.0 million, for Grant-in-Kind of £209.5 million and to receivables of £81.5 million. In 2021-22 these movements included reclassifications: from inventory of £57.6 million, to intangible assets of £158.7 million and assets reclassified to assets held for sale of £70 million.
4. Revaluations include changes due to indexation. For AUC the price inflation embedded within contracts provides for a reasonable estimate of value therefore the additional annual application of indexation is not required for this category of asset. MOD conducts reviews, including impairment reviews, at least annually on its AUC and on reclassification of AUC to assets in use.
5. Property, plant and equipment as at 31 March 2023 include capitalised provisions (net cost) of £1,754 million (31 March 2022: £3,307 million).

	Land Dwellings	Land Other Buildings	Dwellings	Other Buildings	Single Use Military Equipment (SUME)	Plant and Machinery	Transport	IT and Communi-cations Equipment[6]	AUC (SUME)	AUC (Other)	Total
Asset Financing	**£M**	**£M**	**£M**	**£M**	**£M**	**£M**	**£M**	**£M**	**£M**	**£M**	**£M**
Service Concession Arrangements	75.5	102.3	1,075.1	1,412.8	–	249.8	1,632.4	99.8	–	–	4,647.7
Balance at 31 March 2023	**776.1**	**7,961.2**	**7,156.8**	**17,243.9**	**44,876.5**	**2,377.0**	**9,311.8**	**1,265.5**	**27,493.3**	**10,702.8**	**129,164.9**
Of the total											
Core Department and Agencies	754.9	7,895.2	7,071.0	17,065.4	44,876.5	2,115.2	9,301.4	1,264.7	27,493.3	10,695.8	128,533.4
Arm's Length Bodies	21.2	66.0	85.8	178.5	–	261.8	10.4	0.8	–	7.0	631.5
Total	**776.1**	**7,961.2**	**7,156.8**	**17,243.9**	**44,876.5**	**2,377.0**	**9,311.8**	**1,265.5**	**27,493.3**	**10,702.8**	**129,164.9**

6.1 Land and Buildings, with the exception of AUC, are subject to Quinquennial Revaluation (QQR). The current QQR cycle (QQR5) is a transitional period whereby approximately 25% of the estate will be valued in each of the first 4 years, with the final year of the current cycle used to revalue 20% of the estate valued in the previous 4 years. This will enable future valuation cycles to be phased evenly over a 5-year period which will include a review of new/refurbished assets where a valuation is required and not due during that year. 2022-23 represents the fifth year of the current cycle.

6.2 Valuations for the UK estate were performed by the Valuation Office Agency (VOA). The overseas estate was valued in-house by Defence Infrastructure Organisation (DIO) personnel and reviewed by VOA. All valuations are carried out by Royal Institution of Chartered Surveyors (RICS) qualified surveyors in accordance with RICS Valuation – Global Standards. 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.

6.3 Further information on the methods of valuation, including the valuation of plant and equipment, can be found at Note 1 – Accounting Policies.

6.4 Assets held by the Department for disposal are excluded from valuation; defined as those assets which have been formally transferred to DIO for disposal and those identified for disposal within 2 years of a relevant Valuation Date. If disposal does not occur within the 2-year period, the Department may elect to include the asset in the valuation programme for the following year. Assets are also excluded from valuation where their value (at depreciated replacement cost or equivalent use value) falls below the Department's £50,000 threshold, however, they are indexed at the year-end in line with applicable indexation policy.

6.5 Data from the 2022-23 QQR resulted in a £92.64 million decrease in the value of Land and a £146.73 million increase in the value of Buildings at Net Book Value. Valuations received during the year were dated 1 November 2022 and were applied retrospectively from 1 April 2022; depreciation charged to the SoCNE includes the in-year catch-up depreciation from 1 April 2022.

6.6 The net charge to the SoCNE in respect of impairments arising from the movement in values against Land and Buildings assets is a £112.43 million impairment. This is made up of: Land, £46.23 million net impairment; Buildings, £66.20 million net impairment. The figures include all Land and Building assets professionally valued during Financial Year 2022-23, including donated, IFRIC 12 and leased assets.

7. Financial Instruments and Investments

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 net gains and losses from the currency forward purchase contracts and fuel fixed price swap contracts are disclosed in the SoCNE as either Finance Income or Finance Expense.

7.5 The total financial assets held by the Departmental Group is £3,822.3 million (31 March 2022: £3,816.7 million). The Departmental Group's financial liabilities total £13,197.1 million (31 March 2022: £10,863.8 million).

7.6 Details of assets and liabilities classified as financial assets and liabilities in the SoFP are set out below:

	31 March 2023		31 March 2022	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Financial Assets	£M	£M	£M	£M
Non-current				
Sheffield Forgemasters International Limited (SFIL)	104.3	104.3	53.9	53.9
UK Hydrographic Office	13.3	13.3	13.3	13.3
Sealand Support Services Limited[1]	–	–	7.2	7.2
NATO Innovation Fund	4.5	4.5	–	-
Ploughshare Innovations Limited	1.6	1.6	1.6	1.6
Other investments	0.1	0.1	–	-
Total non-current financial assets	**123.8**	**123.8**	76.0	76.0
Current				
Foreign currency forward purchase contracts	220.4	220.4	133.6	133.6
Fuel fixed swap contracts	38.9	38.9	226.0	226.0
Deposits and other investments held by Arm's Length Bodies	–	47.2	–	45.3
Total current financial assets	**259.3**	**306.5**	359.6	404.9
Financial Liabilities				
Current				
Foreign currency forward purchase contracts	105.4	105.4	161.3	161.3
Total current financial liabilities	**105.4**	**105.4**	161.3	161.3

1. The value of the investment in Sealand Support Services Limited has been written down to nil.

7.7 Ownership of Investments

Investments held by the Core Department and Agencies are:	
Organisation	**Details of investments**
Sheffield Forgemasters International Limited (SFIL)	Wholly owned by MOD
UK Hydrographic Office	100% of the Public Dividend Capital owned by MOD
Sealand Support Services Limited	Equal shareholdings between three entities – DECA (a MOD Agency) and two private sector companies
Ploughshare Innovations Limited	Wholly owned by MOD
International Military Services Limited[1]	Wholly owned by MOD
Defence Infrastructure Holdings Limited	Wholly owned by MOD
AWE plc	Wholly owned by MOD

1. International Military Services Limited ceased trading on 31 July 1991. Following settlement of any outstanding liabilities, the company will be liquidated and any remaining value distributed in accordance with the company's constitution.

Investments held by Arm's Length Bodies are a mixture of UK and Overseas – government and fixed interest securities, bonds, equities and portfolio funds.

7.8 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 2023 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
QinetiQ Group plc	04586941
QinetiQ Holdings Limited	04154556
QinetiQ Limited	03796233
BAE Systems Marine (Holdings) Limited	01957765
Exolum Pipeline System Ltd	09497223

7.9 As at 31 March 2023, 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 Limited	02107383	688
The British Shipping Federation Limited	02107375	55,040

The shares were 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. Departmental Group – Inventories

8.1 To conduct its activities across the world, on operations and standing commitments, the Armed Forces require a wide range of supplies and spares for immediate and potential use. A large part of these supplies and spares are recorded on the inventory accounting systems and comprise over 740 million items of more than 640,000 different types. 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 – Property Plant and Equipment (as part of the Single Use Military Equipment figures); as well as Raw Materials and Consumables (RMC) which are reported at 8.3. Raw materials are purchased for conversion and incorporation into Property, Plant and Equipment assets. Consumables are not repairable and consist of items such as ammunition, fuel and support items.

8.2 The approximate total gross value of all these different categories is £30.4 billion, of which £25.5 billion is included in Note 6 and £4.9 billion in inventory (31 March 2022: £27.1 billion with £22.6 billion in Note 6 and £4.5 billion in inventory).

8.3 After adjusting for depreciation and other costs to reflect net realisable value (e.g. when items become surplus, unserviceable, defective, obsolescent or for when values increase e.g. as a result of reviews of the useful life of munitions or inventory write-ons) the value of all the categories is £11.8 billion, of which £7.7 billion is included in Note 6 and £4.1 billion in the following table, (31 March 2022: £10.8 billion with £7.0 billion in Note 6 and £3.8 billion in the table).

	31 March 2023	31 March 2022
	£M	£M
Munitions	1,021.6	888.2
Clothing & textiles	180.3	173.5
Engineering & technical	2,367.2	2,273.5
General	150.8	157.6
Medical, dental & veterinary	69.5	61.7
Oil, fuel & lubricants	351.9	205.0
Work in Progress	–	0.1
Total Core Department and Agencies	**4,141.3**	3,759.6
Inventory held by ALBs	8.1	8.1
Total Departmental Group	**4,149.4**	3,767.7

8.4 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 contractors' premises, in stores or both. The value of these items is not included in the figures above.

