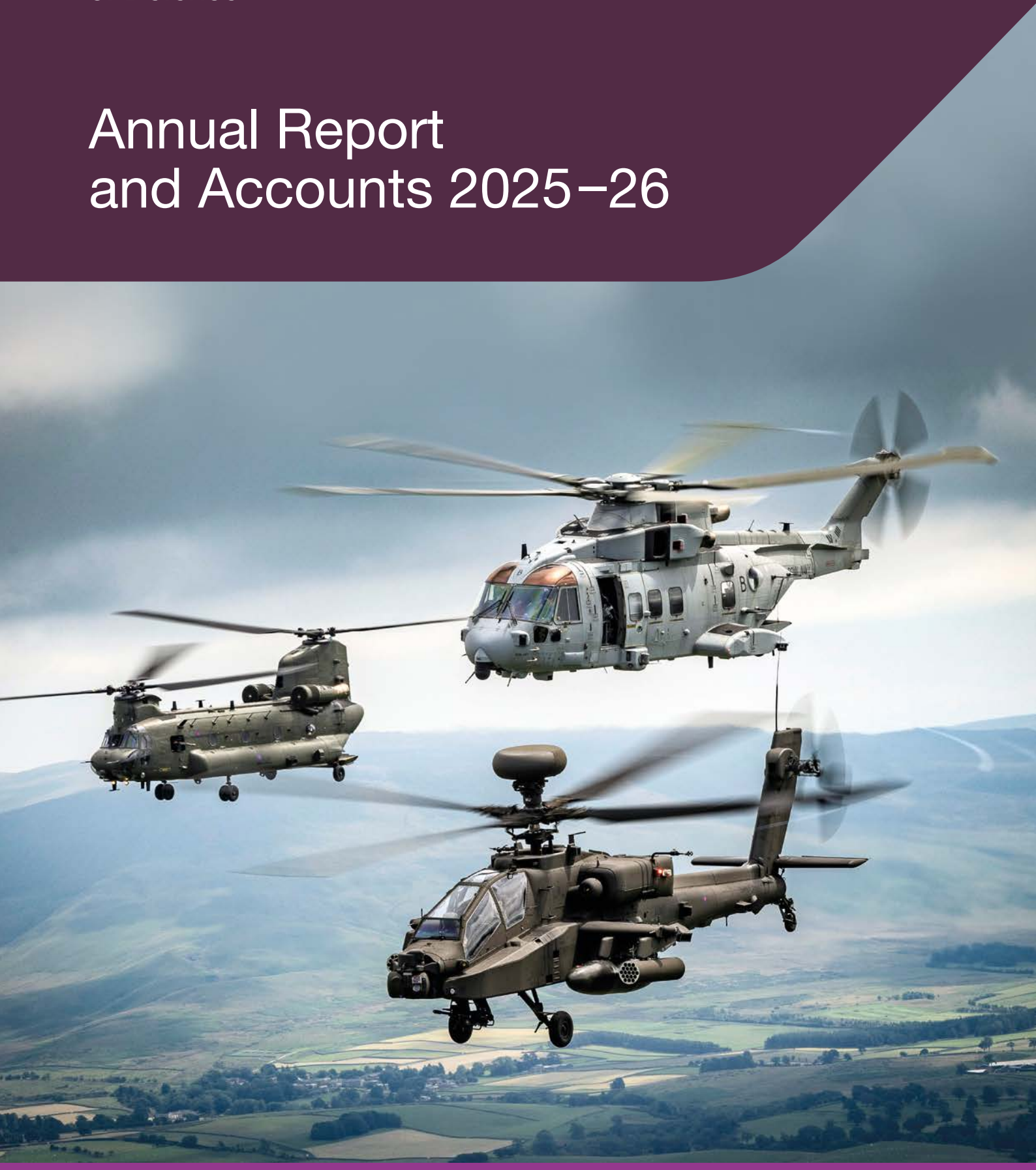
Ministry of Defence

Annual Report and Accounts 2025–26



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FRONT COVER IMAGE:
Image of an RAF Chinook CH47 (left), Royal Navy Merlin Mk2 (centre) and Army Apache (bottom) helicopters seen here on exercise Hades Warrior in the UK.
UK MOD © Crown copyright 2025.

Ministry of Defence Annual Report and Accounts 2025–26

For the year ended 31 March 2026

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

Annual Report presented to the House of Commons by Command of His Majesty.

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This is part of a series of departmental publications which, along with the Main Estimates 2025-26 and the document Public Expenditure: Statistical Analyses 2024, present the government's outturn for 2025-26 and planned expenditure for 2026-27.

Contact details for the MOD can be found on the GOV.UK website

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Performance Report

For the year ended 31 March 2026

A member of The 4th Battalion, Ranger Regiment, about to conduct an assault on a target building.

Foreword by Secretary of State for Defence

The first duty of Government is to protect the nation and keep our people safe. This Annual Report and Accounts sets out how the Ministry of Defence has delivered on that duty during 2025-26, in a year when the threats we face are becoming more serious and less predictable. War in Europe, conflict in the Middle East, growing Russian aggression, rising nuclear risks, persistent cyber attacks and rapid technological change have all reinforced a simple truth: we are in a new era of threat, which demands a new era for UK Defence.

In June 2025, the Government published the Strategic Defence Review which established a clear vision for Defence by 2035: a leading technology-enabled defence power, with an Integrated Force that deters, fights and wins through constant innovation at wartime pace. The Review defined five ambitions for Defence: a NATO-first approach to European security; a decisive move to warfighting readiness; Defence as an engine for growth; innovation driven by the lessons of Ukraine; and a whole-of-society approach to national resilience and the nation's contract with those who serve.

Implementation of the Strategic Defence Review dominated 2025-26 and we have made significant progress. We have implemented the biggest reform to Defence for more than 50 years, strengthening the Department of State, the Military Strategic Headquarters, National Armaments Director Group, and the Defence Nuclear Enterprise. We have published the Defence Investment Plan which represents the next stage in the Government's commitment to the Armed Forces and to the nation's security. It sets out the major investment choices the Government has made for UK Defence and is backed by a £15 billion increase in the Ministry of Defence's spending power over the next four years.

At the heart of our approach is NATO. The UK has stepped up on European security, strengthened our support to Ukraine, and deepened cooperation with allies and partners. We have also acted to make Defence a stronger engine for jobs, growth and national resilience. Through the Defence Industrial Strategy, a renewed focus on innovation, and investment in sovereign capability, we are backing British industry, supporting skilled jobs across the UK and ensuring the nation can produce, sustain and scale the capabilities required for deterrence and defence.

But Defence is not only about platforms, programmes and budgets. It is about people. Throughout the year, we have continued to improve the support we provide to our Service personnel, their families, veterans and civil servants. That includes action on housing, skills, training and the wider offer to those who serve. Renewing the nation's contract with them is essential to the whole-of-society approach the Strategic Defence Review demands.

This report records both our progress and the challenges that remain. It shows a department in transition: honest about the scale of the task, ambitious about the future, and determined to deliver. In a more dangerous world, Defence must be stronger, faster and more integrated. That work is now underway.

The Rt Hon Dan Jarvis MBE MP
Secretary of State for Defence

Introduction from the Permanent Secretary

This report is published at a time of profound change for Defence and for the security of the United Kingdom. The global environment is more contested, less predictable and more demanding than at any time in recent decades. In response, we have set a clear direction through the Strategic Defence Review 2025: to make the United Kingdom secure at home and strong abroad, and to ensure that by 2035 UK Defence is a leading technology-enabled defence power.

During 2025-26, Defence began turning that direction into action.

The introduction of the new Defence Operating Model marks a significant shift towards operating as a more integrated enterprise, with clearer accountability, stronger functional coherence and improved alignment between strategy, resources and delivery. The model is designed to help Defence act with greater pace and purpose in a more dangerous world. It also provides a firmer basis for managing performance, risk and reform in a coherent way across the Department.

The threats we face continue to evolve rapidly, and Defence must continue to adapt at speed. The Defence Investment Plan, published in June 2026, sets out the major investment choices we have made to transform our Armed Forces, support economic growth and step up UK leadership on European security.

At the heart of our approach is NATO. We are strengthening the UK's contribution to NATO deterrence and defence, sustaining major military support to Ukraine, and taking forward reforms to acquisition, digital and support that are intended to improve pace, resilience and value for money.

Through implementation of the Defence Industrial Strategy, we have advanced work to make Defence a stronger engine for growth through closer partnership with industry, increased emphasis on innovation and skills, and continued investment in the capabilities, infrastructure and people on which operational readiness depends.

Our armed forces, civil servants and industry partners continue to deliver with commitment and professionalism in demanding circumstances, and I am grateful for their service. Throughout the year, we have continued to improve the support we provide to Service personnel, their families, veterans and civil servants. Their efforts are central to maintaining our security, supporting our allies and delivering the long-term transformation that Defence now requires.

Jeremy Pocklington CB
Permanent Secretary for the Ministry of Defence

Defence Purpose

The Ministry of Defence (MOD) works to support a secure and prosperous United Kingdom. We protect our people, territories, values, and interests at home and overseas, through strong armed forces and in partnership with allies, to ensure our security, support our national interests and safeguard national growth and prosperity.

The Strategic Defence Review defines the enduring and mutually reinforcing roles that Defence must fulfil to meet the challenges, threats and opportunities of the twenty first century. These are:

- Defend, protect and enhance the resilience of the UK, its Overseas Territories, and Crown Dependencies.
- Deter and Defend in the Euro-Atlantic.
- Shape the global security environment.

With two further enabling roles for Defence to:

- Develop a thriving, resilient defence innovation and industrial base.
- Contribute to national cohesion and preparedness.

In April 2025, Defence implemented a new leadership and organisational structure aimed at bringing together formerly separate entities and establishing clear accountability. For the first time, Defence operates through four integrated leadership Areas: the Department of State; the Military Strategic Headquarters, leading the armed forces; the National Armaments Director Group; and the Defence Nuclear Enterprise.

- Department of State: Led by the Permanent Secretary, it leads the generation of integrated strategic direction, aligning policy, resources and delivery, and ensures clear ministerial accountability
- Military Strategic Headquarters: Led by the Chief of the Defence Staff, it leads and directs the Military Commands, bringing together the Single Services and Cyber and Specialist Operations Command (CSOC) under a single, integrated structure, enabling more agile decision-making from strategy to operations
- National Armaments Director Group: Led by the National Armaments Director, this integrated organisation unites capability and acquisition teams to strengthen partnerships with industry and academia, accelerate the delivery of equipment and technology to the frontline and bolster the resilience and competitiveness of the UK Defence industrial base. It enables collaboration by bringing together: Defence Equipment & Support, Defence Infrastructure Organisation, Defence Science and Technology Laboratory, Defence Digital, and Defence Support. It supports sustainable industrial growth by driving innovation, building long term supply chain resilience, and ensuring Defence can access the capabilities needed to address current and future threats
- The Defence Nuclear Enterprise (DNE), comprises the organisations that operate, maintain, renew and sustain the UK's nuclear deterrent and brings together the core organisations of the Defence Nuclear Organisation, the Royal Navy, Cyber and Specialist Operations Command, the Submarine Delivery Agency, and AWE Nuclear Security Technologies.

The Strategic Defence Review 2025

The UK faces a more dangerous and contested security environment, with rising threats and increasing demands on Defence. In July 2024, the Prime Minister launched a Strategic Defence Review (SDR) to ensure the United Kingdom remains both secure at home and strong abroad, now and in the years to come.

The SDR[1] was published on 2 June 2025 following an extensive root-and-branch review process externally led by Lord Robertson of Port Ellen, General Sir Richard Barrons, and Dr Fiona Hill. The SDR sets a vision that by 2035 UK Defence will be a leading technology-enabled defence power, with an Integrated Force that deters, fights and wins through constant innovation at wartime pace.

To achieve this 2035 vision, the SDR sets out the following ambitions for Defence:

- 'NATO First' – stepping up on European security by leading in NATO, with strengthened nuclear, new tech and updated conventional capabilities.
- Move to warfighting readiness – establishing a more lethal 'integrated force' equipped for the future and strengthened homeland defence.
- Engine for growth – driving jobs and prosperity through a new partnership with industry, radical procurement reforms, and backing UK businesses.
- UK innovation driven by lessons from Ukraine, harnessing drones, data and digital warfare to make our armed forces stronger and safer.
- Whole-of-society approach – widening participation in national resilience and renewing the Nation's contract with those who serve.

Implementing the Review began immediately as the Government endorsed the SDR vision and accepted all 62 recommendations in the report. Since then, we have made significant early progress to deliver fundamental programmes of work across the Department. Key 2025-26 SDR implementation achievements include:

NATO First & Warfighting Readiness:

- The Prime Minister announced at the NATO Hague Summit in June 2025 that the UK will join NATO's dual capable aircraft nuclear mission.
- At least 13 potential sites across the UK have been identified for new factories to manufacture munitions and military explosives, creating an "always on" capability to boost the UK's warfighting readiness. This is backed by new investment during this parliament.
- The UK's new Defence Cyber and Electromagnetic Force launched, bringing together cyber warfare and electromagnetic spectrum operations across all armed forces. At the same time, the first fast-tracked cyber recruits graduated from the Defence Cyber Academy and have now entered operational roles, helping to protect critical national infrastructure against more than 90,000 annual cyber-attacks on UK Defence.
- The new Military Intelligence Services were established to bring intelligence units in Defence into one organisation for the first time. The Military Intelligence Services will speed up how Defence gathers and shares intelligence across the armed forces, strengthening the UK's ability to anticipate threats and enable faster action.
- The new Defence Counter-Intelligence Unit was launched to unify counter-intelligence professionals across Defence, providing the tools and structure to disrupt and deter hostile activity.

1 The Strategic Defence Review 2025 – Making Britain Safer: secure at home, strong abroad – GOV.UK

- We established a roadmap for delivering deeper interoperability with NATO allies. Implementation of the roadmap is underway.
- A public summary of the UK's first ever Defence Diplomacy Strategy was published which lays the foundation for UK Defence to be more deliberate, targeted and coherent in deepening its international relationships with allies and partners to support defence and wider foreign policy.

Defence as an Engine for Growth & UK Innovation:

- To ensure we have an industry capable of successfully implementing the SDR we published a Defence Industrial Strategy on 8 September 2025. This strategy enables us to strengthen our national security through the strong deterrence provided by a strong industrial base whilst supporting economic prosperity so that every region and nation of the UK benefits from the Defence Dividend. Our Defence Industrial Strategy will make Defence an engine for growth, backing British jobs, British industry and British innovation.
- UK Defence Innovation was launched to streamline the delivery of innovation technology to armed forces personnel through rapid investment. This forms part of a wider recommendation to revitalise Defence's approach to science, technology and innovation to support deterrence, UK industrial growth and innovation, and force modernisation.
- The UK Defence and Security Exports function transferred to Defence from the Department for Business and Trade. Major export successes have been delivered over the course of 2025, totalling over £20 billion. These include landmark export deals with Norway and Turkiye, which demonstrate Defence as an engine for UK growth, while strengthening the UK's commitment to working closely with its NATO allies.
- A segmented acquisition model has been introduced which tailors acquisition routes to the type of capability, supplier and levels of risk. In support of this, the Accelerating Commercial Pathways programme is improving our ability to exploit the full range of commercial approaches.
- The Defence Industrial Joint Council has been established and is the Department's primary strategic mechanism for engagement and collaborative delivery within the Defence sector. The recent launch of a Small and Medium Sized Enterprises (SME) pathway will enable teams across Defence to reduce barriers and increase the number of opportunities for small businesses, whilst also making our contracting processes simpler, less onerous and faster.
- The DNE has delivered significant progress in removing barriers to industry and economic productivity that sit outside of industry's control, particularly the prioritisation of the Nuclear Skills Plan and the Barrow Transformation Fund. The Nuclear Skills Plan has delivered c. 1,300 graduates and c. 3,100 apprentices into defence nuclear in its first two years of operation, and is investing £65.6 million over the next eight years to create over 500 PhD positions. The Barrow Transformation Fund and further investment in Barrow-in-Furness has seen the launch of a 10-year investment plan, a fund for the town's voluntary and community sector, and a grant scheme to help those who want to overcome health challenges back into work.
- The government's response to John Fingleton's independent nuclear regulatory review was issued in March 2026. This represented a major milestone in delivery of our SDR ambition to remove barriers to productivity where only government can act. The Government has accepted all recommendations, and they will be implemented within two years. Implementation will address areas of regulatory simplification, risk management and proportionality, environment and planning, and capability and capacity. These activities are enablers in the DNE's major recapitalisation programme, whereby we are investing in critical national

infrastructure, whilst removing barriers which prevent the DNE delivering its programmes.
- The Defence Secretary opened Europe's biggest drone testing centre in Swindon in June 2026. This officially launched the Uncrewed Systems Centre, to support the UK's Armed Forces to stay at the leading edge of innovation through rapidly developing and fielding capabilities in weeks, not years. The Centre will also support small British businesses, unlock exports, and create highly-skilled jobs.