9. Trade Receivables and Other Assets

	31 March 2023		31 March 2022	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
Amounts falling due within one year:				
Trade receivables	532.6	532.6	486.4	345.1
Value Added Tax	717.8	717.8	701.1	702.4
Other receivables	749.0	645.8	1,106.6	1,131.4
Prepayments and accrued income[1]	1,211.9	1,349.0	1,328.3	1,490.2
Service Concession Arrangement prepayment	1.1	1.1	1.1	1.1
Subtotal	3,212.4	3,246.3	3,623.5	3,670.2
Amounts falling due after one year:				
Trade receivables	48.2	48.2	28.9	28.9
Other receivables	200.4	276.2	178.7	181.9
Prepayments and accrued income[1]	661.6	661.6	377.3	377.3
Subtotal	910.2	986.0	584.9	588.1
Total Receivables	**4,122.6**	**4,232.3**	4,208.4	4,258.3

1. The Department deposits cash in accounts with foreign governments due to contractual requirements to trade with defence contractors through Foreign Military Sales; these amounts have been included as prepayments.

10. Cash and Cash Equivalents

	2022-23		2021-22	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
Balance at 1 April	974.9	1,243.6	1,002.3	1,153.1
Net change in cash and cash equivalents	70.2	104.0	(27.4)	90.5
Balance at 31 March	**1,045.1**	**1,347.6**	974.9	1,243.6

10.1 The commercial banks and cash in hand figure as at 31 March 2023 includes £652.9 million (31 March 2022: £589.6 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 2023		31 March 2022	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
The following balances were held at:				
Government Banking Service	121.2	258.1	207.8	326.3
Commercial banks and cash in hand	923.9	1,089.5	767.1	917.3
Totals	**1,045.1**	**1,347.6**	974.9	1,243.6

11. Trade Payables and Other Liabilities

	31 March 2023		31 March 2022	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£M	£M	£M	£M
Amounts falling due within one year:				
VAT	**77.5**	**77.5**	130.7	163.8
Other taxation and social security	**238.6**	**238.6**	240.3	253.0
Trade payables	**925.8**	**901.4**	807.3	750.4
Other payables[1]	**1,183.1**	**1,299.5**	1,149.6	1,201.0
Accruals and deferred income	**10,975.3**	**11,126.1**	9,465.9	9,644.2
Lease liabilities	**354.0**	**357.0**	13.0	13.0
Imputed lease element of Service Concession Arrangements	**236.9**	**236.9**	331.5	331.5
National Loans Fund loans[2]	**2.5**	**2.5**	2.5	2.5
Other amounts payable to the Consolidated Fund	**–**	**–**	385.7	385.7
Supply payable[3]	**392.2**	**392.2**	385.3	385.3
Subtotal	14,385.9	14,631.7	12,911.8	13,130.4
Amounts falling due after one year:				
Other payables	**21.6**	**76.9**	29.5	29.8
Accruals and deferred income	**6.3**	**23.6**	9.1	9.9
Lease liabilities[4]	**5,731.0**	**5,780.7**	1,540.4	1,540.4
Imputed lease element of Service Concession Arrangements	**2,996.0**	**2,996.0**	3,221.7	3,221.7
National Loans Fund loans[2]	**7.2**	**7.2**	9.8	9.8
Subtotal	**8,762.1**	**8,884.4**	4,810.5	4,811.6
Total Payables	**23,148.0**	**23,516.1**	17,722.3	17,942.0

1. Other payables for the Group includes: amounts advanced by foreign governments in respect of various collaborative projects where the United Kingdom is the host nation of £652.9 million (2021-22 : £589.6 million).
2. Under the Armed Forces (Housing Loans) Acts 1949, 1958 and 1965, £94 million was borrowed from the National Loans Fund for the construction of families accommodation 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.
3. Amounts received from the Consolidated Fund for Supply but not spent as at 31 March.
4. The increase in Lease liabilities falling due after one year is a result of the inclusion of leases not previously disclosed. Further details are at Note 1.21.

12. Provisions for Liabilities and Charges

12.1. Departmental Group – Provisions for Liabilities and Charges

	Nuclear Decom-missioning	Other Decom-missioning and Restoration Costs	Early Retirement Commitments	Legal	Other[1]	Total[2]
	£M	£M	£M	£M	£M	£M
Balance at 1 April 2021	13,178.5	14.1	62.6	584.5	176.8	14,016.5
Increase in provisions in-year	1,850.2	–	6.7	227.1	41.9	2,125.9
Provisions written back and reclassifications	(292.2)	(3.7)	0.8	(1.4)	(57.3)	(353.8)
Provisions utilised in-year	(199.8)	(10.4)	(3.8)	(130.9)	(30.6)	(375.5)
Unwinding of, and changes in, discount rates	10,449.1	–	(8.2)	33.9	(1.6)	10,473.2
Balance at 31 March 2022	24,985.8	(0.0)	58.1	713.2	129.2	25,886.3
Increase in provisions in-year	3,099.2	27.1	13.8	205.8	8.7	3,354.6
Provisions written back and reclassifications	(1,016.9)	(20.7)	(0.1)	(8.7)	(9.8)	(1,056.2)
Provisions utilised in-year	(190.4)	0.3	(5.9)	(164.3)	(6.3)	(366.6)
Unwinding of, and changes in, discount rates	(15,700.7)	–	(1.8)	78.4	(7.0)	(15,631.1)
Capitalised provisions	142.3	13.4	–	–	0.5	156.2
Balance at 31 March 2023	**11,319.3**	**20.1**	**64.1**	**824.4**	**115.3**	**12,343.2**

1. Other includes provision, £85.5 million (2021-22: £86.4 million) for future payments under the Enhanced Learning Credit Scheme which helps qualifying Service Personnel or Service Leavers with the cost of learning.
2. Movements in provisions pass through operating costs (see Note 4.4) and finance cost (see Note 4.6) or, for some changes in capitalised decommissioning liabilities, through Other Comprehensive Expenditure.

12.2 Analysis of Expected Timing of Discounted Cash Flows

	Nuclear Decom-missioning	Other Decom-missioning and Restoration Costs	Early Retirement Commitments	Legal and Other Provisions	Total
	£M	£M	£M	£M	£M
Due within 1 year	246.9	–	4.6	167.9	419.4
Due over 1 year and less than 5 years	997.9	–	10.5	402.2	1,410.6
Due over 5 years	23,436.8	–	43.0	272.3	23,752.1
Assets held solely for decommissioning	304.2	–	–	–	304.2
Balance at 31 March 2022	24,985.8	–	58.1	842.4	25,886.3
Due within 1 year	321.2	–	14.3	223.7	559.2
Due over 1 year and less than 5 years	1,346.7	2.5	23.4	654.8	2,027.4
Due over 5 years	9,324.9	17.6	26.4	61.2	9,430.1
Assets held solely for decommissioning	326.5	–	–	–	326.5
Balance at 31 March 2023	**11,319.3**	**20.1**	**64.1**	**939.7**	**12,343.2**

Nuclear Decommissioning

Critical accounting judgements and key sources of estimation uncertainty

12.3 Provisions have been made for the cost of the treatment, storage and disposal of the nuclear materials, irradiated fuel and radioactive waste arising from the Defence Nuclear Programme as well as for the decommissioning of sites, facilities and 32 out of service and operational submarines for which the MOD is ultimately responsible.

12.4 The totality of nuclear provisions addresses a programme of work which is currently expected to extend over the next 115 years for the MOD's existing obligations. In estimating the value of the provision required to settle the Department's obligations, there remains a significant degree of inherent uncertainty in the future cost estimates and the assumptions that underpin them. Should outcomes differ from assumptions in any of the following areas this may result in material movements in the value of the nuclear decommissioning provisions and related assets and liabilities:

- The phasing of decommissioning activities, including the construction and availability of supporting infrastructure. The programme of work currently extends 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. The GDF is managed by the Nuclear Decommissioning Authority (NDA) through Nuclear Waste Services on behalf of the UK, and therefore sits outside of MOD control. If the assumptions underpinning a GDF were to change, for example the date it can start to take waste, 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.

12.5 The discounted nuclear provision at the end of 2021-22 was £24.986 billion. Since then, the movements have been:

- Changes in accounting estimates £2.224 billion, primarily driven by updated cashflow and inflationary assumptions;
- Effect of unwinding and changes to existing discount rates applied to the provision every year £15.701 billion; and
- Utilisation, being the decommissioning costs incurred during the period, of £0.190 billion.

These movements bring the 2022-23 MOD estimate for nuclear decommissioning at the balance sheet date to £11.319 billion discounted.

Economic Assumptions

12.6 The provisions are expressed at current price levels and discounted in accordance with rates issued by HM Treasury. This discount rate is a key assumption that impacts the value of the nuclear decommissioning provisions. The provisions balance expressed in current prices is £38.049

billion at the reporting date of 31 March 2023; the application of discounting decreases the provision to £11.319 billion at the reporting date.

12.7 From 2018-19 onwards, HM Treasury introduced a very long-term discount rate and 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. Recent rates are:

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)
2020-21	(0.02)%	0.18%	1.99%	1.99%	67
2021-22	0.47%	0.70%	0.95%	0.66%	10,194
2022-23	3.27%	3.20%	3.51%	3.00%	(15,701)

12.8 HM Treasury has issued a rebuttable presumption that when inflating provision cash flows the Office of Budget Responsibility (OBR)'s 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. Recent CPI inflation rates are:

Time Frame	Year 1	Year 2	Into perpetuity
2020-21	1.20%	1.60%	2.00%
2021-22	4.00%	2.60%	2.00%
2022-23	7.40%	0.60%	2.00%

12.9 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 -0.40% to 7.2%.

12.10 To illustrate further the sensitivity of provision values to changes in:

- Discount rates – a reduction of 0.5% would result in a £1.803 billion increase in the nuclear decommissioning provisions. Conversely, an increase of 0.5% in the four rates would result in a £1.418 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 in the provision changing by £0.795 billion for an increase or £0.723 billion for a decrease.

Capitalised Asset Provisions

12.11 Under IAS 16: *Property Plant and Equipment*, decommissioning provisions relating to operational assets are capitalised as part of 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.

12.12 Under this method, the Department uses the movements in the provision to revalue the respective asset gross value. The Department has assessed that the provision provides the best estimate of fair value of the asset in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* and IAS 16: *Property, Plant and Equipment*, 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.

12.13 The value of the capitalised asset provisions included in property, plant and equipment is disclosed at Note 6.

Significant Provisions

Submarine 'Afloat' provisions £2.622 billion – 23.2% of the value of the provision (2021-22: £4.144 billion, 16.6% of the value of the provision)

12.14 The MOD incurs costs for the maintenance and safe storage of out of service nuclear submarines prior to disposal. This provision estimates these costs which include removal of fuels and an allocation of overhead costs incurred. The provision covers all nuclear submarines up to and including five Astute Class vessels, although for the Astute Class submarines only the fixed cost elements are included; the variable elements are accounted for as separate provisions. During 2022-23, nuclear provisions have been updated to reflect the Department's obligations in relation to HMS ANSON, the fifth Astute Boat, with the reactor being activated during the reporting period.

12.15 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 Future Maritime Support Programme contract is scheduled to end during 2026 and cash flow estimates have been established using the new contract. For every 1% change in costs after this point, it is estimated that the liability would change by £0.026 billion.

Nuclear Fuel Management £2.144 billion – 19.0% of total provisions (2021-22: £7.420 billion, 29.7% of the value of the provision)

12.16 Since 1968, irradiated fuel from the defueling of submarines has been stored at the Nuclear Decommissioning Authority'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.

12.17 The costs of a conditioning facility to enable safe storage 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 decommission would lead to a £0.013 billion change in the value of the provision.

12.18 Once opened the Irradiated fuel will be moved to the GDF facility. Should the date when a GDF will be available be delayed by ten years, for example, the provision would increase by £0.056 billion as the MOD would incur additional storage/ maintenance costs.

Atomic Weapons Establishment £1.796 billion – 15.9% of the value of the provision (2021-22: £1.677 billion – 6.71% of the value of the provision)

12.19 The Atomic Weapons Establishment (AWE) is responsible for the design, manufacture and support of warheads for the United Kingdom's strategic nuclear deterrent. The Department holds provisions for the decommissioning of facilities, decontamination and storage of materials relating to the warhead programme; the largest of which is for the decommissioning of AWE's sites at Aldermaston and Burghfield.

12.20 The AWE provision is based upon the cost of decommissioning current and redundant facilities, and other ancillary activities to support this i.e. waste management activities. The provision does not consider any facilities that have yet to be built or are not contaminated. The provision assumes decommissioning timeframes as set out in the AWE annual liabilities report as agreed by the Office of Nuclear Regulation. AWE provide cost information at Minimum/Most Likely/Maximum estimate levels which consider programme risk and timescale uncertainty. The Department ordinarily uses the Most Likely estimate level as the basis for investment decisions as it reflects the risk adjusted Most Likely estimate of programme costs. This rationale has also been applied in the costing of provisions as it reflects the best estimate available on the cost of decommissioning activities. To place this in some context, the Most Likely estimate is £2.70 billion (at current prices, undiscounted and excluding management fees), the difference between the Most Likely estimate for AWE and the Minimum estimate is circa –£0.31 billion and between the Most Likely and Maximum estimate is circa +£0.72 billion.

12.21 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 £0.007 billion.

Geological Disposal Facility £1.287 billion – 11.4% of total provisions (2021-22: £5.024 billion, 20.1% of the value of the provision)

12.22 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 based on the total inventory to be held within the facility. The current planned date for the facility to receive waste is 2050-51. The key sensitivities for this provision are as follows:

- 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 the GDF will result in a £0.036 billion 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 £0.656 billion in the provision value to an increase of £2.499 billion; and
- The NDA has identified a risk that the construction and opening of a facility may be delayed. A delay of a small number of years is 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. A delay in the opening of the GDF does not necessarily impact planned emplacement for our waste. Assuming the emplacement date remains in line with current assumptions, an additional 10 years of programme costs would increase the liability by £0.011 billion. A 10-year delay to the whole programme (if emplacement were to be delayed by 10 years) results in a reduction to the liability

of £0.009 billion, due to the effect of HMT discount rates on 2022-23 cashflows.

Submarine Dismantling Project £0.981 billion – 8.7% of the value of the provision (2021-22: £1.657 billion, 6.6% of the value of the provision)

12.23 The Submarine Dismantling Project (SDP) aims to deliver safe, environmentally responsible and cost-effective dismantling of 27 of the UK's nuclear-powered submarines (the dismantling costs for five Astute Class submarines 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 assumption that 5 submarines are forecast to undergo initial dismantling in two stages and the remaining submarines will then be dismantled in a single stage; with both the 2 stage and single stage approach taking approximately 18 months for each submarine.

12.24 A demonstrator submarine is being used to define and refine the process, and whilst it and a second submarine have now completed initial dismantling the Department does not expect to have a fully developed process for steady state disposal until 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, a +/- 1% change in the SDP costs, would change the estimated liability by £0.010 billion.

12.25 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 £0.017 billion.

Special Nuclear Materials £0.357 billion – 3.2% of the value of the provision (2021-22: £2.067 billion, 8.3% of the value of the provision)

12.26 The Special Nuclear Materials Provision is for the cost of storing materials that are identified as of no further strategic use. The materials are held on an enduring basis unless identified as being consigned to the GDF.

12.27 The provision has become less significant in 2022-23 due to the changes in CPI and HMT Discount rates, and changes in the underlying cashflows.

12.28 The provision is estimated using a range of sources including fixed prices in contracts which are extrapolated. The amount of additional material, currently not in long term storage, is estimated using planning assumptions for similar materials and quantities.

12.29 The Special Nuclear Materials provision assumes the 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 provision would increase (at current prices, and including discounting) by £0.009 billion.

Other Decommissioning and Restoration

12.30 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 12.7.

Early Retirement

12.31 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: -1.7% with effect from 31 March 2023 (-1.3% from 31 March 2022). 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 2022-23 increases of £13.1 million were made to existing schemes and early retirement/ redundancy costs paid during the period amounted to £0.1 million.

Legal

12.32 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

12.33 Other provisions include provisions for costs on disposal of non-current assets and redundancy and relocation costs associated with restructuring.

13. Retirement Benefit Schemes

13.1 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 the benefits provided by these schemes is voted separately by Parliament and accounted for in the AFPS Accounts. The staff costs and other expenses, of ensuring that pension and compensation payments due are made in a timely and accurate manner, as well as the employer contributions, falls to and is included in the Department's accounts. Separate accounts are prepared for the schemes and can be found on their website.[43]

13.2 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

43 https://www.gov.uk/government/collections/armed-forces-pension-scheme-annual-accounts

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 relevant websites.[44]

13.3 Other employees are members of smaller unfunded pension schemes e.g. schemes for Locally Employed Civilians overseas. The liabilities for these schemes are included as ‘Retirement benefit scheme liabilities’ as part of the non-current liabilities on the Department’s SoFP. There are also funded pension schemes within the accounting boundary i.e. the Commonwealth War Graves Commission Superannuation Scheme, the Council of Reserve Forces and Cadets Associations Pension Scheme and the AWE Pension Scheme; estimates of the ‘Retirement benefit scheme net assets and liabilities’ of these schemes are included as part of the non-current assets and non-current liabilities on the Group SoFP.

13.4 The Department’s three unfunded, defined benefit pension schemes are:

- the British Forces Cyprus (BFC) pension scheme – a pension scheme for locally engaged fire fighters, employed by the MOD in Cyprus;

44 https://www.civilservicepensionscheme.org.uk
https://www.nhsbsa.nhs.uk/nhs-pensions
https://www.gov.uk/government/collections/teachers-pension-scheme

- 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.