Supporting Our People:

- A new Defence Housing Strategy was introduced, setting out a vision for the future transformation of military homes. A Defence Housing Service, which is being created as part of the Armed Forces Bill, will lead the programme.
- An ambitious programme of work to rapidly fix 1,000 of the worst military homes was completed ahead of schedule, in time for Christmas. The programme of housing improvements, known as Raising the Minimum Standards, has seen significant work to homes across the UK, including replacing doors and windows to improve thermal efficiency, replacing heating systems, replacing kitchens and bathrooms, the removal of concrete porches, and interior and exterior redecoration.
- We are improving the offer to our people, ensuring our workforce has the right skills, training, and opportunities to meet the challenges of today and tomorrow. Training and education policies have been rewritten to enable training to be adapted at speed and delivery plans are in place to enable more opportunities for secondments, including with the Defence Intelligence cadre to develop expertise in emerging technologies and cyber.

Defence Investment Plan

The Defence Investment Plan is a new investment framework and a new investment programme, developed in the context of and defined by the SDR vision. The Defence Investment Plan summarises the major investment choices being made over the next four financial years, with a scalable framework for investment over the decade ahead.

Defence Reform

Defence Reform continues to modernise the Department so that it can respond more effectively to an increasingly complex security environment and deliver the Strategic Defence Review. The reform agenda is focused on strengthening accountability and clarity of roles, accelerating the delivery of capability and support to the frontline, and improving value for money for the taxpayer. Central to this is the shift to operating as a single Defence enterprise, reducing fragmentation, improving coherence across the Department, and enabling more effective collective decision making across policy, military, commercial and delivery functions.

The new Defence Operating Model went live on 1 April 2026, marking a significant transition from a period of organisational design into live operation. The Defence Operating Model Blueprint (April 2026) sets out how Defence now operates across four integrated leadership Areas: the Department of State, the Military Strategic Headquarters, the National Armaments Director Group, and the Defence Nuclear Enterprise. Together, these Areas bring previously separate organisations into a more integrated structure, with clearer leadership accountabilities, strengthened functional coherence and more consistent enterprise-wide processes. This provides a firmer basis for aligning strategy, resources and delivery, while retaining the distinct responsibilities required to support Defence outputs.

The Defence Operating Model Blueprint was developed through extensive engagement across Defence, including with senior leaders, Functions and delivery organisations. This helped to test assumptions and ensure the model was grounded in practical experience. While the Blueprint does not represent a complete end state in all areas, it provides a stable and coherent framework for Defence to operate from April 2026, with scope to be refined as experience is gained through live operation.

This transition into sustained delivery is underpinned by the Defence Reform Implementation Strategy which provides the framework for embedding and continuously improving the operating model. The strategy is designed to deliver a coherent, enterprise-wide transformation that embeds the new DOM as business-as-usual, while achieving the 2030 outcome of a continuously adaptable, warfighting-ready organisation.

The strategy builds conviction in the operating model, through increasing understanding, enabled by upskilling and learning from experience, alongside systematic measurement of performance at both individual and enterprise levels. Delivery is structured around four mutually reinforcing priorities: strengthening strategy development as the core of the operating model; force development to generate enduring military advantage; embedding behavioural change to ensure reforms are adopted and endure; and accelerating digitalisation to realise the benefits of the DOM and deliver better and more agile decision-making.

This is delivered through Area-led implementation and detailed design, supported by a rebalanced Reform team focused on capability-building, learning from experience and maintaining enterprise coherence. It is reinforced by deliberate communications and engagement to build understanding, trust, agency and visible leadership commitment, alongside a performance framework that uses data and incentives to drive enterprise outcomes. Taken together, this ensures that Defence Reform operates not a discrete programme, but an enduring mechanism for continuous strategic adaptation and operational effectiveness.

Summary of Principal Risks

In 2025-26, Defence operated a comprehensive risk framework that enables risks to be identified and managed at all levels of the organisation. These range from Defence Board owned risks (principal risks) through to strategic risks across the four Areas and Military Commands reflecting their full breadth of responsibilities in delivering operational capability, force readiness and support to procurement and in-service activities. At the strategic level, Defence identifies its principal risks against core ministerial commitments and Defence Outcomes, ensuring that risks which could directly affect the delivery of Defence strategic objectives can be effectively managed through appropriate governance and investment decisions.

The Department's principal risks are overseen and agreed by the Defence Board. Each principal risk is allocated to an Executive Committee (ExCo) member, who acts as the single point of accountability for ensuring the risk is mitigated to the extent of available resources. Risk detail is withheld for matters of national security, but the principal risks currently monitored include those affecting:

- Our ability to Warfight
- Our workforce capacity and skills to meet future strategic demands
- Transforming the Force through science, innovation and technology
- Our ability to keep people safe and secure
- Increasing our cyber and wider resilience
- Creating an alliance with industry and resilience in the supply chain
- Building and maintaining robust and effective relationships with our partners
- Adapting to the impacts of climate change.

The Executive Committee continue to form the key components of enterprise governance, ensuring that strategic risks are mitigated and that the Department's strategy is effectively implemented. The Governance Statement contains further information on our internal controls and risk management approach, including activities undertaken through the year to reduce risk in our key areas.

Financial Performance Summary

Aneen Blackmore
DG Finance

Introduction

The Finance Function in Defence remains well-established, operating within a clear framework of policies, accountabilities and proportionate internal controls. This provides a robust foundation for financial management and assurance across the Department, supporting effective decision-making and stewardship of public funds.

Significant progress has been made in addressing the audit qualifications reported in 2024-25 and strengthening the evidence base underpinning the 2025-26 accounts. This has included improvements to underlying records, reinforced end-to-end processes, and enhanced review and challenge in areas of higher risk.

The Spring Statement did not result in material changes to Defence funding for 2025-26 and the Department continued to operate within previously agreed budget settlements. Existing commitments to increase Defence spending remain in place, with future funding decisions to be considered as part of the next Spending Review.

2024-25 Audit qualifications

For the material limitation of scope relating to AWE Assets Under Construction, balances have been reviewed and processes strengthened, particularly where legacy arrangements contributed to the issue. Departmental policies have also been updated, improving valuation approaches across the wider asset base. The NAO will consider the outcomes of this work as part of its audit work on the financial statements.

In relation to the regularity qualification, the Department revised its accounting approach to provisions, agreeing with the NAO to recognise liabilities where they can be reliably estimated. We have also bolstered estimation processes for legal and resettlement costs. This work remains a priority in 2025-26, alongside a wider programme to reinforce financial controls, governance and consistency across Defence. The NAO will consider the impact of these actions as part of its audit work on the financial statements.

Finance and Defence Reform

During 2025-26, the Finance Function supported Defence as it transitioned under Defence Reform, adapting how we operate to align with new structures and ways of working. Defence Reform provides an opportunity to simplify processes, clarify accountabilities and toughen assurance across the Department.

A central focus has been developing the future Finance Operating Model, designed to improve agility, insight and readiness and to toughen financial leadership within the new Defence construct.

Over the year, we mapped Finance services to the Finance Operating Model and set priorities to transition to a more unified Finance Function in 2026–27. This includes bringing subject matter experts together to increase specialist capability, assurance and streamlining processes to better support operational delivery across Defence.

Our priorities remain: clear financial accountability; transparent, insightful financial information; faster, better-informed decision-making; and efficiencies through improved ways of working.

Financial Performance in 2025-26

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 is 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 for example Defence Nuclear Enterprise (DNE) 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 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, with accountability for financial outcomes clearly defined.

As a result we have effectively balanced the Capital Departmental Expenditure Limit (DEL) to within less than 0.3% of the £23.131 billion budget.

The Non-Ringfenced Resource DEL was also delivered to within less than 0.4% of the £36.978 billion budget.

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

Analysis of Departmental Expenditure 2025-26

Comparison of Estimate to Outturn	Estimate £ billion	Outturn £ billion	Variance £ billion	Variance %
Resource DEL (non ringfenced); of which	36.978	36.857	0.121	0%
Resource DEL (non-ringfenced, administration element)	*2.182*	*2.182*	*–*	*0%*
Resource DEL (ringfenced)	19.113	8.985	10.128	53%
Cost of Operations (ringfenced)	2.140	2.082	0.058	3%
Total Resource DEL	**58.231**	**47.924**	**10.307**	**18%**
Capital DEL (non ringfenced)	21.214	21.150	0.064	0%
Cost of Operations (ringfenced)	1.917	1.917	–	0%
Total Capital DEL	**23.131**	**23.067**	**0.064**	**0%**
Voted Resource AME	7.045	3.582	3.463	49%
Voted Capital AME	0.001	–	0.001	148%
Total Voted AME	**7.046**	**3.582**	**3.464**	**49%**
Non Budget	5.377	2.021	3.356	62%
Total Non Budget	**5.377**	**2.021**	**3.356**	**62%**

The majority of the Resource Departmental Expenditure Limit (RDEL) variance in core expenditure of £0.121 billion reflects small variances across programme and administration expenditure, with overall spend remaining broadly in line with plans.

The Capital Departmental Expenditure Limit (CDEL) outturn variance was £0.064 billion which relates to small variances across several capital programmes.

Ringfenced Resource DEL relates to depreciation/impairment of the Department's assets. The variance to budget of £10.128 billion relates to asset revaluation and depreciation.

For Annually Managed Resource Expenditure (AME), which by its nature is demand led and volatile, the outturn was £3.464 billion below budget which reflects changes in provisions, including valuation movements and updated assumptions applied at year end.

Non-budget AME expenditure was £3.356 billion below budget, reflecting lower than expected Prior Period Adjustments reported in the financial statements in 2025-26.

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 2025-26

The following chart provides a breakdown of all non-ringfenced expenditure and operational ringfenced expenditure incurred by the Department in 2025-26.

This expenditure is controlled by the Department through the In-Year Management forecasting process.

Where we spent our money 2025-26

Total Expenditure £62.006 billion (Bn)

- Service Personnel £12.764 Bn
- Capital Expenditure £12.263 Bn
- Defence Nuclear Capital Expenditure £8.887 Bn
- Equipment Support £6.367 Bn
- Infrastructure £5.696 Bn
- Cost of Operations £3.998 Bn
- Defence Nuclear Resource £2.985 Bn
- Administration £1.910 Bn
- Civilian Personnel £1.894 Bn
- Other Costs £1.763 Bn
- Inventory £1.213 Bn
- DE&S £1.119 Bn
- War Pensions Benefits £0.633 Bn
- Defence Nuclear Administration £0.272 Bn
- Arm's Length Bodies £0.242 Bn

Defence Nuclear Enterprise (DNE) has been shown as a separate item since 2023-24, to reflect a change in reporting arrangements.

Operational Spend Achievements

The Costs of Operations covers the net additional costs incurred by the Department in support of military operations. Net additional costs are costs that materialise directly, and solely, as a result of an operation, such as additional material, deployment costs, and weapons expenditure.

In 2025-26 the Department incurred net additional costs against a variety of Operations, most significantly in our unwavering support to Ukraine. Meanwhile, the Department has simultaneously worked with Wider Gulf partners to respond to reactive challenges such as defensive operations to intercept Iranian strikes.

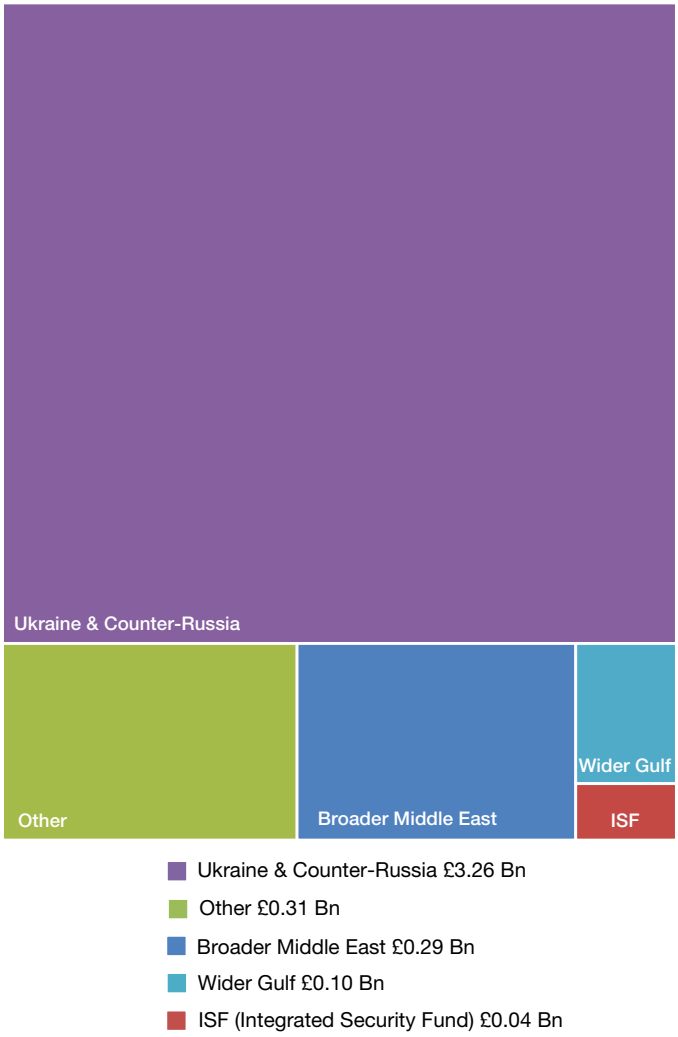
The Department also incurred costs against a variety of other Operations, including counter-terrorism and wider operational activity across the Broader Middle East.

In 2025-26, MOD also received the annual allocation from the Integrated Security Fund (ISF), a cross-HM Government fund enabling funding for conflict prevention, stabilisation, security and peacekeeping activities, under direction of the National Security Council (NSC). Further details on military operations can be found within the Performance Analysis section.

Spend on Main Areas of Conflict 2025-26

Total Expenditure £3.998 billion.