13.5 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 2019 and for BFC and SBAA as at 31 March 2022; the result of each full valuation is reflected in the accounting period following the review. Details of the liabilities and other information used by GAD in their calculations are shown in the tables below:

	2022-23				2021-22			
	British Forces Cyprus (BFC)	Sovereign Bases Administr-ation Areas (SBAA)	United Kingdom Departments Gibraltar (UKDG)	Total	British Forces Cyprus (BFC)	Sovereign Bases Administr-ation Areas (SBAA)	United Kingdom Departments Gibraltar (UKDG)	Total
	£M	£M	£M	£M	£M	£M	£M	£M
Opening Balances	82.0	207.6	436.1	725.7	74.0	185.6	403.3	662.9
Current Service Cost	2.1	5.6	13.2	20.9	2.5	7.3	10.9	20.7
Interest Charges	1.3	3.2	6.8	11.3	0.9	2.4	5.0	8.3
Changes in assumptions	(31.5)	(84.1)	(175.6)	(291.2)	5.9	15.6	28.2	49.7
Benefits Paid	(1.9)	(4.1)	(11.4)	(17.4)	(1.0)	(2.4)	(11.2)	(14.6)
Exchange Rate (gain)/loss	4.6	12.0	–	16.6	(2.5)	(6.2)	–	(8.7)
Experience (gain)/loss	(10.2)	(23.9)	(7.8)	(41.9)	2.2	5.3	(0.1)	7.4
Closing Balances	**46.4**	**116.3**	**261.3**	**424.0**	82.0	207.6	436.1	725.7

13.6 GAD's sensitivity analysis on the key assumptions underlying the valuation of the unfunded schemes' liabilities found the liability to be very sensitive to the assumed discount rate but this is primarily because changing the discount rate in isolation also changes the rate net of pension increases and earnings. If pension increases and the earnings assumption were increased at the same time then the impact on the liability would be small. The principal actuarial assumptions as at 31 March are below:

	2022-23	2021-22
Discount Rate	4.15%	1.55%
Future Salary Increases	2.40%	2.90%
Future Pension Increases	3.65%	4.15%

13.7 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 Pensioners	Active	Pensioners	Deferred Pensioners
British Forces Cyprus (BFC)	101	56	1	109	46	1
Sovereign Bases Administration Areas (SBAA)	261	144	3	293	132	2
United Kingdom Departments Gibraltar (UKDG)	488	1,134	270	488	1,134	270

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 2022, the previous valuations are as at 31 March 2018. The current valuation for UKDG is as at 31 March 2019, the previous valuation is as at 31 March 2015.

13.8 The Group Accounts also include three funded defined benefit schemes. Funding for the schemes is provided by ‘the employers’: the Commonwealth War Graves Commission, the Council of Reserve Forces and Cadets Associations and AWE plc. Funding is in accordance with calculations advised by the schemes’ actuaries and the disclosures assume each organisation has a right to refunds from the scheme for which it is, or was, the employer. The retirement and death benefits provided by the schemes are based on final pensionable pay and length of service and increase in line with inflation. The schemes are:

- the Council of Reserve Forces and Cadets Associations Pension Scheme – the governance of the Scheme is set out in the scheme’s consolidated trust deed and in rules which require the trustees to perform all duties imposed on them by statute or subordinate legislation concerning the administration and management of the Scheme;

- the Commonwealth War Graves Commission Superannuation Scheme – the assets of the Superannuation Scheme are held separately from those of the Commission and are administered by the Scheme’s trustees. This scheme was closed to future benefit accrual from 31 March 2016; and

- the AWE Pension Scheme – the Scheme is managed, in accordance with its trust deeds, by a separate company, AWE Pension Trustees Limited. This scheme was closed to new members, and future accrual for the majority of existing members, on 31 January 2017.

13.9 Details of the assets, liabilities, funding, assumptions and number of members (set out in the following tables) are reviewed by the schemes' actuaries. There have been no gains or losses from settlement or curtailment events, e.g. scheme closure, bulk transfers of members or benefit reductions, during the year. Funding for the schemes is not expected to vary significantly in the next financial year compared to the figures in the table below and funding for the schemes has no significant impact on MOD's cashflow. Contributions to the schemes are set out in schedules of contributions and are liable to change when reviewed as part of the schemes' full valuations.

	2022-23				2021-22			
	Reserve Forces and Cadets Association Pension Scheme[1]	Common-wealth War Graves Commission Superannuation Scheme[2]	AWE Pension Scheme[3]	Total	Reserve Forces and Cadets Association Pension Scheme[1]	Common-wealth War Graves Commission Superannuation Scheme[2]	AWE Pension Scheme[3]	Total
Scheme Assets	£M	£M	£M	£M	£M	£M	£M	£M
Opening Asset Balances	128.3	93.8	1,991.0	2,213.1	128.3	91.4	1,943.0	2,162.7
Interest on Scheme Assets	0.9	2.4	53.0	56.3	–	1.8	18.6	20.4
Benefits and Scheme Expenses Paid	(1.5)	(4.3)	(65.0)	(70.8)	–	(4.0)	(52.2)	(56.2)
Contribution by Employers	2.5	0.9	2.0	5.4	–	2.8	43.2	46.0
Other returns on assets and actuarial gain/(loss)	17.8	(19.7)	(700.0)	(701.9)	–	1.8	38.4	40.2
Closing Asset Balances	**148.0**	**73.1**	**1,281.0**	**1,502.1**	128.3	93.8	1,991.0	2,213.1
Scheme Liabilities								
Opening Liability Balances	(119.4)	(128.1)	(2,048.0)	(2,295.5)	(119.4)	(130.5)	(2,366.0)	(2,615.9)
Current Service Cost	–	–	(4.0)	(4.0)	–	–	(5.4)	(5.4)
Interest Cost	–	(3.2)	(55.0)	(58.2)	–	(2.4)	(24.6)	(27.0)
Benefits and Scheme Expenses Paid	(7.9)	4.3	65.0	61.4	–	(4.0)	52.2	48.2
Actuarial gain/(loss)	(3.3)	40.6	512.0	549.3	–	8.8	295.8	304.6
Closing Liability Balances	**(130.6)**	**(86.4)**	**(1,530.0)**	**(1,747.0)**	(119.4)	(128.1)	(2,048.0)	(2,295.5)
Net Scheme Asset/ (Liabilities)	17.4	(13.3)	(249.0)	(244.9)	8.9	(34.3)	(57.0)	(82.4)

1. The 2022-23 valuation of the Reserve Forces and Cadets Association Pension Scheme is as at 1 August 2021. The previous year's values are as at 1 August 2018.
2. The 2021-22 values for the Commonwealth War Graves Commission Superannuation Scheme are as at 31 March 2021. The previous year's values are as at 31 March 2016.
3. The AWE Pension Scheme valuations are as at 31 March 2023 and as at 31 March 2022.

13.10 The valuation of the schemes' assets is inherently volatile as it depends on market conditions and the market values of assets which change from day to day. As an example the details of the assets held by AWE were:

Category of Investment	Value as at 31 March 2023 £M	Value as at 31 March 2022 £M
Equities	322	496
Property	100	139
Private Markets	77	–
Infrastructure	0	44
Hedge Funds	325	334
Bonds	394	498
Liability Driven Investments	24	402
Cash & other	39	78
Total	**1,281**	1,991

The pension liabilities are a calculation of the current value of future benefit payments. These cashflows are due to be paid over a considerable period of time, for example the average duration of the AWE scheme liabilities is 16 years. Liabilities are therefore uncertain and can only be estimated. The risk represented by the uncertainty in the asset and liability valuations is not considered significant to the MOD.

13.11 The principal actuarial assumptions used in the liability calculations were:

	2022-23			2021-22		
	Reserve Forces and Cadets Association Pension Scheme	Commonwealth War Graves Commission Superannuation Scheme	AWE Pension Scheme	Reserve Forces and Cadets Association Pension Scheme	Commonwealth War Graves Commission Superannuation Scheme	AWE Pension Scheme
Discount Rate	3.30%	4.85%	4.70%	1.70%	1.75%	2.70%
Inflation – Retail Price Index (RPI)	3.40%	N/A	3.20%	3.40%	3.60%	3.60%
Inflation – Consumer Price Index (CPI)	2.70%	3.05%	2.80%	3.20%	3.10%	3.20%
Pension Increases	2.70%	3.05%	2.80%	3.00%	3.10%	3.20%

The value of the liability is sensitive to changes in these assumptions. For example, for the AWE Pension Scheme, the actuary estimates the effect of a +/- 0.5% change in the discount rate as 8% or £122 million, and for a +/- 0.5% change in inflation the effect was estimated as 7% or £106 million change.

13.12 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	860	1,201	420	885	1,213	417
Commonwealth War Graves Commission Superannuation Scheme	–	405	254	–	405	254
AWE Pension Scheme	21	4,989	5,784	25	4,742	6,214

1. The Reserve Forces and Cadets Association Pension Scheme's figures for the current number of members are as at 1 August 2021 (full scheme valuation), the previous numbers of members are from an interim report and are as at 31 July 2021. The Commonwealth War Graves Commission Superannuation Scheme's figures for the current number of members are as at 31 March 2021 (interim valuation), the previous number of members are as at 31 March 2020 (full scheme valuation). For the AWE Pension Scheme, the figures for the current number of members are as at 31 March 2023 (interim valuation) and the previous numbers are as at 31 March 2021 (full scheme valuation); the 31 March 2023 figures are for information only, they are not used in the assessment of the pension liabilities – a roll-forward approach is adopted.