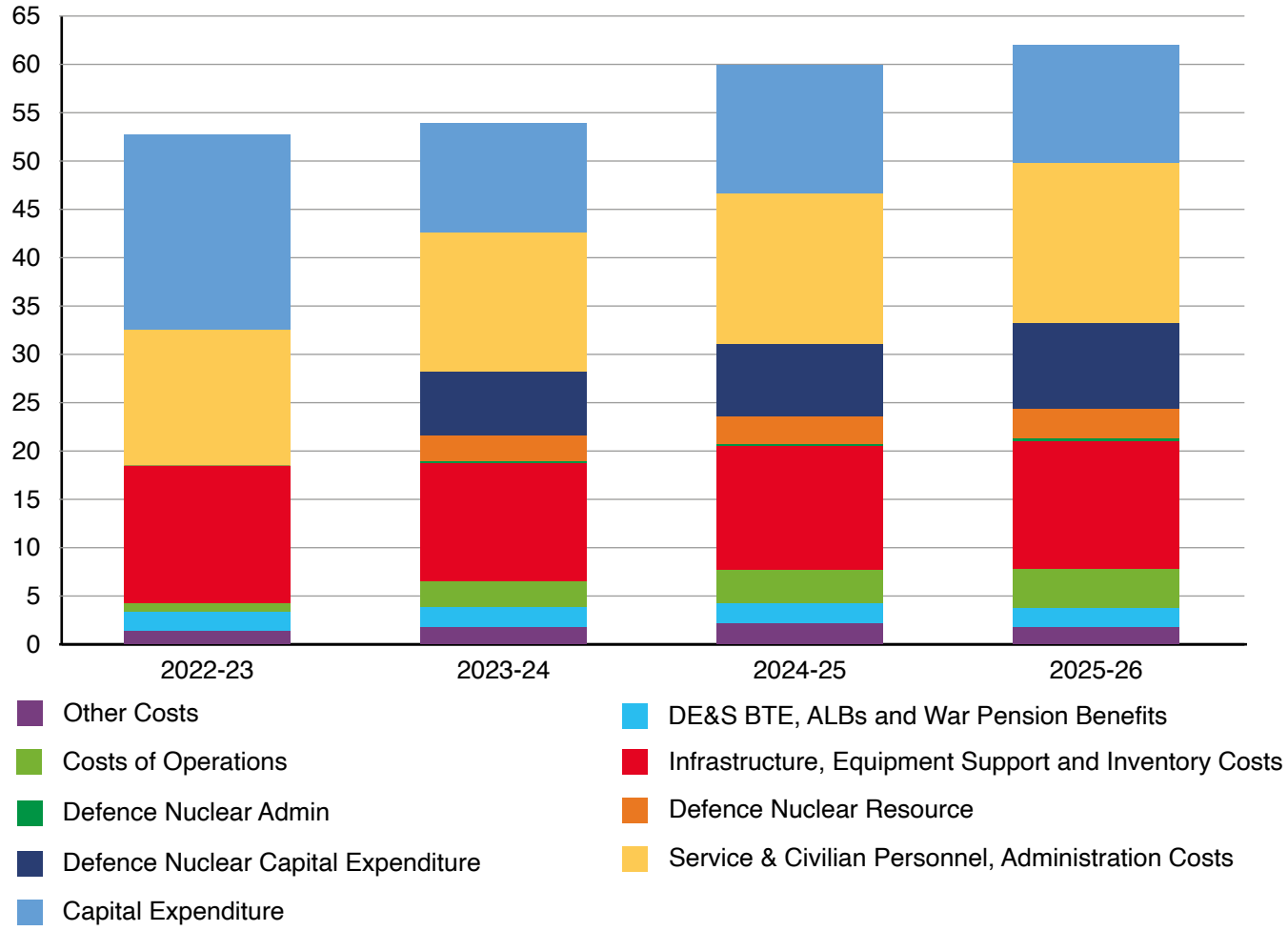
The following graph reflects the spend on the main areas of conflict in 2025-26:



Long Term Expenditure Trends

The graph below shows the long-term trend for Resource and Capital expenditure, excluding asset depreciation and impairment from 2022-23 to 2025-26.

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



Defence Nuclear Enterprise (DNE) has been shown as a separate item since 2023-24, to reflect a change in reporting arrangements.

Financial Assurance & Audit Activities

Between April 2025 and March 2026, the Finance Function strengthened assurance and governance, issuing updated policy and guidance in key risk areas (notably provisions, losses and commercial controls), and driving greater consistency through standardised processes and templates. It enhanced second-line scrutiny through more structured review and challenge of material judgements, while working with Defence Risk & Assurance to deliver targeted, risk-based assurance over high-risk areas. Collectively, this improved the quality of evidence, reduced control variability across Commands, and increased confidence in the completeness, accuracy and transparency of financial reporting.

Our new Finance Operating Model strengthens financial controls, assurance and lines of defence by acting as the central second-line authority: setting consistent control standards and providing structured oversight and challenge across Defence. This includes standardising key financial processes, enforcing minimum evidence requirements, and aligning assurance activity with Defence Risk & Assurance to focus on material risks. It will also clarify roles across the three lines of defence, reduce duplication in assurance activity, and support delegated operating models through a "freedoms within a framework" approach, ensuring that increased autonomy is underpinned by robust and coherent financial control.

Transformation & Modernisation

During 2025-26, Finance supported delivery of Defence Reform by stabilising in-year management through a period of structural transition, including where accountabilities and finance flows were still being finalised. This included additional activity to support parallel running across systems, manage boundary issues, and support remapping of budgets and balance sheet items to the evolving Defence structures, underpinning delivery of core financial products and stronger control.

Alongside Defence Reform implementation, Finance reviewed and validated key financial accounting policies and controls to ensure they remain fit for purpose across the new structure and to increase visibility and effectiveness across the lines of defence. This has been supported by work with Defence Risk & Assurance, including use of control self-assessments and targeted assurance activity, alongside internal and external audit work, to fortify evidence, improve consistency and prioritise remediation where gaps were identified. Improvements to reporting, automation and data quality are being progressed through the Journey to the Cloud programme and the planned implementation of the new Finance Operating Model.

We continue to focus on:

- Clear and effective financial accountability embedded through defined roles, standard responsibilities and consistent governance arrangements, ensuring financial ownership is clearly understood and consistently exercised across Defence.
- Transparent and insightful financial information delivered through improved data quality, consistency and accessibility, enabling timely, reliable insight to inform decision-making.
- Faster, better-informed decision-making in support of operational delivery will be enabled through simplified processes, clearer approvals and improved financial insight, bolstering Finance's ability to support operational priorities.
- Efficiencies and improved ways of working will be delivered through streamlined finance service delivery and system modernisation through Corporate Services Modernisation, enhancing ways of working and strengthening Finance capability.

Digital Enabling and Modernisation

The Journey to the Cloud (J2C) programme progressed in 2025-26 as a central pillar of the Corporate Services Modernisation portfolio, supporting the transition of Defence finance systems to Oracle Fusion Cloud.

During the year, the programme advanced from design into preparation phase, completing key solution design activity and progressing de-risking activity across core finance processes, alongside strengthening governance to manage design decisions, dependencies and readiness activity, including maturity assessments.

J2C supports Defence Reform and enables the Finance Operating Model by underpinning more standardised, simplified processes and common data and reporting across Defence, through improved automation. This strengthens financial control through clearer process ownership; improved evidence trails and reduced reliance on manual workarounds and improves the timeliness and quality of management information to support decision-making. In parallel, the programme has invested in people capability and change readiness, including learning needs analysis, change impact assessments and commencing work to establish a change advocate network to support adoption across the Finance Function.

As the programme progresses, there remain inherent challenges associated with the scale and complexity of transformation, including ensuring data quality, managing system integration and maintaining continuity of financial reporting during transition. The programme continues to manage design dependencies in key areas such as accounting treatments and approval structures, alongside the need to embed new ways of working across the organisation including adoption of Artificial Intelligence. Addressing these risks will be critical to securing the full benefits of J2C and ensuring it delivers a sustainable and resilient finance service for Defence.

Conclusion and Future Plans

In 2026–27, Finance will continue to implement the Finance Operating Model, moving from design into phased delivery. Priorities include establishing strategic financial centres and Centres of Excellence for key services, embedding a more unified Finance Function across Defence, and aligning delivery with Defence Reform and digital enablement through Journey to the Cloud. Over time, these changes are expected to deliver a more agile, resilient and strategically focused Finance Function, with continuous improvement embedded as business as usual.

Aneen Blackmore
Director General Finance

Jeremy Pocklington CB
Accounting Officer

9 July 2026

Performance Analysis

Exercise Bersama Shield 2025 was a joint multinational exercise involving member states from the Five Power Defence Arrangement (FPDA).

A warfighting force ready and able to win today and in the future and a resilient nuclear deterrent

To meet the threats of today and tomorrow, Defence is moving to warfighting readiness, enhancing our ability to fight at the leading edge of technology; establishing a more lethal force, equipped for the future. We are changing how we fight and how we support that fight. As set out in the SDR, we will be integrated by design; innovation led and industry backed.

Homeland Defence

Defence plays an integral role in the Cabinet Office-led Home Defence Programme, a whole of Government endeavour, to enhance and co-ordinate our civil and military national security, resilience and preparedness for crisis and conflict. Defence's wide-ranging contribution is informed by and reflects the recommendations from this Government's strategies, including the Strategic Defence Review, National Security Strategy and Resilience Action Plan, to strengthen our resilience and readiness against the threats we face.

We are working closely with the Cabinet Office to contribute towards cross-Government efforts to increase public awareness and resilience to the most serious risks we face, including conflict scenarios. Our commitment to a Whole-of-Society approach sets out how government, businesses and the public all play a part in strengthening our national defence and resilience.

We are developing and exercising our military plans for Homeland Defence, which will be tested through the 2027 NATO STEADFAST exercise series, as we continue to train with our allies and partners.

Nuclear Deterrent

The UK's approach remains a minimum, credible, independent UK nuclear deterrent, assigned to the defence of NATO. This is delivered through our submarine launched deterrent, which provides the assured second-strike capability that is the foundation of the UK's national security. A submarine-based system remains the most effective and proportionate means of delivering the UK's deterrent objectives, providing the survivability, assurance, and operational independence we need.

We continue to maintain the Continuous at Sea Deterrent. The UK's top defence priority mission is known as Operation Relentless. Delivered by the Royal Navy since 1969, this operation ensures that at least one nuclear-powered, nuclear-armed Vanguard Class submarine is on patrol at all times, armed with Trident missiles and the UK's nuclear warhead, to deter potential adversaries and protect the nation and NATO allies. This Government is committed to the nuclear deterrent triple lock:

- Building new nuclear submarines in Barrow-in-Furness, supporting high-quality, high-status apprenticeships and jobs, with the supply chain benefits being felt right across the country.
- The maintenance of Continuous At-Sea Deterrent (CASD) – securing protection for both the UK and NATO allies.
- The delivery of all future upgrades needed for those submarines to patrol the waters and keep our country safe.

Quick Reaction Alert

The Royal Air Force (RAF) Quick Reaction Alert (QRA) system constitutes fighter aircraft in the UK on constant standby, 24/7, 365 days a year, supported by a comprehensive air defence network.

QRA Typhoons from RAF Coningsby and RAF Lossiemouth, supported by Voyager air-to-air refuelling aircraft from RAF Brize Norton, launched six times in the 2025-26 financial year. Three times were to track Russian aircraft as they approached NATO's area of interest, with the RAF working in close

cooperation with NATO allies. The other three times were in response to potential incidents on civilian aircraft.

Maritime security

Royal Navy vessels routinely patrol our waters to protect UK interests, contribute to domestic maritime security and act as a deterrent against potential malign activities.

Defence regularly and routinely monitors Russian warships transiting within the UK's Exclusive Economic Zone (EEZ), under Operation ADDISON, to maintain situational awareness in UK waters and deter hostile activity. In 2025-26 Royal Navy vessels were activated 116 times, to shadow 61 Russian warships and 28 Russian merchant vessels within the UK's EEZ under Op ADDISON.

There has been a 30% increase in Russian Naval activity in the UK's EEZ over the previous two years. In November 2025, HMS SOMERSET and a RAF aircraft tracked the Russian spy ship YANTAR near key undersea cables off Scotland. Furthermore, in December 2025, the Royal Navy shadowed the Kilo-class submarine KRASNODAR and its tug through the English Channel. In January 2026, the Royal Navy supported U.S. forces in intercepting and interdicting the Russian flagged tanker MARINERA (formerly the BELLA1), with aerial surveillance provided by the RAF.

Russian Kilo-class submarine Krasnodar (foreground), her accompanying tugboat Altay (centre), and RFA Fast Fleet Tanker Tidesurge (background)

This maritime activity is vital for safeguarding national interests, protecting undersea infrastructure, and fulfilling NATO obligations, ensuring the UK's maritime advantage in a challenging security environment.

Military Aid to the Civil Authorities

	2025-26	2024-25
MACA Operations	95	67
Personnel Deployed	850	700

Whilst not the lead for civil contingencies, Defence can provide support if requested through the long-established Military Aid to the Civil Authorities (MACA) process. When civil authorities cannot manage a disruptive incident and all other options are exhausted, we can deploy our unique capabilities to assist. This can include the provision of personnel, specialist equipment or infrastructure.

During 2025-26 UK armed forces delivered 95 MACA operations. In total around 850 personnel were deployed on MACA tasks.

We maintain three UK Standby Battalions (UKSBs), keeping 900 service personnel on 24–48 hours' notice to move, and two Counter Uncrewed Aerial Systems (C-UAS) on standby. These units stand ready, nationwide, to provide rapid support for resilience and contingency tasks, including building flood defences and assisting during adverse weather events.

Counter Terrorism

Defence holds personnel at permanent high readiness to support police in the event of a terrorist attack. This includes Operation TEMPERER, the contingency plan to surge military support to provide Armed Police Backfill in response to terror threats within the UK. Operation TEMPERER was not activated in 2025-26.

Overseas, Defence has continued to provide a range of counter terrorism support to partner forces in priority nations, enabling them to better protect both themselves, visiting British nationals and British interests from the threat of terrorism.

In 2025-26, our capacity building efforts, delivered under Op MONOGRAM and coordinated with civilian activity by our forward network of counter terrorism regional coordinators, have enabled 25 projects across the globe including training to counter improvised explosive devices and to respond effectively to crises. This activity, focused on harnessing the unique skills of our armed forces, is undertaken in line with and in support of HM Government's counter terrorism strategy CONTEST, enabling coherence across government.

Explosive Ordnance

Incidents	2025-26	2024-25
Conventional Munitions	1,953	1,811
Improvised Explosives	315	324
Total	2,268	2,135

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. Across the UK there has been 2,268 call outs under Op TAPESTRY.

In January 2026 Defence provided explosive ordnance disposal (EOD) and diving support to render safe two unexploded WWII air-dropped weapons concurrently, in Plymouth city centre and a larger airdropped weapon on a dredger in Exmouth marina. Highly trained military bomb-disposal experts from the Royal Navy's Diving & Threat Exploitation Group and the Army's 11 EOD & Search Regiment with support from Defence Science and Technology utilised radiography to assist with identification and modelling for disposal. They carefully removed the devices from the locations and for controlled disposals at sea.

Integrated Force Model

The Integrated Force Model has four elements: a single force design; a common set of foundational enablers; digital enablement at its core and collaboration with other government departments in real time. The single force design is being implemented through the Defence Investment Plan (DIP). The integrated force design will be completed this year, with implementation thereafter. The other three elements will be delivered incrementally as part of continued efforts to modernise and reform Defence.

Nuclear

Submarines

We are committed to the nuclear deterrent triple lock which will see all four Dreadnought-class submarines built in Barrow-in-Furness. Dreadnought will deliver the next generation of our nuclear deterrent, to continue to protect our people and allies from the most extreme threats to our national security and way of life.

The Dreadnought build programme is on track to deliver Boat 1, ready for operations in the early 2030s. Remaining boats will be delivered on a drumbeat of no more than three years thereafter. The volume of work undertaken across the programme has trebled over the last three years, with cumulative boat hours hitting 25,000 hours per week in September, a new record for the Barrow site. We have also seen improvement in timelines, with Boat 2 now ahead of Boat 1 at the same point in its build schedule.

Barrow will play a vital role in delivering Pillar 1 of the AUKUS programme, a partnership between Australia, the United States and the UK, that will see Australia acquiring a conventionally-armed, nuclear-powered submarine capability. The UK's SSN-AUKUS attack submarines will be built at the BAE Systems site in Barrow, and over the coming years hundreds of Australian personnel will work and train there, giving them the vital experience needed to deliver their own SSN-AUKUS.