14. Departmental Group – Capital Commitments

14.1 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 2023	31 March 2022
	£M	£M
Intangible assets	4,202.6	2,994.1
Property, plant and equipment	27,233.4	21,377.7
Total	**31,436.0**	24,371.8

15. Departmental Group – Other Financial Commitments

15.1 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. These commitments cover thousands of contracts including contracts relating to equipment support, estate maintenance, and information and communications support.

	31 March 2023	31 March 2022
	£M	£M
Not later than 1 year	5,965.4	5,233.6
Later than 1 year but not later than 5 years	9,823.0	10,589.4
Later than 5 years	3,518.4	4,070.4
Total	**19,306.8**	19,893.4

15.2 The most significant commitment relates to a Memorandum of Understanding for the development of the RC-135W Rivet Joint electronic surveillance aircraft; £1,200 million (2021-22: £1,200 million).

16. Departmental Group – Leases

16.1 As explained in Note 1.16 the Department has adopted IFRS 16: *Leases* for the first time from 1 April 2022 and, as permitted by HM Treasury, has applied the transitional arrangements without restating prior year figures. Most leases recognised as operating leases until 31 March 2022 are now recognised as right-of-use lease assets together with their associated lease liabilities.

16.2 The Group's significant lease contracts are for property, including leased housing for Service personnel under a contract with Annington Homes; the liability for this contract is the Department's most significant lease and as at 31 March 2023 was £3,853 million. The Department also leases equipment and vehicles, in addition to leased assets owned by contractors where the assets are embedded in other contracts; examples are leases of construction and refit/maintenance facilities, such as shipyards where the Department has the right to substantially all of the economic output. These leases for equipment, vehicles and embedded assets are not considered significant enough for separate disclosure.

16.3 Right-of-use assets

Cost or valuation	Land Dwellings £M	Other Land £M	Dwellings £M	Other Buildings £M	Plant and Machinery £M	Transport £M	IT and Communications Equipment £M	Total £M
Transfers from PPE on initial adoption of IFRS 16[1]	2,526.0	8.7	9,875.2	89.9	–	141.3	12.9	12,654.0
Initial Recognition	0.2	126.8	251.7	1,161.4	141.3	256.1	15.7	1,953.2
Balance as at 1 April 2022	2,526.2	135.5	10,126.9	1,251.3	141.3	397.4	28.6	14,607.2
Additions – New Leases	0.2	4.2	48.7	478.3	16.1	89.6	19.2	656.3
Write ons/(write offs)	(18.9)	(0.2)	(192.6)	3.8	–	–	(0.2)	(208.1)
Revaluations[2]	17.4	(0.3)	(2,398.1)	23.7	–	–	–	(2,357.3)
(Impairments)/ Impairment reversals	9.4	–	(8.6)	–	–	–	–	0.8
Derecognition – Disposals	–	–	(1.7)	(0.3)	–	(7.0)	–	(9.0)
Remeasurement – existing Leases[2]	–	–	2,407.3	0.1	–	–	–	2,407.4
Reclassifications	–	–	7.2	(0.1)	(1.1)	9.5	–	15.5
Balance at 31 March 2023	**2,534.3**	**139.2**	**9,989.1**	**1,756.8**	**156.3**	**489.5**	**47.6**	**15,112.8**
Depreciation								
Transfers from PPE on initial adoption of IFRS 16[1]	(186.8)	(0.6)	(3,262.0)	(8.6)	–	(118.1)	(0.6)	(3,576.7)
Balance as at 1 April 2022	(186.8)	(0.6)	(3,262.0)	(8.6)	–	(118.1)	(0.6)	(3,576.7)
Depreciation charged in year	(13.9)	(7.2)	(182.9)	(189.0)	(22.3)	(80.2)	(12.4)	(507.9)
(Write Ons)/Write Offs	1.5	–	50.3	–	–	–	–	51.8
Backlog Depreciation	(1.2)	–	1.1	(2.2)	–	(0.5)	–	(2.8)
Impairments/ (Impairment reversals)	(0.5)	–	1.2	–	–	–	–	0.7
Derecognition – Disposals	–	–	1.7	0.1	–	1.6	–	3.4
Reclassifications	–	–	–	–	–	(17.0)	–	(17.0)
Balance at 31 March 2023	**(200.9)**	**(7.8)**	**(3,390.6)**	**(199.7)**	**(22.3)**	**(214.2)**	**(13.0)**	**(4,048.5)**

Cost or valuation	Land Dwellings £M	Other Land £M	Dwellings £M	Other Buildings £M	Plant and Machinery £M	Transport £M	IT and Communications Equipment £M	Total £M
Net Book Value								
1 April 2021	–	–	–	–	–	–	–	–
Balance at 1 April 2022	2,339.4	134.9	6,864.9	1,242.7	141.3	279.3	28.0	11,030.5
Balance at 31 March 2023[1]	**2,333.4**	**131.4**	**6,598.5**	**1,557.1**	**134.0**	**275.3**	**34.6**	**11,064.3**

1. The value of right-of-use assets at 31 March 2023 is £11,064.3 million, this includes £9,077.3 million (£12,654.0 million at cost or valuation less £3,576.7 million of accumulated depreciation) of assets previously recognised under finance leases in addition to the £1,953.2 million of assets recognised on transition to IFRS 16.
2. The increase in Dwellings right-of-use assets on remeasurement (£2,407.3 million) includes a reassessment of the lease liability for Annington Homes. As the assets are already held at fair value, the Dwellings column also includes an off-setting downward revaluation movement.

16.4 Capitalised depreciation, for example depreciation charged on the leased right-of-use assets of production and maintenance facilities, is included as part of the cost of the asset being constructed. The amount as at 31 March 2023 is £84.9 million.

16.5 The Department sub leases some properties but the amounts where the Department is the lessor are not considered material.

16.6 Lease liabilities maturity analysis

	31 March 2023
	£M
Land	
Not later than 1 year	8.0
Later than 1 year but not later than 5 years	31.4
Later than 5 years	141.5
Less interest element	(54.3)
Present value of liabilities	**126.6**
Buildings	
Not later than 1 year	437.2
Later than 1 year but not later than 5 years	1,794.6
Later than 5 years	37,930.7
Less interest element	(34,603.3)
Present value of liabilities	**5,559.2**
Other	
Not later than 1 year	143.1
Later than 1 year but not later than 5 years	278.8
Later than 5 years	50.9
Less interest element	(20.8)
Present value of liabilities	**452.0**
Total present value of liabilities	
Current lease liabilities	334.0
Non-current lease liabilities	5,803.8
Total of discounted lease liabilities	**6,137.8**

16.7 Leases – amounts recognised in the Statement of Comprehensive Net Expenditure

	2022-23
	£M
Depreciation	507.9
Interest expense	241.5
Short term leases	50.7
Total	**800.1**

16.8 Leases – amounts recognised in the Statement of Cash Flows

	2022-23
	£M
Interest expense	241.5
Repayment of Principal on Leases	287.1
Total	**528.6**

16.9 Leases – reconciliation from the IAS 17 operating lease commitment on 31 March 2022 to the IFRS 16 opening lease liability on 1 April 2022

The following table reconciles the amount of the Group's operating lease commitments as at 31 March 2022 (shown in Note 16 to the 2021-22 Annual Accounts) to the lease liabilities as at 1 April 2022, immediately following adoption of IFRS 16 and lists the material reconciling items.

	£M
Operating lease commitments disclosed at 31 March 2022	1,010.6
Impact of discounting	(106.0)
Assessments of lease extension periods and break clauses	210.4
Immaterial and short term lease commitments	(63.0)
Adjustment for irrecoverable VAT reported under IAS 17	(202.1)
Leases not previously recognised under IAS 17	1,148.1
Other reconciling items	(60.1)
IFRS 16 Opening Balance Lease Liabilities	**1,937.9**

17. Departmental Group – Commitments under Service Concession Arrangements

17.1 The following arrangements that fulfilled the criteria for IFRIC 12, including those that ended during the reporting period, have been accounted for as assets of the Department during 2022-23; details of the assets financed under these arrangements are included at Note 6 – Property, Plant and Equipment:

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-23
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	Feb-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 families accommodation.	Jun-98	Aug-28
Family Accommodation Yeovilton: Provision of family accommodation for 88 Service families at RNAS Yeovilton	Jul-98	Jul-28
Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities at Lyneham.	Aug-98	Mar-24
RAF Fylingdales: Provision of guaranteed power supply.	Dec-98	Mar-24
RAF Cosford/RAF Shawbury Family Accommodation: Provision of accommodation for 145 Service families at RAF Cosford and RAF Shawbury	Mar-99	Jun-25
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

Project Description	Contract Start[1]	Contract End
Main Building Refurbishment: Redevelopment and management services for MOD Main Building.	May-00	Sep-30
Family accommodation at Wattisham: Provision of accommodation for 250 Service families	May-01	May-28
Training: Provision of a training environment for crewmen and maintainers to support submarines.	Sep-01	Sep-37
Family accommodation at Bristol/Bath/Portsmouth: Provision of accommodation for 317 Service families	Nov-01	Oct-28
Heavy Equipment Transporters: provision of vehicles to replace existing fleet and meet future requirements	Dec-01	Jul-24
Aquatrine Project A: Provision of water and waste water services.	Apr-03	Nov-28
Naval Communications: Submarine fleet communications service.	Jun-03	Dec-30
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
Portsmouth 2 Housing: Provision of accommodation for 148 Service families in Portsmouth.	Oct-05	Jun-32
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 the contract was signed.