In July 2025, the UK and Australia signed the Treaty of Geelong, a 50-year agreement that primarily will underpin our respective SSN-AUKUS submarine programmes. Entering into force in December 2025, the Treaty will support thousands of jobs in both countries, enhance our collective industrial

capacity and ultimately deliver the submarines that keep the UK and our allies safe.

The Treaty demonstrates our commitment to deliver both security and prosperity, safeguarding jobs across the UK and boosting our defence industry. This decades-long programme will create over 7,000 new jobs in UK shipyards and across the supply chain, building on the billions of pounds already invested in Barrow, Derby and beyond.

In May 2026, the US, UK and Australia announced that they will develop underwater drone technology to protect undersea cables and boost defence. The uncrewed undersea vehicle (UUV) technology is expected to be ready by next year.

The boost to the SSN-AUKUS programme will see a major expansion of industrial capability at Barrow-in-Furness and Raynesway, Derby. This will support the building of up to 12 SSN-AUKUS submarines and will enable a build rate of one submarine every 18 months in the future.

Our programmes, including AUKUS and Dreadnought, support over 47,000 jobs across the UK, with this expected to grow to 65,000 by 2030. This contributes to opportunities and economic growth in local communities across the UK.

Warhead

As announced in the SDR, we are investing £15 billion into the sovereign nuclear warhead programme (2025-26 to 2029-30). This will see significant modernisation of infrastructure at AWE Nuclear Security Technologies (AWE) in Aldermaston and support more than 9,000 jobs at the Berkshire site, and thousands more across the UK supply chain, from Scotland to Somerset.

This year, AWE celebrated its 75-year anniversary. AWE and the nuclear warhead programme include some of the most advanced and sensitive science, engineering and manufacturing facilities in the UK, sustaining the nuclear deterrent. This year we reached a key milestone that has seen developments in our explosives' programmes, providing resilience to supply our warhead programme now and in the future.

We have also made significant progress in our warhead testing programme, with a successful breakthrough experiment utilising a 3-axis hydrodynamic capability undertaken at the joint UK/France EPURE facility developed under TEUTATES and the 2010 Lancaster House Treaties, which underpin UK/France scientific and technological collaboration. Through capabilities like EPURE, we continue to underwrite the safety and security of our current stockpile, and certify performance and safety for the replacement warhead, whilst remaining fully compliant with our Comprehensive Nuclear-Test-Ban Treaty (CTBT) obligations. We have continued to strengthen our collaboration with France under the 2025 Northwood Agreement.

We have continued to strengthen our relationship with industry partners across the UK industrial base, launching the Defence Partnership with the High Value Manufacturing Catapults. Through this partnership, leveraging the considerable investment in the sovereign replacement warhead programme, we have invested in the Manufacturing Technology Centre (Oxford), Advanced Manufacturing and Research Centre (Sheffield), and National Composite Centre (Bristol).

National Endeavour

Guided by the Prime Minister, the National Endeavour acknowledges the critical role defence nuclear plays not only in our national security but also UK growth and prosperity.

Through the National Endeavour, we are working to deliver a skills plan that will support the growth expected across the civil and defence sectors. We are also working across government to implement the findings of the Nuclear Regulatory Review, to deliver reform to our nuclear regulatory system so that we can drive efficiency and cut programme costs. We continue to invest in Barrow-in-Furness to enable the expansion

required to support the DNE. Last year, Team Barrow launched its 10-year transformation plan, a £2.8M fund for Barrow's voluntary and community sector, and a £400,000 grant scheme designed to help people overcome health challenges preventing them working. In September 2025, His Majesty the King visited Barrow to attend the commissioning ceremony for HMS Agamemnon (the sixth of seven Astute Class submarines) and to bestow Royal Charter status on the Port of Barrow. We have also launched Team Plymouth and announced that it will be a recipient of one of five Defence Growth Deals.

Hybrid Navy

The fundamental work of the Royal Navy is to keep the sea lanes open, protect the nation from seaborne attack, and promote and defend UK interests around the world. The Royal Navy will be guided by the principle: "uncrewed wherever possible; crewed only where necessary."

We have seen the effect that autonomy and uncrewed systems can have at sea, on land and in the air, especially in Ukraine. In the maritime domain simple, cheap, one-way effectors are used to defeat complex and capable warships and deny them freedom of manoeuvre at sea.

Our platforms will be used alongside and in support of existing and future warships and as a capability in their own right. It is a technology that will develop changing the way we fight.

This includes deployment of hybrid air wings on the Queen Elizabeth-class aircraft carriers, a fusion of jets, helicopters and uncrewed systems. The ambition is to launch the first jet-powered drone from a carrier later in 2026, part of a broader vision for the UK to lead NATO nations in new ways of warfare from the sea.

This also includes development of the Atlantic Bastion concept which will see ships, submarines, aircraft and unmanned vessels connected through AI-powered acoustic detection technology and integrated into a Digital Targeting Web, a network of weapons systems that allow battlefield decisions for targeting enemy threats to be made and executed faster.

The programme represents a truly integrated, multi-domain approach, combining Royal Navy and Royal Air Force assets, digital infrastructure and commercial partners to create a networked system spanning air, surface and underwater.

The Royal Navy has made British aviation history with the UK's first truly autonomous full-size helicopter completing its maiden flight on 16 January 2026. Proteus has been designed and built by Leonardo as a demonstrator for the Royal Navy, to unlock the potential of uncrewed aerial systems, operating them side-by-side with crewed aircraft in a future 'hybrid air wing', and potentially at the heart of future anti-submarine operations as part of the Atlantic Bastion strategy. The Royal Navy's Type 26 and Type 31 will serve as a highly adaptable command-and-control "mothership" capable of deploying, operating, and coordinating autonomous drones.

In 2025-26, the Royal Navy has trialled autonomous Rattler boats. Based on a rigid inflatable boat (RIB) and with autonomy packages and a variety of other systems and services, the boats have been built and iterated to meet Royal Navy specifications, with design supported by military personnel working alongside a consortium of SMEs. Unlike previous drones operated by the Navy, they have been designed to be fully uncrewed; can operate individually or as part of a swarm. They can be pre-programmed with mission profiles, navigational routes and can work together as a 'wolf pack' on operations. Equipped with a suite of high quality, military specification sensors, cameras, and modular systems, the boats are adaptable for a range of tasks including surveillance, reconnaissance and payload delivery.

British defence jobs have been further boosted, and British sailors will be better protected following delivery of the first end-to-end autonomous USV UK mine hunting

vessel, known as ‘Ariadne’, which will enable the Royal Navy to locate and destroy sea mines faster and more efficiently, without putting personnel at risk. These Unmanned Surface Vehicles (USVs) have been built and developed at pace, in a ground-breaking way, alongside a coalition of local companies.

RNMB ARIADNE is 12 metres long, the same size as an average bus, and can be deployed from a harbour or mother ship to hunt the seabed for mines using the Thales Synthetic Aperture Multiview’s system, one of the world’s most sophisticated towed sonars. It is likely to be used both at home and overseas.

Defence Science and Technology Laboratory (Dstl) enabled a cost effective new capability to neutralise underwater unexploded ordnance without putting personnel at risk. Working with industry partners, Dstl adapted a commercially available remote controlled robot to safely dispose of explosives underwater. Beyond force protection, this capability could also be used to counter adversary threats to undersea cables and pipelines.

A member of the Royal Navy onboard XV Patrick Blackett taking part in an uncrewed/autonomous operational demonstration.

More Lethal Army

Following the Strategic Defence Review and learning the lessons from Ukraine, the Army will deliver a tenfold increase in lethality by 2035, harnessing firepower, surveillance technology, autonomy, digital connectivity and data, leading the way in NATO in its use of technology to change how it fights, improving speed and accuracy.

A central component of this transformation is ASGARD, a Digital Targeting Web, successfully trialled by British troops on NATO’s eastern flank in July 2025. ASGARD allows soldiers to detect, understand and engage enemy targets at unprecedented speed and range. The project will enable soldiers to rapidly find and strike enemy targets at greater distances than ever before. With continued investment and oversight, ASGARD will deliver incremental capability upgrades between 2026 and 2029, aligned with NATO standards and Defence’s Digital Targeting Web.

Transforming how data is used and decisions are made on the battlefield, Dstl’s Stone Soup provides a single, accurate operational picture by combining data from multiple sensors such as radar, cameras and satellites. In 2025, Stone Soup consolidated its stability, credibility, and scale, delivering clear defence benefits by enabling progression to higher technology readiness, integration into programme assessment and assurance environments and long-term sustainment as shared infrastructure rather than a niche research tool. Recognised by Five Eyes Science and Technology, Stone Soup helps keep the UK at the forefront of critical defence technologies.

Dstl has also helped extend the nation’s only sovereign capability to measure radar signatures of large land vehicles. Working with Thales, this effort ensures we continue to receive accurate and timely radar signature data for the next decade, allowing platforms to be designed to reduce detection by enemy radar and improve battlefield survivability.

And in May 2025, Dstl led the largest ever multi-domain AI defence trial to develop advanced systems for automatic target detection and recognition. By filtering vast amounts of information into clear, actionable insights, this work supports faster decision making using improved battlefield intelligence.

Regulars and Reserves has seen strength stabilising over the past year. We will continue to improve recruitment through faster, more

flexible options and improving retention through our planned 'flexible working' initiative and prioritised investment.

Recruitment in specialist areas such as cyber, digital, healthcare, medical, and engineering, remains challenging due to strong competition in the wider market. To address this, we are implementing actions to improve retention, including more flexible terms of service, a modernised allowance system, bespoke pay spines, skills payments, Targeted Financial Retention Incentives and a pilot 'total reward' approach for engineers.

We will also reinvigorate our relationship with the Strategic Reserve, ensuring the UK can respond at scale to global insecurity. We know that national resilience is a critical component of our deterrence. This strengthens the bond between society and those who have or are currently serving. It enables the nation to draw on the unique experience and expertise of former service personnel when it matters most. This will also form part of our work to protect the Homeland and meet our NATO Article 3 commitments.

Next Generation RAF

Air power is vital to the protection of the UK and the freedom to fight and win. The RAF is the Lead Command for Integrated Air and Missile Defence (IAMD), cohering National IAMD activity and contributing to NATO plans. The RAF supports global stability through operations and exercises with key allies and partners, and provides the Integrated Force's quickest means of striking targets, with the flexibility, speed and reach to deliver effect globally.

As part of our NATO First approach to deterrence and defence, we are committed to strengthening NATO's nuclear mission and ensuring the Alliance's posture remains fit for purpose across the entire spectrum of conflict. To further strengthen this commitment, the UK will purchase new F-35A fighter jets and join NATO's dual capable aircraft nuclear mission. It will support 20,000 jobs providing opportunities for working people, whilst also stepping up national security and delivering a defence dividend across the country.

The UK is creating a next-generation combat aircraft through the Global Combat Air Programme (GCAP) and autonomous capabilities to defend Britain's skies and strike anywhere in the world. Future Combat Air System (FCAS) is helping to develop a thriving defence industrial and innovation base to ensure the UK maintains air superiority and freedom of action in the most challenging environments. In the UK, GCAP is the core of the Future Combat Air System programme, with over 4,500 people working on FCAS, supporting high-skilled jobs across the South West, East and North West of England and in Scotland.

The Strategic Defence Review highlighted GCAP as a strong example of a capability partnership, strengthening alliances and enhancing our security, both in the Euro-Atlantic and the Indo-Pacific. The UK is proud to work alongside Japan and Italy on GCAP. On 7 July 2025, we opened the trilateral GCAP headquarters in Reading and launched the joint venture made up of industry organisations from all three nations to deliver the programme.

Dstl, working with QinetiQ, has developed EREBUS a flight test capability to enable earlier real world testing of Defensive Aid Systems (DAS), reducing risk, cost and time to service while strengthening protection for RAF aircraft against modern missile threats. The first set of flight tests were completed in October 2025, providing vital test evidence for UK DAS development and assurance. Future work will focus on reducing the risks of integrating UK DAS to our military aircraft making it simpler, quicker and cheaper to bring these new systems and upgrades into service. The UK is sharing best practice and access to the test capability through the Four-Eyes Air Electromagnetic Warfare Combined Test and Evaluation Programme Agreement, attracting interest from NATO and European partners and reinforcing the UK's reputation for world-class Design and Access Statement development.

Integrated Air and Missile Defence

Integrated Air and Missile Defence (IAMD) was identified as a core priority within the Strategic Defence Review (SDR). Effective IAMD is a key element of deterrence and provides the freedom of action required to enable Military operations. The Royal Air Force (RAF) is the Lead Command for delivery of IAMD, responsible for integration of contributions from all areas of the Integrated Force, and the provision of the UK's Air and Missile Defence Commander (AMDC) to ensure operational coherence across the IAMD enterprise.

In response to the SDR, the Government committed to provision £790 million over the next four years of new investment through the Defence Investment Plan (DIP), and we established the IAMD Directorate within the Military Strategic HQ. The Directorate's role is to maximise the benefit of DIP investment by ensuring it is prioritised, cohered, and employed effectively across the IAMD enterprise. Initial activity has focused on the application of agreed IAMD priorities to strengthen capability and deliver maximum operational effect within available resources. In parallel, enhanced Governance structures, incorporating wider cross-government stakeholders, have been implemented to ensure there is clear oversight, prioritisation and decision discipline across the IAMD Enterprise.

Space

Space is a critical national infrastructure sector, a site of growing competition and a domain that is central to warfighting. Assured access to operate in, from and through space underpins the UK's security, prosperity, and daily life. Effective use of space is critical to the ability of the Integrated Force to understand, communicate, move, and fight. Satellite communication and data relays are fundamental to the armed forces' ability to understand the battlespace, exchange information and make and communicate decisions in real time.

SKYNET is the UK Ministry of Defence's satellite communication (SATCOM) capability. It supports operations to deliver information to UK and allied forces around the world, enabling battlefield information advantage anywhere, anytime. Representing the single largest government investment in the UK space industry, SKYNET 6 highlights the nation's commitment to developing its space capabilities.

The first of the SKYNET 6 assets, 6A, reached a milestone in March 2025 with the completion of the initial phase of testing at the new UK-government funded National Satellite Test Facility (NSTF) in Harwell, Oxfordshire. The satellite will leverage the latest developments in digital processing and radio frequency spectrum utilisation, offering greater capacity and versatility than previous generations of SKYNET satellites.

Further testing of the completed SKYNET 6A satellite will be conducted at the facility this year, with Airbus Defence, Space UK and the Science and Technology Facilities Council's (STFC) Rutherford Appleton Laboratory (RAL) Space working closely together to guarantee the satellite's long-term functionality and reliability once it's launched into orbit. It will be a critical asset for the UK's armed forces and allies, providing secure and reliable communications for at least 15 years and supporting a wide range of military activities across all operational domains.

A £65 million deal with CGI UK, an IT systems integration specialist, will see a command, control and data processing system providing the UK military with a better understanding of the Space Domain, improving military commanders decision-making process and supporting operations, both at home and overseas. Under the five-year contract, Borealis will provide software for the National Space Operations Centre, which develops and operates the UK's space surveillance and protection capabilities, underpinning the UK's security and prosperity. It will be a unique, UK-made system which will support military operations around the world, enhancing protection for our satellite technology that

millions rely on, while boosting jobs and growth at home.

Cyber

Modern conflict is increasingly shaped by persistent cyber threats, hostile state activity and the accelerating fusion of digital and physical battlefields. To remain secure, we must strengthen our ability to operate, defend, and project power in cyberspace, integrating offensive and defensive cyber capabilities, enhancing resilience across national infrastructure and ensuring forces can fight through disruption.

We have reshaped the Cyber & Specialist Operations Command (CSOC) to meet the demands of modern competition and warfighting, and we have the new Defence Cyber and Electromagnetic Force, bringing together cyber warfare and electromagnetic spectrum operations across all armed forces. CSOC now unites Defence's cyber, electromagnetic, intelligence fusion, and specialist capabilities under a single, coherent command structure, ensuring we can operate, defend, and generate effects across the full spectrum of domains: land, sea, air, space, and cyberspace. This transformation recognises that the Cyber (Cy) and Electromagnetic (EM) environment underpins every digital system, platform, and communication pathway on which the modern force depends; but that this same connectivity creates systemic vulnerabilities that adversaries routinely seek to exploit.

Recent conflicts, particularly in Ukraine, have demonstrated that persistent cyber attacks, disinformation campaigns, and integrated digital operations are now defining features of warfare. CSOC has embedded those frontline lessons, driving a shift towards intelligence-led, data-driven operations that integrate cyber, EM, AI-enabled analytics, and rapid technical innovation to sharpen the UK's operational advantage. Every day, CSOC's defensive cyber specialists safeguard critical national networks, military systems, supply chains, deployed platforms and the information environment on which all modern operations rely.

The first fast-tracked cyber recruits have graduated from the Defence Cyber Academy and have now entered operational roles. This reduces initial military training to around one month, after which recruits undertake three months of specialist cyber instruction, aligning our talent pipeline with the pace and complexity of the threat.

Taken together, these developments in organisational reform, capability integration, intelligence-led operations and workforce growth represent a significant step in strengthening Defence's ability to operate effectively in the CyEM domain. However, force generation remains challenging, and connectivity above Secret continues to be a practical dependency, limiting the extent to which Defence can fully integrate with National and Five Eyes (FVEY) partners operating routinely at those levels.

Digital Targeting Web

The Digital Targeting Web (DTW) will be the unifying digital mission for the Integrated Force. It will be an adaptive, secure and evolving set of data and digital services that unite users, systems and platforms to enable and enhance targeting accuracy, precision, speed and resilience across all domains. The core of the targeting web is data, which will be moved via the digital backbone and exploited by customers using AI software to generate targeting speed, precision and scale. The approach to deliver the DTW is novel: the ability to develop digital and data capabilities at pace is more important than any given capability at a point in time, where historical procurement models are too slow and lack agility. Decentralised delivery actively supported by centralised control is therefore the model of choice. The DTW will be dependent on the development of a Digital Warfighting Group capability that will enable the rapid development of capability exploiting core infrastructure and services.

We have established a number of key enabling projects: a data brokerage service, automation of existing targeting processes, cross-domain solutions, design authority development, reference architecture development and publication of patterns and standards to enable existing programmes to start to align to DTW outcomes, however, we know that dynamic defensive targeting required to enable IAMD is the most challenging task for DTW to support.

The design of a coherent delivery and lead command model is being developed and iteratively implemented in conjunction with the NAD Group. Industry has been engaged since summer 2025 to establish working relationships particularly focused on small and medium enterprises (SMEs), through a collaborative model rather than reliance on a singular Defence 'prime' contractor delivering bespoke or point solutions. Work has also begun across bilateral and NATO partners and allies to synchronise activity and approaches within a 'NATO-first' model whilst retaining sovereign ownership of data.

Weapons

UK troops are being armed and protected through major investment in future weapons technology as the UK seeks to become the leading edge of innovation in NATO.

The British Army has pioneered the use of a radio-frequency directed energy weapon demonstrator. Developed by a UK-led consortium, more than 100 drones were neutralised using high-frequency radio waves during trials in Pembrokeshire.

Further enhancing battlefield effectiveness, the Army achieved a world-first live fire record, using Javelin's Lightweight Command Launch Unit to engage a target at 4km range on Salisbury Plain. This advanced system is smaller, lighter, and doubles target detection, with UK-supported production set to increase significantly by 2030. The milestone underscores the UK's leadership in anti-tank technology, contributing £56 million annually to the economy.

In air defence, a £118 million contract awarded to MBDA will deliver six Land Ceptor missile launchers over three years. These launchers, integral to the Sky Sabre weapon system, fire Common Anti-Air Modular Missiles capable of intercepting multiple high-speed threats. Tested in NATO exercises and deployed in Poland, the programme supports up to 140 UK jobs, including at MBDA's expanding Bolton site.

The UK's commitment to maintaining critical firepower is further demonstrated by a £20 million, 10-year contract with FN UK to upgrade and support the L111A1 Heavy Machine Gun. This mid-life improvement programme, being undertaken in Kent, will enhance performance, reliability, and reduce costs, saving Defence approximately £9 million while sustaining 90 jobs. Marking FN UK's 50th anniversary, the contract reflects over 135 years of expertise and dedication to UK defence manufacturing.

The Royal Navy's maritime strike capabilities have been significantly enhanced with the achievement of Initial Operating Capability of Sea Venom missiles on Wildcat helicopters during Operation Highmast in the Indo-Pacific. Equipped with advanced operator-in-the-loop targeting, Sea Venom offers exceptional precision and flexibility against a range of threats, complementing the Martlet missile within the Future Anti-Surface Guided Weapon programme to provide comprehensive anti-surface warfare.

And the UK's DragonFire laser system has successfully engaged high-speed drones in trials, leading to a £316 million contract with MBDA to deliver this cutting-edge directed energy weapon to the Royal Navy by 2027, five years ahead of schedule. Costing just £10 per shot, DragonFire represents the first high-power laser capability entering service from a European nation.

This programme is supported by a £490 million investment from the Defence Investment Plan to develop Directed Energy weapons, including the delivery of the

DragonFire system on Royal Navy Type 45 destroyers from 2027.

Internationally, the UK and France have reinforced their defence partnership by signing a Memorandum of Understanding to jointly study a successor to the Meteor missile, a leading beyond-visual-range air-to-air weapon. This 12-month study, a key outcome of the Lancaster House 2.0 treaty, will assess future threats and explore advanced technologies to develop a next-generation missile system. As part of a renewed Entente Industrielle, the initiative aims to enhance industrial efficiency, reduce duplication, and strengthen NATO's air combat capabilities. A joint Complex Weapons Portfolio Office will coordinate missile programmes, fostering closer defence alignment and international cooperation.

Wildcat Helicopters fly past HMS Prince of Wales, carrying Sea Venom medium-weight anti-ship missiles.

An organisation that takes a NATO first approach by stepping up our commitments for European security, and extends our influence beyond the ability to fight through diplomacy and development of other nations' capacity to defend themselves

NATO is the bedrock of Euro-Atlantic security, reflected in the adoption of our 'NATO First' approach. This ensures that NATO is foremost in how Defence plans, is the foundation for how Defence thinks and is embedded in how Defence acts. NATO is the starting point for how the armed forces are developed, organised, equipped and trained. The UK's commitment to NATO remains steadfast, and we continue to declare our nuclear deterrent to the defence of NATO.

The Strategic Concept states that NATO is committed to ensuring greater integration and coherence of capabilities and activities across all domains and the spectrum of conflict, while reaffirming the unique and distinct role of nuclear deterrence. The July 2024 Washington Summit declaration went further, committing to modernising NATO's nuclear capabilities, strengthening NATO's nuclear planning capability, and adapting as necessary. The UK will continue to support the development of NATO's nuclear capabilities and planning through the NATO Nuclear Planning Group (NPG).

In total we will invest £298 billion in Defence over the next four years, including a £15 billion increase in spending power over the next four years above the previous spending review settlement. This enables the armed forces to keep the country safe and support NATO allies and underpins the UK's commitment to supporting Ukraine for as long as it takes, including playing a leadership role in the Coalition of the Willing.

We have played a central role in NATO's response to Russian air incursions, offering air assets early to NATO's enhanced vigilance activity Eastern Sentry. On 10 September 2025, several Russian uncrewed aerial systems entered Polish airspace, marking the most significant incursion into NATO airspace since the start of Putin's illegal full-scale invasion of Ukraine. In response, we deployed RAF Typhoon fighter jets to support NATO's response to Eastern Sentry, reinforcing the alliance's air defences on its eastern flank. These were supported by RAF Voyager air-to-air refuelling aircraft. RAF Typhoons conducted air defence missions over Poland, operating alongside allied forces from Denmark, France and Germany, to ensure the security of allied territory and to deter further aggression.

In November 2025, the UK carrier HMS Prince of Wales was placed under NATO command as it reached full operating capability, strengthening NATO's defence and deterrence. We deployed a Royal Navy patrol ship and RAF P-8 maritime surveillance aircraft to monitor, track and deter a Russian spy ship near UK waters and deployed specialist units to counter drone threats in Belgium and Denmark.

Recognising the importance of collaboration across the Alliance for developing our collective industrial base, we will deliver against the NATO Industrial Capacity Expansion (NICE) Pledge, NATO Defence Production Action Plan (DPAP) and the recently agreed NATO Rapid Adoption Action Plan (RAAP). This will principally be driven through the implementation of a range of associated initiatives including:

- NATO Multi-National Procurement Initiative, DIAMOND
- delivering Integrated Air and Missile Operational Networked Defence, an initiative launched by the UK in September 2023 and formalised via Letter of Intent in October 2024, responding to the increased focus on improving the integration of Ground-Based Air Defence within NATO IAMD
- the NATO Innovation Fund and NATO's Defence Innovation Accelerator for the North Atlantic (DIANA), to accelerate emerging and disruptive 'dual use' technological solutions to critical transatlantic defence and security challenges, as well as other associated initiatives.

Activity	2024-25	2025-26
NATO Fill Rates	86%	94%
NATO Operations Numbers	8	8
NATO Exercises Numbers	14	16

Ukraine

The UK has committed £13Bn in military support for Ukraine since the invasion and we will continue to provide military aid for as long as it takes.

The UK is providing £2.26Bn in additional support to Ukraine as part of the G7's Extraordinary Revenue Acceleration (ERA) Loans to Ukraine scheme, which will be repaid using profits generated by immobilised Russian sovereign assets. Two thirds of the UK's loan (c. £1.5Bn) was disbursed in 2025; a third payment of £752M will follow later this year.

In 2025-26, the UK has provided £4.5Bn in support of Ukraine, more than in any previous year.

We have invested £600M in air-defence capabilities in 2025-26, providing critical help to Ukrainians as they defend their towns, cities and energy infrastructure from Russia's attacks.

We have also invested £600M to accelerate drone deliveries to Ukraine, with over 85,000 drones delivered in just 6 months.

£70M from our ERA Loan contribution will fund 350 Advanced Short Range Air-to-Air Missiles.

Ukraine has received a new rapidly developed bespoke air defence system called Gravehawk, jointly funded by the UK and Denmark. Two prototypes of the air defence capability system were tested in Ukraine in September 2025, and a further 15 will follow this year.

Our UK-Ukraine Defence Industrial Support Treaty expanded the range of military equipment that could be funded by drawing on £3.5Bn of UK Export Finance-backed funding. This has enabled a deal worth £1.6Bn that will see Thales supply 5,000 lightweight multirole missiles (LMMs) manufactured in Belfast. Hundreds of these LMMs were delivered five months ahead of schedule.

Since June 2022, we have trained over 62,000 Ukrainian personnel in the UK under Operation INTERFLEX. The training scheme has been extended until at least the end of 2026.

Through the International Fund for Ukraine (IFU), we continue to work closely with international partners to provide critical capabilities to Ukraine. Since April 2025 we have received contributions from international partners worth over £1.6Bn to fund capabilities such as air defence, artillery ammunition, drones and maritime capabilities.

The UK and Germany became co-chairs of the Ukraine Defence Contact Group (UDCG) in February 2025. The UDCG includes over 50 nations and international organisations. In 2025, the international community pledged over $45Bn in military help to Ukraine through the UDCG forum.

In April 2025, the UK took on the management of the NATO Security Assistance and Training for Ukraine (NSATU) Trust Fund. The NSATU Trust Fund rapidly

procures military equipment such as spare parts, fuel for vehicles, training and medical consumables for the Ukrainian armed forces. A total of £171M has been contributed to the NSATU Trust Fund by Allies and Partners, of which the UK has contributed £40M.

Europe

The UK's defence relationships with Europe continues to strengthen.

In 2025-26 we have negotiated several major agreements, including: Lancaster House 2.0; the Kensington Treaty; the framework agreement with Spain; the political announcement on Gibraltar; and the Lunna House agreement.

We backed up these relationships with tangible operations and exercises, by: extending the UK commitment to NATO's Kosovo Force (KFOR); organising Carrier Strike Group port visits in Albania, Greece, Italy, Gibraltar and Spain; activating a JEF Response Option (NORDIC WARDEN) to safeguard Critical Undersea Infrastructure in the Baltic Sea; and continuing to contribute to the NATO Forward Land Forces in Estonia and Air Policing across the continent. We also played an active role in other minilateral formats, including the European Group of Five (E5), which we hosted in London in September 2025, the Joint Expeditionary Force (JEF), and the London Western Balkans Peace Summit in October 2025.

France – Lancaster House

On 10 July 2025, the Prime Minister and the French President rebooted and modernised our bilateral defence and security relationship, including under the Lancaster House Treaties, in order to effect a generational shift in both our bilateral cooperation and our joint contribution to the defence of Europe, its citizens and of its interests. Lancaster House 2.0 was announced alongside our intent to carry out a series of ambitious projects and develop new areas of collaboration that will underpin our defence and security relationship for the next fifteen years and beyond. These included commitments to:

- deepening our longstanding and resolute commitment to cooperation between our independent nuclear deterrents
- launch the Combined Joint Force – overhauling the existing Combined Joint Expeditionary Force to refocus it on the Euro-Atlantic and warfighting at scale to deter, placing it on an operational footing for the first time
- embark upon an 'Entente Industrielle' to enhance capability and industrial co-operation, bringing our defence industries and militaries closer to strengthen NATO
- develop new cooperation in every domain to enhance military interoperability and support NATO, driven by annual meetings of our Joint Chiefs
- reinforce the UK-France integrated defence and security partnership to deter and respond to the full spectrum of threats
- enhance communications and institutional exchanges across our two systems, as an enabler to our strengthened partnership across the entirety of defence and national security.

The UK and France also announced the Northwood Declaration in July 2025, deepening our longstanding and resolute commitment to cooperation between our independent nuclear deterrents. The UK and France declared that our respective deterrents are independent, but can be coordinated, and that there is no extreme threat to Europe that would not prompt a response by our two nations. Deeper coordination across nuclear policy, capabilities and operations is directed by the new UK-France Nuclear Steering Group, which met for the first time in December.

Germany – Trinity House

On 23 October 2024, the UK and Germany signed the Trinity House Agreement on Defence Co-operation in London. The agreement set out our shared commitment to improve and further enhance bilateral defence co-operation to better meet the common challenges of the 21st century and to best

secure the common interests of both countries.

The Trinity House Agreement committed both Ministries of Defence to meet regularly in different formats to deepen defence co-operation at all levels. Since signing the agreement, Procurement Ministers have met in the Ministerial group on Equipment and Capability Co-operation (MECC) format (November 2024, June 2025 and March 2026), Vice Chiefs of Defence have met in the Military Steering Committee format three times (January 2025, October 2025, and February 2026), and Policy Directors have met in the Defence Policy Dialogue format once (April 2025). The UK-Germany Bilateral Nuclear Dialogue, a Trinity House sub-group dedicated to nuclear issues, met in November 2025 and is scheduled to meet again later in 2026 to discuss bilateral cooperation on strategic issues, and to align national positions on key NATO nuclear posture reforms. The Deep Precision Strike bilateral programme continues at pace with a Pre-Concept Sprint (PCS) completing February 2026 and an Accelerated Concept Phase (ACP) starting May 2026. Supporting these activities a Framework Arrangement was signed between Ministers at the MECC in March 2026, to cover the programme as a whole, and an Implementation Arrangement for the ACP was signed at the 5P in April 2026.