17.2 The substance of an arrangement accounted for under IFRIC 12 is that the Department has a lease with the provider, with payments comprising an imputed lease charge (interest), a repayment of capital and a service charge. Service and interest charges are accounted for within the SoCNE. Service charges for 2022-23 were £1.3 billion (2021-22: £1.3 billion) and interest charges for 2022-23 were £0.2 billion (2021-22: £0.2 billion). Total obligations under Service Concession Arrangements (consisting of the minimum lease payments, interest and any minimum service charges) analysed by time periods are shown in the table.

	31 March 2023 £M	31 March 2022 £M
Details of the imputed lease charges		
Not later than one year	426.4	574.5
Later than one year and not later than five years	1,550.9	1,620.0
Later than five years	2,507.5	2,964.2
Total	4,484.8	5,158.7
Less interest element	(1,251.9)	(1,605.5)
Present value of obligations	3,232.9	3,553.2
Details of the minimum service charge		
Not later than one year	1,064.0	1,063.1
Later than one year and not later than five years	3,366.1	3,146.0
Later than five years	5,432.3	5,317.4
Total	9,862.4	9,526.5

17.3 The Service Concession Arrangements with obligations over £100 million are:

- Future Strategic Tanker Aircraft (FSTA) – providing air to air refuelling and passenger air transport capabilities £1,706 million (2021-22: £1,799 million).
- Colchester Garrison – redevelopment, rebuilding and refurbishment to provide accommodation and associated services £425 million (2021-22: £443 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 £351 million (2021-22: £364 million).
- Main Building refurbishment £216 million (2021-22: £234 million).

18. Departmental Group – Contingent Liabilities and Contingent Assets Disclosed under IAS 37

Contingent Liabilities

18.1 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 (both quantified and unquantified) 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. A reconciliation between contingent liabilities reported in the Supply Estimate and those reported in this Annual Report and Accounts is at Annex G.

18.2 The following quantifiable contingent liabilities have been identified the estimates shown are based on the most likely value:

Quantifiable Contingent Liabilities under IAS 37

Description and Key Uncertainties	31 March 2022 £M	Increase/ (Decrease) in year £M	Liabilities crystallised in year £M	Obligation expired in year £M	31 March 2023 £M
Contractor claims as result of contract termination Several costs are associated with closure of a production line, including reimbursement of site and workforce rationalisation costs. The final cost is dependent on future export opportunities.	212.3	–	–	–	212.3
Liability for redundancy Uncertainties in calculating this liability include: life expectancy, age, length of service, salary and number of dependants.	7.0	(4.5)	–	–	2.5
Legal claims (personal) This estimate, of the liability created by legal claims that have been made against the Department, is based on data provided by the Company managing those claims.	31.1	25.2	(0.1)	–	56.2
Environmental clean-up costs Uncertainties include the effectiveness of mitigation action and the possibility of unidentified hazards and damage.	15.7	–	–	–	15.7
Potential liability arising from the Colchester Garrison PFI There is uncertainty surrounding the timing, likelihood and impact of a change in the law.	20.0	–	–	–	20.0
Indemnity for utilities and services following the sale of Service housing Uncertainty in the timing of sales and changes to related utilities and services' agreements are included in this estimated liability.	1.0	–	–	–	1.0
Sensitive Not disclosed due to reasons of commercial confidentiality and/or national security.	987.3	18.6	(0.6)	(8.7)	996.6

Description and Key Uncertainties	31 March 2022 £M	Increase/ (Decrease) in year £M	Liabilities crystallised in year £M	Obligation expired in year £M	31 March 2023 £M
Pension arrangements for staff transferred from Central Government Uncertainties include: the number of eligible personnel, the value of accrued pension benefits and the relative value of private and public pension schemes.	2.5	8.6	(0.2)	(0.2)	10.7
Indemnity related to potential damage to items in storage or transit and to cables The likelihood and cost of any damage is uncertain.	1.4	–	–	–	1.4
Special Risk Indemnity HM Treasury have delegated, to MOD, approval for a range of special and generic risks which can be used when conducting normal business	–	0.2	–	–	0.2
Total quantifiable contingent liabilities	1,278.3	48.1	(0.9)	(8.9)	1,316.6

18.3 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:

- The Department has several sites where it may be necessary to carry out decontamination work and environmental clean-up operations. It is not practicable or cost effective to identify all contamination at these sites. Any possible liability is therefore not quantified.
- Service Life Insurance is a life insurance scheme for Service personnel which aims to guarantee access to 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. The likelihood and scale of any triggering event is uncertain.
- Under the contract for the Continuous Provision of Marine Services, 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 likelihood, cost and scale of incidents that might lead to a claim are uncertain.

- The Department has environmental and safety responsibility for many shipwrecks both in UK waters and globally. The timing, scope and value of any necessary interventions remains uncertain.
- Limit of contractor liability provided to Serco Ltd in respect of damage to Government property. This includes consequential and indirect loss under the Brize Services Contract, to supply services at RAF Brize Norton.
- An indemnity for the Chair of the Ajax Review against 3rd party claims.

19. Related Party Transactions

19.1 The Department supports a number of entities, listed in Note 20 – Entities Within the Departmental Boundary; these are regarded as related parties with which the Department had various transactions during the year.

19.2 In addition, the Department had a number of transactions with other government departments and other central government bodies.

19.3 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.

20 Entities within the Departmental Boundary

20.1 The entities within the boundary during 2022-23 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
Non-Departmental Public Bodies
Armed Forces Covenant Fund Trustee Limited
AWE plc
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
Central Advisory Committee on Compensation
Commonwealth War Graves Commission
Defence Science Expert Committee
Independent Monitoring Board for the Military Corrective Training Centre, Colchester
International Military Services Limited
Royal Hospital Chelsea
Service Complaints Ombudsman
Service Prosecuting Authority
Territorial, auxiliary and volunteer reserve associations established under section 110 of the Reserve Forces Act 1996 c14

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21. Events After the Reporting Date

21.1 These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

Annexes

Annex A: Statement of Approved Maximum Armed Forces Numbers

Maximum Numbers of Personnel to be Maintained for Services with the Armed Forces

		Numbers Voted by the House of Commons	Maximum Numbers Maintained[1]	Peak Dates
Naval Service				
Royal Navy	Officers	7,000	6,180	April 2022
	Men and Women	24,350	21,100	April 2022
	Aggregate	31,350	27,280	April 2022
Royal Marines	Officers	1,000	870	October 2022
	Men and Women	7,200	5,830	June 2022
	Aggregate	8,200	6,680	November 2022
Army Service				
Army (other than Services below)	Officers	15,730	13,380	June 2022
	Men and Women	88,830	70,120	April 2022
	Aggregate	104,560	83,420	April 2022
Commonwealth, Colonial,&c., troops abroad and Gurkhas	Officers	210	170	August 2022
	Men and Women	4,900	4,180	March 2023
	Aggregate	5,110	4,350	March 2023
Air Force Service				
Royal Air Force	Officers	8,700	8,120	April 2022
	Men and Women	27,800	25,200	April 2022
	Aggregate	36,500	33,320	April 2022

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Maximum Numbers of Personnel to be Maintained for Service with the Reserve Armed Forces:

		Numbers Voted by the House of Commons	Maximum Numbers Maintained[1]	Peak Dates
Reserve Naval and Marine Services				
Royal Fleet Reserve (Naval Officers and Ratings)	Officers	4,960	2,030	March 2023
	Men and Women	9,000	2,420	March 2023
	Aggregate	13,960	4,450	March 2023
Royal Fleet Reserve (Marine Officers and Marines)	Officers	470	200	January 2023
	Men and Women	2,610	670	April 2022
	Aggregate	3,080	860	April 2022
Royal Naval Reserve	Officers	1,500	1,180	January 2023
	Men and Women	2,300	1,670	April 2022
	Aggregate	3,800	2,820	April 2022
Royal Marine Reserve	Officers	120	90	September 2022
	Men and Women	1,250	900	April 2022
	Aggregate	1,370	990	April 2022
Royal Naval Reserve (List 7)	Officers	1,100	1,030	November 2022
Reserve Land Forces				
Army Regular Reserve	Officers	8,420	6,730	April 2022
	Men and Women	20,790	16,200	May 2022
	Aggregate	29,210	22,930	May 2022
Army Reserve	Officers	9,510	6,280	August 2022
	Men and Women	35,790	26,240	April 2022
	Aggregate	45,300	32,420	April 2022
Reserve Air Forces				
Royal Air Force Reserve	Officers	4,500	3,930	July 2022
	Men and Women	9,000	6,900	March 2023
	Aggregate	13,500	10,770	March 2023
Royal Auxiliary Air Force	Officers	950	840	April 2022
	Men and Women	3,850	2,480	May 2022
	Aggregate	4,800	3,320	May 2022

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[1]	Peak Dates
Special Members of The Reserve Naval Forces				
Royal Naval Reserve	Officers	850	660	April 2022
	Men and Women	1,620	1,030	April 2022
	Aggregate	2,470	1,700	April 2022
Special Members of The Reserve Land Forces				
Army Regular Reserve	Officers	20	0	2
	Men and Women	130	0	2
	Aggregate	150	0	2
Army Reserve	Officers	20	0	2
	Men and Women	650	140	February 2023
	Aggregate	670	140	February 2023
Special Members of The Reserve Air Forces				
Royal Air Force Reserve	Officers	100	50	December 2022
	Men and Women	180	100	July 2022
	Aggregate	280	140	December 2022

1 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.
2 Strength has been zero for the whole time period.