Defence Ministers met again in October 2025 to mark the first anniversary of the Agreement, agreeing to ramp up cooperation on joint cyber security and defensive activity. This included agreement of a new lighthouse project aimed at enhancing cyber resilience and defence capabilities in the digital domain. This project will allow the UK's new Cyber and Specialist Operations Command (CSOC) and the German Cyber and Information Domain Service to work more closely than ever before.

Additionally, in July 2025 the UK and Germany signed the Treaty on Friendship and Bilateral Cooperation (the Kensington Treaty), which includes a commitment to improve and further strengthen bilateral defence cooperation. As part of the Implementation Plan under Article 22 of the Treaty, the UK and Germany agreed to deliver 17 priority projects, which span the breadth of the Treaty, enhancing cooperation in the face of global challenges, and delivering tangible benefits for UK and German citizens. The projects will be reviewed by a Joint Cabinet every two years.

Norway – Lunna House

Building on the Type 26 deal, the Secretary of State for Defence and the Norwegian Defence Minister, signed the Lunna House defence agreement on 4 December 2025 at 10 Downing Street. This will see the UK and Norway operating an interchangeable Anti-Submarine Warfare (ASW) fleet of up to 13 Type 26 frigates.

The ships are to be built at BAE Systems' shipyards in Glasgow. The agreement, the largest UK warship export deal ever, will support over 4,000 jobs in the UK (including 2,000 in Scotland) and safeguard shipbuilding on the Clyde until 2040. With the UK joining the Norwegian programme, we will:

- develop innovative offshore support vessels, which will act as motherships for uncrewed mine hunting and undersea warfare systems;
- conduct year-round training of Royal Marines in Norway
- adopt advanced Norwegian naval strike missiles, in the Royal Navy
- deepen collaboration on Sting Ray torpedoes, as well as the UK and Norway leading NATO's adoption of autonomous systems in the High North.

Royal Marines are returning in force to the Arctic Circle as the UK and Norway begin a new era of joint operations in defence of NATO's northern flank.

KFOR extension and Western Balkans Peace Summit

On 22 October 2025, the Prime Minister hosted the 11th Western Balkans Summit on the Berlin Process. Eleven European Heads of Government, five other European Ministers (E5), and leaders from nine international and regional organisations joined the UK to reaffirm a shared commitment to stability, security, and prosperity in the Western Balkans. Discussion focused on migration, security, resilience and economic growth. Key announcements included a UK-founded Joint Migration Taskforce, creating a platform for intelligence sharing and operational coordination; and an extension of the UK's commitment to NATO's KFOR missions for a further three years. KFOR is now NATO's largest and longest standing mission and UK force commitments remains crucial to supporting security in the Western Balkans region.

Relatedly, the UK is now leading work to agree an E5 vision statement for the region, enabling closer coordination of our efforts towards peace and stability with our key Allies.

UK and EU Cooperation

On 19 May 2025, the United Kingdom and the European Union reached agreement on a new and ambitious Security and Defence Partnership (SDP) during the inaugural UK-EU Summit. This partnership reflects our shared commitment to addressing the challenges in the context of growing geopolitical uncertainty.

The SDP provides a robust framework for closer UK-EU collaboration in key areas, including military mobility, defence industry cooperation, and addressing thematic security challenges. Specific dialogues have already been initiated on critical issues such as maritime security and hybrid threats. Additionally, the partnership strengthens collective support for Ukraine, with dedicated discussions focused on coordinating efforts to assist Ukraine in its defence against Russia.

As part of the SDP, regular and formalised foreign and security policy dialogues have been established, with the Defence Secretary and Foreign Secretary hosting the first of these discussions in October 2025.

The next UK-EU Summit later this year, will be an important opportunity to build on the progress made so far, serving as a platform for agreeing the next phase of strengthened cooperation.

Joint Expeditionary Force Partnerships

The Joint Expeditionary Force (JEF) is a UK-led, ten nation Northern European military and political framework that contributes to security in the Euro-Atlantic area by providing an agile, flexible, and fast-response mechanism that complements NATO. All JEF exercises and planning is aligned to NATO Regional Plans complementing NATO activity under Article 3, building individual and collective capacity to resist armed attack and supporting NATO's collective security through mutual aid in strengthening individual and mini-lateral capabilities. The JEF will continue to develop its ability to respond to security challenges, with a developing focus on the sub-threshold threat in all domains in the High North, North Atlantic and Baltic Sea Region, whilst remaining available for use beyond the core areas. The JEF will continue to develop

opportunities for capability development with interoperability for future exercises and operations.

At the JEF Defence Ministers meeting in Norway in November 2025, the updated JEF Comprehensive Memorandum of Understanding was signed, formally integrating the JEF/Ukraine Enhanced Partnership agreed by JEF Leaders at their Summit in Norway in May 2025. JEF Chiefs of Defence Staff directed the development of the JEF/Ukraine roadmap at their meeting in January 2026, with options for the roadmap being developed. In addition, the JEF Medical Working Group has engaged Ukrainian delegates for lessons sharing on battlefield medicine, and ongoing work to build war gaming capability and staff capacity among the Ukrainian armed forces.

Tarassis, the JEF's largest and most significant military activity in its 11-year history, saw two months of intensive activity across the High North and Baltic regions, led by the UK. The exercise took place throughout September and October 2025 and saw more than 1,700 British personnel from all three services of the armed forces exercise alongside all ten JEF Partner Nations. The activity spanned across Norway, Sweden, Finland, Estonia, Latvia and the wider Baltic Sea. Tarassis also saw engagement from Canada where Canadian Air Forces supported exercises across the Baltic Region via the JEF+ mechanism which allows non-JEF Members to take part in JEF activity, alongside support from Germany.

The JEF continue to expand their engagement with partners via JEF+, with high levels of interest and previous operational experience with Canada, Poland, Belgium and Ireland. Allies will be engaged as planning continues for this year's signature exercise, Lion Protector, which is scheduled for September 2026 and will exercise around the High North and Greenland. The LION series of activity, puts the JEF in-line with NATO's three-year planning cycle and will complement NATO exercises, ensuring planning alignment and maximum impact, with JEF Operational Headquarters reviewing plans to ensure maximum impact in a geopolitically changing Northern European context.

JEF Defence Ministers met at the Munich Security Conference on 12 February 2026 and JEF Leaders met in Finland on 26 March 2026 to discuss Euro Atlantic Security and provide strategic direction for the JEF in the year ahead.

Danish and British combined their skills to work together jointly in the EOD field as part of wider Tarassis activities

Rest of Europe

The UK remains steadfast in our commitment to NATO's Eastern Flank and our Forward Land Force (FLF) in Estonia and Poland, known as Op CABRIT (approximately 1,000 personnel). A UK Battlegroup is based at Tapa in Estonia, with an Army Brigade held at high readiness in the UK for rapid reinforcement if needed. A British Army reconnaissance squadron is based in Poland.

The UK Carrier Strike Group (CSG) deployment into Europe in 2025 provided a key opportunity to leverage defence diplomacy in support of UK Defence objectives in Europe. The CSG and elements of the group were able to conduct port visits and provide a platform for key leader engagement in Albania, Greece, Italy, Spain and Gibraltar.

The UK Government reached a political agreement with the EU on 11 June 2025 on the core principles of the UK-EU Treaty on Gibraltar's future relationship with the EU. Agreement of these core principles protected British sovereignty, secured Gibraltar's

economy, and provided certainty for people and businesses in Gibraltar. This was a significant step after four years of negotiations. Crucially, this agreement guaranteed the full operational autonomy for the UK's military facilities in Gibraltar, including RAF Gibraltar.

Rest of the World

United States of America

The United States remains the UK's closest defence and security ally, and the combined strength of our relationship is not only critical to the security of the UK, but also of the wider Euro-Atlantic and the world. The strength of the partnership is a result of generations of UK and US defence personnel tackling global challenges together. We are closely integrated with US strategic forces, and our work to guarantee that the UK's sovereign nuclear deterrent is safe, protected, effective and credible is achieved with vital support from the US under the 1958 Mutual Defense Agreement and 1963 Polaris Sales Agreement. In 2025, we built on this by announcing that the UK would purchase F-35A aircraft and join the NATO nuclear mission, further deepening our long-standing bilateral nuclear partnership.

In addition to our operational partnerships, this year we have continued to deepen our defence industrial relationship. The Prime Minister and President Trump announced a landmark UK-US technology partnership during the State Visit in September, with the intention of strengthening bilateral cooperation in emerging technologies, including AI, quantum computing and cyber security. The agreement included a Joint Declaration of Intent on Defence Innovation Collaboration, which highlighted the commercial sector's role in defence innovation and our commitment to shared national security. Since the State Visit, we have agreed a new 'Collaboration in Defence Innovation' MOU to strengthen UK-US innovation efforts. This enhances an already robust research and development relationship to bring new enablers for rapid capability development, reduce barriers, and ease staff workloads.

Throughout 2025-26, our single Services undertook a diverse range of integrated activities further highlighting the strengths of our bilateral relationship. The UK–US maritime capability cooperation framework, Delivering Combined Seapower, was refreshed to drive progress from 'interoperability' to 'interchangeability', with a focus on faster delivery in 2026. The UK's seven-month Operation HIGHMAST maritime deployment saw the US provide intelligence, logistics, and operational assistance that supported global operations and seamless integration with US and allied forces.

UK-US Army collaboration focused on interoperability, joint readiness, modernisation, and ongoing research and development, reinforced through extensive combined training. Key exercises included the DEFENDER series in Europe, rehearsing reinforcement and high intensity NATO operations; Project Convergence, advancing multi-domain integration and digital command and control; and Indo-Pacific activities such as Talisman Sabre, strengthening regional partnerships and deterrence.

Our Air Forces focused on rapid deployment and advanced air combat integration. Key activity included REFORPAC 2025, supporting Agile Combat Employment in the Pacific and Exercise Warfighter conducting joint training with the US Army. The RAF also participated in Exercises Red Flag 25-1, Bamboo Eagle 25-3, and Northern Edge 25, concentrating on high-end warfighter training. In the space domain, UK and US Space Commands conducted their first coordinated satellite manoeuvre, under Operation OLYMPIC DEFENDER, demonstrating growing interoperability in the increasingly contested space domain.

Cyber & Specialist Operations Command (CSOC) supports and enables UK-US operational activity across geographic Combatant Commands, and within Special Forces, cyber and intelligence communities,

reinforcing day-to-day integration and operational coherence. The appointment of a UK Liaison Officer to the US Defense Innovation Unit further underscores CSOC's commitment to deepening UK-US collaboration on defence innovation and sustaining operational advantage. Through close collaboration with US counterparts via Op HIGHMAST, CSOC delivered significant advances in the application of data-centric security to critical mission IT.

The passage of the US National Defense Authorization Act 2026, includes two UK-initiated provisions codifying Five Eyes military medical cooperation and amending US law to recognise national healthcare personnel licensing. These measures will increase interoperability and resilience, enhance the collective medical advantage, and save lives.

A gun salute is fired from HMS Prince of Wales to mark her arrival into Gibraltar under Operation Highmast

Middle East

The February 2026 US–Israeli air campaign against Iran's nuclear and military infrastructure marked a key inflection point, prompting widespread Iranian retaliation against Israel, US positions, and Gulf infrastructure.

In line with requests from Gulf partners, the UK has enhanced its regional posture, including the deployment of additional Typhoon and F-35 aircraft, alongside personnel providing air operations and expertise across partner nations. UK forces have conducted Defensive Counter Air operations across the region, as well as increased our ground-based air defence deployments to the Gulf, contributing to the protection of civilian populations, critical infrastructure, and partners' security, while remaining consistent with international law.

The Chief of the Air Staff, Air Chief Marshal Harv Smith, visited deployed personnel in Cyprus and across the Middle East protecting UK Personnel, Partners and allies in the region.

The UK is working with international partners, including co-leading a multinational mission with France, to restore freedom of navigation in the Strait of Hormuz, with activity focused on protecting global commerce, maintaining regional stability, and avoiding further escalation.

Indo-Pacific

The UK continues to support a free, open and stable Indo-Pacific, promoting UK economic growth, reducing threats to UK global interests and strengthening alliances and partnerships.

Operation HIGHMAST, the UK's Carrier Strike Group (CSG) deployment in 2025, included 5 months in the Indo-Pacific and delivered against military, diplomatic and economic objectives. Military-to-military engagements included activity with the Indian Navy, the Indonesian Navy, the Republic of Korea Navy and the full integration of US, Australia, New Zealand, and Japanese warships alongside NATO partners (Canada, Norway, and Spain)

within the CSG. At sea activities included support to United Nations Security Council Resolution enforcements, freedom of navigation assertions, multi-domain and multi-national exercises, and sustained periods of multi large-deck aviation operations. Ships from the CSG conducted successful port visits to Singapore, Indonesia, Australia, Japan, the Republic of Korea, Philippines, Vietnam and India, hosting distinguished delegations, supporting UK Growth and delivering international events such as the Pacific Future Forum 25 on board HMS Prince of Wales in Tokyo Bay.

We contributed to the elevation of the UK-Vietnam relationship to a Comprehensive Strategic Partnership in October 2025 and in January 2026, the signing of a Strategic Partnership with Indonesia. In July 2025, the UK and Australia signed the Geelong Treaty, an historic agreement for the next 50 years of bilateral defence cooperation under AUKUS Pillar I. As part of the AUKUS Optimal Pathway, a UK SSN, HMS Anson, conducted a port visit to Australia in March 2026 for a Submarine Maintenance Period.

We have achieved some significant industrial successes in the Indo-Pacific, including a £4 billion maritime deal between the UK and Indonesia, led by Babcock, securing 1,000 jobs and the export of Gripen fighter jets to Thailand.

HMS Anson's crew along with Australian counterpart, seen here as the boat arrives into Australia.

Africa

Throughout 2025-26 we have continued to support strategic partners across Africa to tackle security threats and promote peace and stability through focused defence education, training, and capacity building.

This has included delivering over 100 training and military educational courses across the continent, deploying 27 short term training teams to 13 different countries and supporting exercises across six different regions. The British Peace Support Team (Africa) delivered over 100 activities, training personnel from across sub-Saharan Africa.

This was an important year for the UK-Kenya Defence relationship. The Defence Secretary's visit in April 2025 reinforced the strength of the UK-Kenya Defence partnership. We delivered training for over 1,100 Kenyan personnel from all three services from counter-IED training, through to the development of a Kenyan marine capability and support to their special forces.

In Somalia, Operation TANGHAM's support to Somalia included delivering medical training to over 1,700 personnel in the Somali National Army and donating over £400,000 of counter-IED equipment.

At the third UK-Nigeria Security and Defence Partnership Dialogue hosted in London in July 2025 we renewed our commitment to support the armed forces of Nigeria, including in developing Nigeria's Defence Special Operations Force, Strategic Communications capabilities, joint operational planning, doctrine development and maritime domain awareness. Our support to Nigeria in 2025-26 has included delivering 41 training courses to over 830 personnel from the Nigerian armed forces, Police Force and Security and Civil Defence Corps.

Latin America, Antarctica and the Caribbean

The protection of the Overseas Territories (OTs) and their people is one of the UK Government's most important responsibilities and is the focus of Defence activity in Latin America, Antarctica and the Caribbean.

In the South Atlantic, the permanent presence of British Forces South Atlantic Islands (BFSAI) continued to safeguard UK sovereignty of the Falkland Islands and the Falkland Islanders' right to self-determination, as well as South Georgia and the South Sandwich Islands. Under Operation AUSTRAL ENDURANCE, A400M Atlas and Voyager aircraft have conducted three sorties over British Antarctic Territory in 2025-26.

In the Caribbean, a maritime presence was provided by a Royal Navy Offshore Patrol Vessel and we continued to support building the resilience of the OTs, including through their Defence Regiments and the Commonwealth nations. Under Operation VENTUS, we supported the UK's FCDO-led response to the impact of Hurricane MELISSA, focused on the Turks and Caicos Islands (TCI) and Jamaica. Humanitarian Assistance and Disaster Relief (HADR) was provided through 76 UK military personnel deployed ashore to help rebuild a hospital and school in Falmouth, Jamaica, and carry out damage assessments of other critical infrastructure.

HMS Trent ship's company deliver UKAID boxes to Jamaica after Hurricane Melissa.

In the wider region, Minister for the House of Lords signed a Defence Cooperation agreement with Guyana in April 2025, to provide a framework for enduring engagement. At the Defence & Security Equipment International (DSEI) exhibition in September 2025 the Brazilian Navy signed a contract for the acquisition of HMS BULWARK and we supported significant industrial successes including the export of Gripen fighter jets to Colombia.

A thriving UK defence industry that is resilient and scalable – an engine for growth, jobs and innovation across every region and nation of the UK

The UK defence sector is a world leader in defence capability, supporting our own armed forces and those of our allies and partners by delivering export opportunities across the world.

As a uniquely national sector with a worldwide reach, the work of Defence underpins the government's industrial and economic strategies and continues to drive British innovation on the international stage.

As the Strategic Defence Review makes clear, the UK is entering a new era of threat. Innovation and industrial power are central to deterrence, with the conflict in Ukraine providing a stark reminder of the imperative of maintaining sufficient inventories of munitions and spares, the fast replenishment and resupply by industry, and a rapid, continual cycle of innovation between industry and the front line. To support a return to warfighting readiness, the UK's defence innovation and industrial base must be able to adapt and surge to meet emerging priorities and demands.

As the Strategic Defence Review points out, the nature of warfare is changing, with less emphasis on exquisite, crewed platforms and a greater emphasis on drones, autonomous systems, networked capabilities and AI, and so the composition of our defence industrial base must adapt and transform to stay at the cutting edge.

Our Defence Industrial Strategy was published on 8 September 2025. It will make defence an engine for growth, backing British jobs, British industry and British innovation. To move to warfighting readiness to deter threats and strengthen security in the Euro-Atlantic, we will reform procurement, innovate at wartime pace, and grow our industrial base.

The Government has also announced the intent to increase spending with SMEs by £2.5Bn over the next three years, reversing the fall that was recorded before the election. SMEs play a vital role at all levels within the defence supply-chain, both directly and indirectly.

Defence Industrial Strategy

The Defence Industrial Strategy will strengthen our security and grow our economy. The strategy outlines how our government and industry will now combine around a clear set of priority outcomes:

- making defence an engine for growth
- backing UK-based businesses
- positioning the UK at the leading edge of defence innovation
- developing a resilient UK industrial base
- transforming procurement and acquisition systems
- forging new and enduring partnerships.

Since publication we have made progress in many areas of the DIS including launching all five Defence Growth Deals confirming £50M funding for each, launching our consultation on an offsets policy in October 2025, set up the Office for Small Business Growth in January 2026, and maturing our relationship with industry by running our now established Defence Industrial Joint Council with the Top Council, co-chaired by the Minister for Defence Readiness and Industry, having met for the third time in February 2026. This will help co-ordinate public-private investment strategies, boosting investment into UK defence and delivering new jobs across Britain.

Making defence an engine for growth

Defence is fundamental to economic growth by providing peace and security. Defence spending can drive long-term economic growth by targeting investment at scale in the

supply side of the economy for greater productivity and competitiveness, a priority under HMG's Plan for Change. The uplift in Defence funding comes with the requirement that it must drive economic growth. Economic power and pro-growth investment means warfighting power, cutting edge capability and overmatching our adversaries.

Making defence an engine of UK economic growth in delivering world leading capability, means investment which targets:

- Research and Development: Defence investment / spend drives defence innovation while generating dual-use technologies and commercialisation opportunities that spill over into wider economic growth
- Frontier Industries: Defence investment / spend is backing cutting-edge sectors like AI, cyber, quantum, and space which keeps the UK at the forefront of technology and boosts export potential
- Market competition: Defence investment / spend cultivates a competitive market, lowers costs, encourages innovation, and gives SMEs and new suppliers a chance to thrive. This is supported by more dynamic and efficient Defence procurement
- Skills: Defence investment / spend builds a high value, transferable skills base that boosts workforce productivity, innovation, and long-term growth
- Place: Defence investment / spend raises regional wages, grows industrial clusters, and spreads prosperity across the UK.

At the same time, making defence an engine for growth means positioning the UK as the international centre for defence finance and investment. Unlocking private capital into Defence and the defence sector alongside public spending, is essential to meet the scale and pace of change required to meet global defence and security challenges. The UK will shortly publish a first-of-a-kind Defence Finance and Investment Strategy (DFIS) for mobilising private capital through a new partnership with the finance and investment sector, by addressing barriers to investment in the sector, introducing alternative funding models to meet defence capability and homeland resilience needs, and strengthening financial readiness for crisis and conflict.

We are ensuring that defence spending delivers lasting benefits for people in every nation and region. To harness the impact the defence has on regional growth, alongside the Defence Industrial Strategy, the Department launched a £250M fund for five Defence Growth Deals located across the UK, in Plymouth, South Yorkshire, Scotland, Wales and Northern Ireland. Building on the success of the Team Barrow approach at the home of nuclear submarine building in Barrow-in-Furness, Defence Growth Deals bring together industry, local and national governments and academia as defence industry clusters in those areas. Each Defence Growth Deal combines defence and wider government investment to harness local sub-sector strengths, drive innovation, and deliver tailored support where needed, such as in skills, to boost local economies, attract private investment, and ensure long-term sustainability.

Defence plays an important role in supporting national renewal, and this investment is focused on the future workforce needed to deliver it. Our defence industrial base represents a commitment to innovation and excellence. It supports over 460,000 jobs and 24,000 apprenticeships nationwide, most in high-quality roles outside London and the South East. We expect the new Defence Investment Plan will boost productivity and investment, by 2029-30 support nearly 60,000 additional UK direct and indirect jobs compared to 2023-24, and boost the UK's defence exports. To realise this potential, we are committed to ensuring the future workforce has access to the necessary skills and opportunities for successful careers in the defence Sector.

Defence's impact is felt in every region of the UK. From a small medium enterprise supplier building crucial F-35 equipment to major employers supporting whole communities through major defence procurement projects, including our submarine building

programmes. Defence is creating rewarding, highly skilled jobs and encouraging investment in every region of the UK. Defence makes a significant contribution to the UK skills base by being one of the nation's largest employer of apprentices and the positive impact of defence on UK science, technology, engineering and mathematics (STEM) capability.

Examples of our contribution to UK Growth include:

- a new multi million-pound agreement with Cook Defence Systems will provide vital spare parts to the British Army armoured vehicle fleet. The three-year deal is worth up to £125M and will support 125 skilled jobs in the North East, securing investment in advanced manufacturing techniques to supply spare parts for all the Army's principal combat vehicles including its new Challenger 3 tanks, supporting skilled jobs at Cook's County Durham site. In the North West, Britain's air defences are to be strengthened with the purchase of six new surface-to-air Land Ceptor missile launchers supporting up to 140 jobs at MBDA's site in Bolton, Lancashire. The £118 million purchase will double the number of deployable Sky Sabre launchers operated by the armed forces in a drive to reinforce our air defences with a state-of-the-art defence system capable of intercepting cruise missiles, aircraft and drones
- a five-year £1.6 billion contract extension with British defence firm Babcock will cover vital military assets including most of the Field Army's in service platforms and vehicles required for its operational and readiness commitments, ensuring they remain combat-ready to meet emerging threats. As well as supporting 1,600 highly skilled jobs, this deal will also support approximately 6,000 UK businesses throughout the wider supply chain, as well as 200 apprentices. These apprenticeships will offer valuable training and development opportunities in fields such as HGV maintenance and automotive refinishing, providing career paths in the defence sector for the next generation of skilled workers. Similar opportunities will be sought to support the new vehicles entering service such as Boxer, Ajax and Challenger 3
- a five-year £1.5 billion contract extension with British defence firm QinetiQ provides test, trial, training and evaluation of defence equipment and capabilities at 16 Ministry of Defence sites. This includes missile firings, test pilot training and delivering live-threat scenarios. This contract will sustain 1,200 UK jobs, support an extensive supply chain of 825 companies, including 590 small medium enterprises. The contract will ensure UK armed forces equipment remains combat-ready and will support the delivery of future capabilities, including the Global Combat Air Programme's next-generation combat aircraft and has supported key moments for UK capabilities, including the first launch of a ballistic rocket into space from the UK, the first firing of a high-power laser directed energy weapon, DragonFire, against aerial targets and Europe's first successful demonstration of teaming a piloted aircraft with an autonomous air vehicle
- a £165 million contract extension with Leonardo will secure the upkeep of the Royal Navy's fleet of 54 Merlin helicopters, supporting 1,000 UK jobs with 200 in Somerset and 800 across wider UK supply chain. Merlin helicopters are submarine hunters and capable of intercepting pirates and drug runners, saving the lives of stricken mariners, and delivering stores and people. Armed with Sting-Ray Torpedoes and M3M .50 calibre machine guns, the Mk2 helicopters provide the Royal Navy with anti-submarine and anti-surface support. They also use powerful radars high above the Navy's carrier strike groups for airborne surveillance and control. The Mk4 fleet provides troop transport, casualty evacuation and can carry medium lift loads of up to 3.8 tonnes.

Defence is also working closely with the Department of Energy Security and Net Zero (DESNZ) as part of a "Nuclear Nation", seeking to increase collaboration and alignment between departments and set the direction of the nuclear industry to drive growth through increased jobs, investment and export opportunities.

Exports

UK businesses won £13.2Bn worth of defence orders in 2024, an increase of approximately 10.4% on 2023 in nominal prices. In 2025:

- the UK's biggest ever warship deal, worth £10Bn, with Norway, to export at least five Type 26 frigates, supporting 4,000 jobs across the UK across over 430 businesses of all sizes
- the largest fighter jet exports agreement in a generation, worth up to £8 billion for 20 UK Typhoon fighter jets to be exported to Türkiye, sustaining a 20,000 strong UK wide workforce
- the sale of 12 C-130 aircraft to Türkiye at a combined value to UK defence and Marshall Aerospace Group of over £550M, safeguarding 1,400 skilled jobs
- a deal worth up to £20Bn to the UK in exports over the next 25 years as part of the new 50-year AUKUS treaty to deliver submarines to the UK and Australia.

Defence continues to work in coordination with UK industry to maximise exports, while strengthening the UK's commitment to NATO and defending Europe's security. This includes reducing the administrative burden of granting export licences to open opportunities for UK businesses, support high-skilled jobs across the country, and provide more certainty for British businesses and supply chains involved in multinational defence programmes, whilst preserving UK sovereignty over key military capabilities; and fostering closer cooperation on exports with France, Germany and Spain following the defence exports treaty that the UK has signed with European allies.

Always on munitions pipeline

The UK is investing £11.1 billion on munitions and weapons to create an 'always on' pipeline of critical weapons systems, bolster the domestic energetics and explosives supply chain and bring production of key capabilities which are currently manufactured overseas to the UK.

Comprehensive planning will enable the building of at least six new energetics and munitions factories in the UK, generating over 1,000 jobs and boosting export potential.

Taken together, this strategic investment will enable rapid scale-up to meet the demands of warfare and bolster stockpiles, reflecting lessons learned from the conflict in Ukraine and marking the first evolution of large-scale, high-volume energetics production in nearly two decades.

At least 13 potential sites, including locations in Scotland, Northeast England, and Wales, have been identified for new factories to produce essential components such as propellants, explosives, and pyrotechnics. Defence has funded multiple feasibility studies and commissioned engineering design work to kickstart production, with the first factory expected to break ground within the next year. To support this, several investment windows will be opened starting in Q3 2026, inviting companies to submit proposals for capital grants up to £45M (or 50% of project costs) to fund new energetic materials manufacturing facilities.

These investment opportunities are open to all companies, regardless of prior engagement with Defence. These ambitious projects are part of a broader investment programme to enhance the UK's warfighting readiness and ensure rapid resupply capabilities. Funding is intended not only to protect the nation from emerging threats but also to deliver economic growth, measured in good jobs, thriving businesses and new skills across the UK's regions.

Beyond munitions, Defence is supporting cutting-edge innovation with the opening of

two new drone production facilities in Plymouth and Swindon, backed by £250M in defence growth deals.

UK Defence Innovation

Innovation and industrial power are central to deterrence and decisive factors in war. The conflict in Ukraine provides a stark reminder of the imperative of maintaining sufficient inventories of munitions and spares, the fast replenishment and resupply by industry, and a rapid, continual cycle of innovation between industry and the front line.

As announced in the Chancellor's 2025 Spring Statement, we will establish a ringfenced annual budget of £400 million, totalling £1.6 billion of investment by 2030, for UK Defence Innovation (UKDI), with a clear mandate to bring innovative technology to the front line at speed. The new innovation organisation, which was launched in July 2025, will help deliver cutting-edge technology to the armed forces and will be up and running by July 2026.

UKDI brings together previously separate innovation organisations including the Defence and Security Accelerator (DASA), Defence Innovation Unit (DIU), Command Innovation Hubs, and Defence Equipment & Support (DE&S) Future Capability Innovation (FCI), into a single, unified organisation. This new entity will accelerate the delivery of cutting-edge capabilities ensuring the UK remains secure at home and strong abroad and drive economic growth.

The new body will simplify and streamline the innovation system within Defence taking a new approach by moving quickly and decisively, using different ways of contracting, to enable UK companies to scale up innovative prototypes rapidly, by setting out a clear pathway, working with the rest of government, from initial production to manufacturing at scale.

UKDI will make the UK a defence innovation leader, funding and supporting firms of all sizes to take state-of-the-art technology from the drawing board to the production line, and into the hands of our armed forces. It will ensure cutting-edge innovations get into the hands of our armed forces faster, enhancing military capability while driving economic growth.

This shift represents a crucial part of our commitment to change defence, backing the high-growth UK firms developing pioneering technology of the future to boost our national security.

As part of UKDI's launch, two key initiatives have been established:

- A new Rapid Innovation Team (RIT) enabling innovation at 'wartime pace' by utilising commercially available dual-use technology to address the most urgent operational problems.
- Regional Engagement Teams across the UK to identify and support dual-use innovation from SMEs and academic spinouts, delivering targeted outreach and business development support.

Science and Technology

The Strategic Defence Review underscored that maintaining the UK's security and strategic advantage depends on rapid exploitation of science and technology. Emerging technologies, from robotics and autonomous systems to advanced computing are reshaping warfare and demanding faster adoption cycles. Defence advantage increasingly depends on the ability to integrate new technology into military capability, placing innovation at the heart of deterrence, force modernisation and economic growth.

To support this ambition, Defence is establishing a Science Function, led by the Chief Scientific Advisor (CSA), to ensure coherent Assurance, Standards, and Capability Planning across the diverse Scientific Community in Defence. The Function will set standards and requirements for the Defence science profession to deliver a skilled, innovative and resilient workforce. Core to this role is the requirement to bring greater coherence to professional scientific

skill expectations, reflecting the pan Defence approaches to skills and in support of wider Defence initiatives to strengthen the scientific skills pipeline. This includes overseeing the development of the scientific aspects of the pan Defence Skills Framework.

In July 2025, Defence appointed Professor Tim Dafforn as Chief Scientific Adviser. Professor Dafforn is responsible for setting science and technology (S&T) policy and strategy, steering early-stage research, and assuring the quality and independence of scientific advice across the Department.

CSA and his policy, strategy and scientific advice functions sit within the streamlined Department of State, whilst responsibility for S&T, research commissioning and delivery has moved to the National Armaments Director Group (NAD Group) as part of the defence delivery ecosystem. This will enable more coherent prioritisation, faster commissioning, and improved delivery of research into operational capability.