Additional Note: Totals and sub-totals have been rounded separately and so may not equal the sum of their rounded parts.

Annex B: Sponsorship Arrangements over £5,000

Activity	Name of Sponsor	Sponsor Contribution £ excluding VAT
Battle of Britain Memorial Flight	Lincolnshire Lancaster Association	70,000
	Aero Legends	11,000
		81,000
RAF Aerobatic Team – The Red Arrows	BMB Clothing Ltd	12,000
	Breitling UK Ltd	12,000
	DLM Creative Ltd	6,500
	Jeppesen	40,000
	Lincoln Tea & Coffee	5,500
	Lumesca Gp Ltd (Colour Confidence)	10,000
	Ping Europe Ltd	5,500
	Oxford Vaughan Ltd	10,000
	Leeds Commercial Ltd	7,000
	BAES	80,000
	Rolls Royce Plc	7,500
		196,000
The Falcons Parachute Display Team	Resolution Race AB	6,930
	Sonic Communications	45,000
		51,930
Typhoon Display Team	Breitling UK Ltd	14,000
	Toomey Leasing	30,167
	Rolls Royce	22,500
		66,667
King's Colour Squadron	RAF Benevolent Fund	12,540
		12,540
Exercise ARRCADE LIONHEART	Anduril	3,000
	Improbable MV Limited	3,000
	Maxar Technologies Inc	3,000
	Premise Data UK Limited	3,000
	QINETIQ	3,000
	Rebellion Defence	3,000
	UAVTek	3,000
		21,000

Activity	Name of Sponsor	Sponsor Contribution £ excluding VAT
Pacific challenge Ocean Row 23	Asteer Planning LLP	2,000
	Ian Edgar (Liverpool) Limited	5,000
	Team Army Sports Foundation	2,000
		9,000
Talisker Whisky Atlantic Challenge	Team Army Sports Foundation	3,333
	The Refreshing Drinks Company Ltd	4,150
		7,483
Red Devils Army Parachute Display Team	Wescom Defence	36,305
		36,305
HMS Oardacious	Babcock International Group plc	12,000
	NSSLGlobal Limited	12,000
	Rolls Royce Submarines Limited	12,000
		36,000
Black Cats Display Team	Leonardo UK Limited	10,000
		10,000
Grand Total		**527,925**

Annex C: Core Tables

Organisation (All)

Total departmental spending 2018-19 to 2023-24

£000	2018-19 OUTTURN	2019-20 OUTTURN	2020-21 OUTTURN	2021-22 OUTTURN	2022-23 OUTTURN	2023-24 PLANS
Resource DEL						
Provision of Defence Capability Service Personnel Costs	9,093,174	9,949,068	10,511,526	10,390,528	10,623,288	10,800,000
Provision of Defence Capability Civilian Personnel Costs	1,382,590	1,535,636	1,605,760	1,612,148	1,642,062	1,965,992
Provision of Defence Capability Infrastructure costs	4,258,514	4,643,384	4,914,951	5,063,419	4,816,706	5,074,650
Provision of Defence Capability Inventory Consumption	1,173,172	1,225,847	1,191,875	1,360,704	1,607,774	1,461,846
Provision of Defence Capability Equipment Support Costs	6,792,882	6,927,405	7,364,559	7,537,696	7,818,594	7,943,750
Provision of Defence Capability Other Costs and Services	1,345,918	1,347,553	1,447,813	2,187,387	2,114,922	1,199,606
Provision of Defence Capability Receipts and other Income	-1,088,379	-1,264,898	-1,265,160	-1,218,848	-1,367,549	-1,297,500
Provision of Defence Capability Depreciation and Impairments Costs	6,805,446	7,185,671	9,519,392	7,987,529	7,351,151	8,802,482
Provision of Defence Capability Cash Release of Provisions Costs	389,329	522,739	315,162	383,636	376,475	431,315
Provision of Defence Capability Research and Development Costs[1]	228,963	265,316	265,835	224,828	202,193	180,874
Provision of Defence Capability Administration Civilian Personnel Costs	483,679	550,640	578,380	636,425	663,464	712,000
Provision of Defence Capability Administration Other Costs and Services	530,519	642,365	540,020	345,877	291,964	467,152
Operations Service Personnel Staff Cost	30,728	39,494	29,744	25,630	28,412	30,000

£000	2018-19 OUTTURN	2019-20 OUTTURN	2020-21 OUTTURN	2021-22 OUTTURN	2022-23 OUTTURN	2023-24 PLANS
Operations and Peacekeeping Civilian Personnel Staff Costs	3,014	1,623	1,830	3,269	1,623	3,000
Operations Infrastructure Costs	63,814	55,749	81,514	107,081	158,523	50,000
Operations Inventory Consumption	80,522	110,914	92,763	69,433	164,426	91,000
Operations Equipment Support Costs	271,531	122,189	131,769	235,490	417,130	73,500
Operations Other Costs and Services	66,477	41,408	33,802	-3,770	7,563	60,000
Operations Receipts and other Income	-2,901	-4,932	-2,018	-4,271	-6,513	-7,500
Operations Depreciation and Impairment Costs	24,585	1,613	–	–	–	–
Operations Cash Release of Provisions Costs	–	–	–	–	–	–
Conflict Pools Resource Costs	–	–	–	–	–	–
Non Departmental Public Bodies Costs	204,025	228,215	228,984	226,707	234,987	210,193
Defence Capability Admin Service Pers Costs	661,235	702,906	727,290	767,735	797,079	820,000
Defence Capability DE&S DEL Costs	981,367	1,099,653	1,125,092	1,095,298	1,216,547	1,281,176
War Pension Benefits Programme Costs	697,262	681,025	652,263	622,575	606,730	593,715
Conflict, Stability and Security Fund	88,579	84,521	82,056	77,985	75,007	58,720
Cash Release of Provisions Admin Costs	5,446	11,934	2,550	3,025	5,232	5,000
Total Resource DEL	**34,571,491**	**36,707,038**	**40,177,752**	**39,737,516**	**39,847,790**	**41,010,971**
Resource AME						
Provision of Defence Capability Depreciation and Impairment Costs	70,897	-46,372	-146,748	129,504	-95,076	202,197
Provision of Defence Capability Provisions Costs	-7,377,334	521,986	1,978,369	11,737,047	-13,371,447	1,914,215
Provision of Defence Cash Release of Provisions Costs	-394,775	-534,673	-317,712	-386,661	-381,707	–436,315
Movement On Fair Value of Financial Instruments	-181,496	118,890	548,254	-693,246	-7,747	247,990
Total Resource AME	**-7,882,708**	**59,831**	**2,062,163**	**10,786,644**	**-13,855,977**	**1,928,087**
Total Resource Budget	**26,688,783**	**36,766,869**	**42,239,915**	**50,524,160**	**25,991,813**	**42,939,058**

£000	2018-19 OUTTURN	2019-20 OUTTURN	2020-21 OUTTURN	2021-22 OUTTURN	2022-23 OUTTURN	2023-24 PLANS
Capital DEL						
Provision of Defence Capability Capital Single Use Military Equipment	5,817,644	6,848,790	7,679,950	8,462,664	8,487,084	9,246,492
Provision of Defence Capability Other Capital (Fiscal)	3,253,912	2,441,692	2,921,672	3,878,886	7,666,258	6,516,808
Provision of Defence Capability Fiscal Assets/Estate Disposal	-42,725	-39,933	-61,162	-79,453	-74,580	-120,000
Provision of Defence Capability New Loans and Loan Repayment	8,609	–	–	–		–
Provision of Defence Capability Research and Development Costs1	1,110,050	967,940	1,051,694	1,836,383	2,050,462	2,430,000
Operations Capital Single Use Military Equipment	75,113	1,938	–	7,229	733,643	–
Operations Other Capital (Fiscal)	18,583	22,684	28,970	-16,284	1,291,888	–
Non Departmental Public Bodies Costs	2,500	2,796	3,099	2,575	7,675	2,500
Defence Capability DE&S DEL Costs	50,751	67,950	75,898	87,994	141,601	262,138
Conflict, Stability and Security Fund	-	-	6,600	–	–	–
Total Capital DEL	**10,294,437**	**10,313,857**	**11,706,721**	**14,179,994**	**20,304,031**	**18,337,938**
Capital AME						
Provision of Defence Capability Provisions Costs	–		–	–	–	–
Total Capital AME	**–**		**–**	**–**	**–**	**–**
Total Capital Budget	**10,294,437**	**10,313,857**	**11,706,721**	**14,179,994**	**20,304,031**	**18,337,938**
Total departmental spending[2]	**30,254,026**	**39,820,924**	**44,025,738**	**57,280,367**	**39,047,516**	**52,024,327**

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 , 2018-19 to 2023-24

£000	2018-19 OUTTURN	2019-20 OUTTURN	2020-21 OUTTURN	2021-22 OUTTURN	2022-23 OUTTURN	2023-24 OUTTURN
Resource DEL						
Provision of Defence Capability Administration Civilian Personnel Costs	483,679	550,640	578,380	636,425	663,464	712,000
Provision of Defence Capability Administration Other Costs and Services	530,519	642,365	540,020	345,877	291,964	467,152
Defence Capability Admin Service Pers Costs	661,235	702,906	727,290	767,735	797,079	820,000
Cash Release of Provisions Admin Costs	5,446	11,934	2,550	3,025	5,232	5,000
Total administration budget	**1,680,879**	**1,907,845**	**1,848,240**	**1,753,062**	**1,757,739**	**2,004,152**

The Department receives authority from Parliament to commit resources to run the Department via the Supply Estimates. These are published twice in each financial year. HM Treasury are responsible for the design of the budgeting system against which the Department is controlled. Departmental Expenditure Limits (DELs) are set as part of the Spending Review process and departments must not exceed these limits.

Resource Budgets control current expenditure such as pay, equipment support and infrastructure maintenance as well as asset depreciation and impairment. Administration expenditure is reported separately whilst other resource budgets are ringfenced – specifically those relating to depreciation and impairment and expenditure on operations.

The level of resource expenditure (excluding Annually Managed Expenditure (AME) has not varied significantly over the last 3 years (within 1%).

AME is a separate resource budget covering demand led and volatile items so cannot be absorbed within normal controls. These principally relate to movements in the value of provisions. The significant volatility reported on AME in recent years reflect large swings in the HM-Treasury issued discount rates used in valuation of nuclear decommissioning and other provisions. These were accounting revaluations and not cash related transactions.

Capital budgets exist to control new investment and allow spending on capital assets. The capital budget for expenditure on operations is ringfenced. The upward trend in the value of capital investment reflects enactment of the decisions taken as part of the Integrated Review. The significant increase from 2021-22 to 2022-23 reflects both the continuation of this trend and a £2.3 billion increase associated with transition to lease accounting. The latter was an accounting adjustment and not cash related.

Annex D: Greenhouse Gas Emissions

	Emission Sources	Ref.	2019-20	2020-21	2021-22	2022-23
Non-Financial Indicators tCO2e 000s	Defence Carbon Footprint (Scopes 1,2 and 3)		3,650	2,889	3,341	3,132
	Estate Emission and Business Travel UK only (covered by GGC 2025) and Capability Energy (b+d+f+k)		**3,084**	**2,527**	**2,901**	**2,650**
	Estate Emission and Business Travel UK only (covered by GGC 2025) (b+f+k)		**1,097**	**1,043**	**956**	**935**
	Scope 1		**2,621**	**2,152**	**2,538**	**2,308**
	Estate Direct Emission (UK and overseas[1])	a	596	633	558	562
	of which GGC (UK only)	b	553	597	522	525
	Capability Energy[2]	c	1,987	1,485	1,945	1,715
	Fugitive emissions	d	38	34	35	31
	Scope 2		496	421	399	376
	Estate electricity and heat (UK and overseas[3])	e	496	421	399	376
	of which GGC (UK only)	f	465	395	375	354
	Scope 3		**533**	**316**	**403**	**448**
	Waste Generated	g	4	3	3	3
	Employee commuting	h	58	41	50	40
	Service Family Accommodation (SFA)	i	186	184	183	180
	Duty Travel[4] (UK and overseas)	j	285	87	168	228
	of which GGC (UK only)	k	79	51	58	56
Related Energy Consumption KWh 000s	Electricity: Non-renewable		1,788,171	1,661,414	1,726,487	1,774,915
	Electricity: Renewable[5]		18,748	21,401	20,261	21,245
	Natural Gas		2,562,547	2,740,139	2,471,064	2,545,912
	LPG		80,331	91,811	82,106	83,043
	Other		417,683	428,035	343,735	308,552
Related Equipment Energy Consumption[6] Litres 000s	Aviation fuel		472,029	384,998	424,391	428,825
	Ground Fuel		57,074	21,654	32,999	34,384
	Maritime Fuel[7]		200,065	141,458	245,307	166,788
	Other Fuel[8]		180	190	287	161

	Emission Sources	Ref.	2019-20	2020-21	2021-22	2022-23
Financial Indicators £000s	Expenditure on energy		347,132	317,890	336,155	460,027
	Expenditure on official business travel		156,985	80,651	78,647	159,127
	Expenditure on equipment energy (fuel)		323,339	289,702	278,592	346,295

Greenhouse Gas Emission measurement follow the Greenhouse Gas Protocols.

From 2022-23, the AWE (Atomic Weapons Establishment) has been included within the MOD sustainability reporting boundary as it now falls within the overall departmental reporting boundary. AWE data has now been included for 2022-23 scope 1 estate energy and scope 2 electricity, making up 7% and 8% of these total figures respectively.

1. Scope 1 – Direct emissions now include Wood Chip and Wood Pellet, the impact has been minimal due to low emission conversions.
2. Capability Energy includes emission from military aviation, maritime, green fleet, white fleet and charter fuel emissions.
3. Scope 2 – Emissions Electricity and Heat now includes other Biogas which is data sourced from RAF Marham Anaerobic Digestion Energy.
4. Duty Travel covers both overseas and domestic travel including non-operational travel, compassionate travel, resettlement travel. Whereas GGC only focus on domestic business travel and excluded compassionate travels and resettlement.
5. Renewable Electricity now includes the addition of new data feeds from project Prometheus solar farms
6. Related Energy consumption (KWH) reflects the Defence Carbon Footprint total.
7. Maritime fuels were unusually high during 2021-22 as a result of the Carrier Strike Group (Op FORTIS). As a result of this anomaly last year, maritime fuels have reduced significantly in 2022-23, as well as their associated capability energy emissions.
8. Other fuel in equipment energy consumption includes kerosene.

Annex E: Water and Waste Data

Water Data		2019-20	2020-21	2021-22	2022-23[3]
Non-Financial Indicators 000s m^3	Water consumption[1]	15,618	15,306	15,235	15,800
Financial Indicators £000s	Water and Wastewater supply costs (GB estate within GGC scope)	62,286	63,839	65,374	68,287

Waste Data[2]		2019-20	2020-21	2021-22	2022-23
Non-Financial Indicators tonnes 000s	Total waste	56	47	46	41
	Landfill	2	2	1	1
	Recycled	18	12	14	10
	Reused	0	0	1	0
	Composted	5	5	5	5
	Incinerated with energy recovery	34	32	32	25
	Incinerated without energy recovery	2	0	0	0

1. Water consumption represents the scope for GGC 2021-25 which includes ~2,400 Aquatrine PFI sites in GB. Northern Ireland is excluded. The scope also excludes distribution losses and service family accommodation.
2. Waste data follows the GGC 2021-2025 scope which includes all MOD UK estates waste generated. The scope excludes military end of life equipment, hazardous waste, waste generated from service family accommodation, sanitary and clinical waste.
3. From 2022-23, the AWE (Atomic Weapons Establishment) falls within MOD's organisational and reporting boundary. Following this organisational change, 2022-23 data is now inclusive of AWE Water and Waste figures.

Annex F: Arm's Length Bodies – Additional Information

				Permanently employed staff		Other Staff	
ArmL's Length Body	Total Operating income £M	Total Operating expenditure £M	Net expenditure for the year (including financing) £M	Number of employees	Staff Costs £M	Number of employees	Staff Costs £M
Armed Forces Covenant Fund Trustee Limited	(1.4)	15.8	14.4	17	0.9	3	0.1
National Museum of the Royal Navy	(21.8)	18.1	(3.7)	193	7.2	13	0.4
National Army Museum	(0.7)	8.6	7.9	84	3.6	0	–
Royal Air Force Museum	(2.6)	16.0	13.4	185	6.5	0	–
Single Source Regulations Office	(0.1)	6.4	6.3	33	4.3	3	0.1
Commonwealth War Graves Commission	(21.0)	82.0	61.0	1,234	43.6	36	0.2
International Military Services Limited	(0.2)	0.2	–	0	–	0	–
Royal Hospital Chelsea	(11.4)	25.5	14.1	242	11.7	20	0.6
Territorial, auxililary and volunteer reserve associations	(25.8)	131.3	105.5	922	34.4	1	–
AWE plc	(75.1)	632.2	557.1	6,331	312.8	183	24.6
Total	**(160.1)**	**936.1**	**776.0**	**9,241.0**	**425.0**	**259.0**	**26.0**

Note: All tabled information was materially correct and accurate as at the approval date of the accompanying annual report.