The NAD Group brings together Defence organisations responsible for the development and delivery of equipment, infrastructure, digital and scientific capability, including the Defence Science & Technology Laboratory (Dstl). As specified in the SDR and the Defence Industrial Strategy, Dstl has evolved to focus on that work that must be done in Government, including maintaining both critical sovereign facilities and an appropriate cadre of specialist staff. Key areas include chemical and biological defence, novel and unconventional weapons, explosives and energetics, counter-terrorism technology, cyber and information, systems integration and analysis where the market cannot sustain capability. Dstl's expert workforce partner with UK Defence Innovation (UKDI) to exploit Defence's and the market's investment to bring capabilities to the front line.

The Office of the Chief Scientific Adviser have established the CSA-chaired Science, Technology and Innovation Board (STI-B). This is the primary mechanism for cohering science, technology, and innovation activities across all four Areas of Defence. This board has been established with cross government representation to support a coherent, whole of government approach to national security and defence.

In response to the SDR, Defence is reinvigorating its engagement with the UK's academic sector as a critical enabler of the Whole of Society approach to national security. This includes direct involvement in UK Research and Innovation (UKRI) mission boards, allowing Defence to influence £38.6Bn in research funding in the civilian sector and ensure that technology development in the UK aligns to Defence needs more closely. The development of the Defence Universities Alliance (DUA), announced in the Defence Industrial Strategy, represents a step change in our relationship with the UK's world leading universities, creating a more strategic, networked partnership model, aligned to Defence capability, skills, and innovation priorities.

The Defence science and technology community continues to maintain strong international relationships, collaborating extensively with partners across North America, Europe, and the Indo-Pacific. We work closely with other government departments including Department for Science, Innovation and Technology and Cabinet Office to align Defence priorities with the wider science and technology system ensuring coherence across policy, investment, and international engagement. This cross-government integration is a core feature of the post-SDR Defence approach, recognising the inherently international and collaborative nature of scientific progress.

Transforming procurement and acquisition systems

As set out in the Strategic Defence Review, we are introducing portfolio-driven acquisition to increase pace and agility in capability delivery. Service agnostic portfolios will break down organisational barriers to deliver integrated, multi-domain capabilities, send industry a clear demand signal giving them confidence to invest in future capabilities, and drive pace in innovation through better collaboration between Defence, industry and academia.

During 2025-26 we have progressed portfolio design and implementation, aligned with wider Defence and National Armaments reforms. At 31 March 2026, the new portfolio-driven approach has been established in line with the Strategic Defence Review commitment, and the Lethality portfolio has been the first to stand up. Further portfolios will stand up in the coming year in a phased approach allowing for learning from experience, and work to mature and embed the portfolio approach will continue throughout 2026.

A substantial programme of work is underway across Defence to improve performance and efficiency of procurement by implementing acquisition reform to accelerate routes to contract, strengthen contractual levers, and improve delivery discipline, implementing the vision and commitments laid out in the Strategic Defence Review (SDR) and the Defence Industrial Strategy (DIS).

Delivering on a recommendation in the Strategic Defence Review, we have introduced a segmented acquisition model, tailoring acquisition routes to the type of capability, supplier and levels of risk. Procurement segmentation is designed to enable programmes to get to contract faster and has so far established three segments for Equipment acquisitions: major modular platforms, pace-setting development and modular upgrades, and rapid commercial exploitation. Procurement Segmentation is working hand-in-hand with early adopter programmes, creating the foundations for comprehensive, end-to-end acquisition reform across the Defence.

In support of Procurement Segmentation, the Accelerating Commercial Pathways programme is improving our ability to exploit the full range of commercial approaches. This includes harnessing the flexibilities and opportunities presented by the Procurement Act, to drive pace and innovation into procurements.

Each Pathway provides a handrail to guide teams to accelerate and improve their procurements. Pathways for Spiral, Urgent, Design to Cost (D2C), Digital & Technology (D&T) and Low Complexity Procurement (LCP) are empowering teams to think and act differently.

The recent launch of a Small- and Medium-Sized Enterprises (SME) pathway will enable teams across Defence to reduce barriers and increase the number of opportunities for small businesses and make our contracting processes simpler, less onerous and faster.

More pathways are being developed, including Infrastructure, National Security and a pathway focused on innovation and exploitation. As well as guidance on best practice and a range of case studies to help inspire others, the programme is also providing direct practical support to a range of programmes across the NAD Group to demonstrate the benefits of teams applying the Commercial Pathways. We are also reducing the time and resources required to deliver low complexity work through the Low Complexity Procurement (LCP) pathway. Currently, there are over 150 early adopters and 10 teams receiving direct support to pathways adoption.

Commercial X continues to get ground-breaking innovation into Defence at wartime pace, through improved policies and ways of working to reduce the effort required to complete commercial processes across the innovation acquisition lifecycle.

As of March 2026, Commercial X has delivered 850 contracts with an average time to contract of 31 days, 47% faster than average timelines for similar procurements.

The Defence Industrial Joint Council (DIJC) has been established and is the Department's primary strategic mechanism for engagement and collaborative delivery with the Defence sector.

The Department has established a common Supplier Relationship Management framework, which will be supported by a digital platform and standard measures, to provide consistent, pan-Defence oversight of strategic supplier relationships. This improves visibility of performance, risk and prioritisation across Defence, enabling earlier intervention and more focused use of senior commercial capability in line with Defence Reform

The Department also uses Strategic Partnering to focus senior commercial effort on suppliers and programmes that matter most for delivery, cost and resilience. This targeted approach improves productivity by concentrating specialist capability on high-risk, high-value areas, enabling earlier issue resolution, clearer accountability, and reduced duplication across procurement and delivery activity.

Small businesses told us defence procurement was too slow, too complex and too hard to navigate. The new Office for Small Business Growth (OfSBG) is central to resolving these challenges, delivering real change to how we buy. The Minister for Defence Readiness and Industry marked the formal establishment of the Office for Small Business Growth on 26 January 2026. We have designed the OfSBG in close consultation with industry. We are starting with 30 companies, chosen from across the UK, to test and refine the service before opening up to many more.

We have implemented a new Commercial Fast Path Programme which is a transformational initiative designed to rapidly build professional capability across Defence's 2,500-strong Commercial Function. The programme delivers an accelerated, ten-week route to CIPS Level 4, reducing time to full professional accreditation by 65%. Co-developed with CIPS, it blends immersive learning, AI-enabled tools, cohort-based delivery, and a graduate buddy system to enhance competence and commercial judgement. With 100% accreditation to date across all cohorts and significantly faster workforce readiness, Fast Path strengthens our procurement effectiveness, improves organisational resilience, and directly supports Defence capability.

We have also completed a review of the Single Source Contracting Regulations (SSCRs), setting out recommendations to support Defence contracting reform and reduce the regulatory burden on industry. These changes will be working through legislation in two stages to be finalised in the summer.

Logistics and Support

Logistics & Support is central to warfighting readiness and credible deterrence, ensuring the integrated force can get to the fight, stay in the fight and win.

Under Defence Reform, the National Armaments Logistics & Support (NALS) pillar of the NAD Group has been created, bringing together the core elements of Support under a single, coherent leadership from 1 April 2026. NALS spans policy and assurance, through to delivery and operations, in order to enable, sustain, and modernise the warfighting readiness of the UK Armed Forces through the delivery of integrated, resilient, and efficient support.

Bringing acquisition and support together in the NAD Group is improving the availability and sustainability elements of readiness by assuring the design and delivery of through-life-support. Robust, spirally developed support solutions are being developed to ensure rapid acquisitions can be sustained through-life. Authorities and governance are being transformed to address platform availability, manage obsolescence and improve return on investment, all of which will

drive resilience and agility into capabilities which are supported through-life.

Authorities are in place to cohere the end-to-end Defence Supply Chain with Commercial. This will develop a resilient and agile Supply Chain from Industry through to the operational environment to deliver military effect at the operational end of the Defence Supply Chain. In April 2026, we held our second industry wargame to test the Defence Supply Chain under wartime conditions, examining surge capacity across supply chains to identify constraints in industrial mobilisation, stockpiling and resilience. The insights of the wargame will be invaluable in informing Defence Readiness Legislation and sovereign capability decisions.

The SDR noted that the integrated force must be underpinned by common digital foundations and shared data. The Business Modernisation for Support (BMfS) programme is underpinning the digital modernisation of Support by replacing and modernising obsolescent legacy Support Information Systems (IS). Over 90% of the programme is either delivered, in delivery or on contract for delivery. This programme has reduced the legacy portfolio from 103 applications and services to 71 and has harmonised Air, Land and Sea environments on to a single Base Inventory System.

The SDR and DIS emphasised energy as a critical enabler of operational effectiveness, resilience and growth. It is both a strategic opportunity and vulnerability vividly illustrated by the operationalisation and weaponisation of energy in Ukraine.

NALS has delivered Operational energy to Defence globally, cohering the provision of bulk fuel, packed fuel, oils, lubricants, greases and gases supporting Defence maritime, ground and air operations alongside NATO, FVEY and bilateral agreements. The Oil & Pipelines Agency (OPA) has been aligned to the NAD Group in order to support the delivery, maintenance, and operation of key Defence energy capabilities. Along with Infrastructure, NALS are cohering delivery of the Operational Energy Transition, informing the future capability development process, pursuing energy efficiency and resilience across the Defence estates, and planning the future integrated energy architecture. This is supported by the Defence Energy & Capability Resilience Centre of Excellence (DECX) which will generate innovation in energy provision such as batteries and frontline power management.

The SDR recommended the Strategic Base be treated as an operational capability. To complement and offset shortfalls in organic Strategic Base capabilities the Adaptive Capacity initiative harnesses industrial and Other Government Departments (OGD) capacity to enable deployments at pace and scale. Marking a significant step in how Defence and industry work together to strengthen national logistics resilience. Adaptive Capacity provides additional capacity in logistics, warehousing, distribution, energy, and port operations, in times of crisis or conflict. One partnership with Associated British Ports has secured access to over 20 UK ports, enabling Defence to rapidly scale logistics capacity in response to operational demand.

The Recycling and Disposals team annually processes 40,000 tonnes of waste returning £10M back to Defence through sales. The team is driving our contribution to Circular Economy principles including recycling a nuclear submarine with materials being recycled for use in the AUKUS project and have established a relationship with the Royal Mint to recover precious metals from surplus IT equipment.

In support of the UK's 'NATO first' commitment NALS has significantly increased contribution to the alliance, fostering closer engagement with the NATO Support & Procurement Agency (NSPA). NALS has taken leadership roles within the NATO Codification council and has prioritised the utilisation of the NATO Logistics Stock Exchange. This year we shared purchasing power with other NATO nations in the joint procurement of over £100M of new inventory and the sale to

alliance armed forces of almost £1 million of surplus inventory items.

Aligned to SDR direction to increase resilience and capacity, the Defence Electronics and Component Agency (DECA) have increased mutual support with a key alliance partner and enhanced interoperability with other NATO nations by becoming the US Air Force's first Forward Air Logistics Complex Operational Node (FALCON) outside the continental US, providing essential maintenance repair and overhaul facilities to US Air Force aircraft from the DECA facilities in North Wales.

The Defence Munitions Organisation has consistently provided critical weapons storage and maintenance services as well as road, rail, ship and air weapons outload capabilities in support of Defence objectives. This included the arming of Carrier Strike Group 26, the creation of a digitised Strategic Base weapons outload capability and the short-notice arming of HMS Dragon ahead of deployment to the Arabian Gulf.

The Support Capabilities and Commodities (SCC) area within NALS has provided mission-critical support equipment and enabling capabilities. SCC has been pivotal in significantly increasing availability of commodity items necessary for sustaining the Continuous At-Sea Deterrent (CASD). Enabling and sustaining warfighter capability throughout the year, the Commissioning and Managing Organisation (CMO) within NALS oversees a 13 year £6.7Bn contractual framework for storing and distributing tri-Service Defence inventory across the UK and in support of global operations. The CMO have been pivotal in supporting the UK's contribution to Ukraine alongside sustaining UK forces.

Defence Major Programmes and Projects (GMPP)

At the end of 2025-26, we had sixteen programmes with a delivery confidence assessed as Red and this represents an increase of four at the same time in the previous year. Twenty-one programmes were Amber and two were assessed as Green. The National Armaments Director and Group have introduced measures to support rapid recovery of programmes as well as intervening much sooner as signs of strain are emerging. Increased use of data and Management Information will allow us to target specific interventions that will drive increased confidence in being able to deliver to time and cost tolerances.

An organisation that delivers value for money for the UK taxpayer, delivers capabilities faster and is adaptable to future change

Productivity

The Strategic Defence Review set a clear expectation that Defence must deliver greater output, faster, from the resources it already holds, this was reinforced within the Defence Investment Plan. Productivity and efficiency is therefore positioned as an enabler of both operational advantage and fiscal responsibility. Modernising Defence requires not only new capabilities but also more efficient processes, quicker decision cycles, and better alignment of people, technology and industry. We accept that we need to reduce the time it takes to adopt new technologies, streamline acquisition pathways, and ensure our personnel have the skills needed to exploit digital, autonomous, and cyber capabilities at scale. Faster transition of innovation into the hands of the Integrated Force, combined with improved workforce capability, clearer prioritisation, and more effective cross-domain integration, is core to raising Defence productivity, strengthening readiness, and improving value-for-money across the system. We have committed to reducing our costs while delivering maximum capability output from defence spending and driving wider economic growth.

We have implemented an approach to drive efficiency and saving delivery across Defence and have plans to deliver projected savings of £10.7 billion by 2029-30. This builds on over £980m RDEL efficiency and savings delivery in 2025-26, with projected delivery increasing year on year through to 2029-30. Delivery is across the full breadth of Defence through the new Areas. This includes service redesign, reductions to the Civil Service workforce, reduced expenditure on External Assistance, leveraging the use of digital and AI, driving efficiency through our estate and infrastructure and a reformed approach to acquisition. This is further enabled by £500 million of ringfenced investment solely for driving modernisation, efficiency, and savings.

Our Productivity Portfolio directs and coheres activity to deliver cashable and non-cashable benefits across Defence. The Portfolio comprises initiatives selected on their ability to meet the following criteria: Cashable Return on Investment (over the short or medium term); High Net Benefit, including cost avoidance and non-financial benefits such as time savings, the ability to redeploy military personnel and enhanced user experience; Contribution to Government Mission Delivery. In addition to cashable savings, this will deliver increased readiness, time savings, Civil Service workforce cost reductions, release of military personnel to other priorities, greater asset and equipment utilisation, and improved delivery quality and user experience.

Infrastructure

The Strategic Defence Review placed renewed emphasis on transforming Defence's infrastructure to ensure the estate can support a modern, integrated and technologically advanced force. Many existing sites require modernisation to meet the demands of new platforms, high readiness operations and multi-domain integration. This includes upgrading built facilities, improving sustainability and resilience standards, and ensuring that training estates, airfields, ports, logistics hubs and accommodation are fit for future operating requirements. We need to prioritise estate optimisation, reduce maintenance backlogs and direct investment towards locations that deliver the greatest operational value, positioning modernised building and land assets as central enablers of Defence productivity, readiness and long-term value for money.

The Defence estate provides the foundations for Defence to live and operate effectively in the UK and overseas bases. Work to address longstanding problems caused by underinvestment is underway, but the extreme and widespread nature of the challenge means Defence infrastructure is far from the optimal condition to serve the UK's military needs.

Military Accommodation

Our people are our greatest strength, and the provision of high-quality Service accommodation is vital to their operational effectiveness. An attractive accommodation offer not only supports military capability but also plays a key role in retaining skilled Service personnel.

A new Defence Housing Strategy was published on 3 November 2025. The Strategy, backed by funding of £9 billion, sets out a vision for the future transformation of military homes; 90% of military homes will be upgraded, renewed or rebuilt over a decade, while also unlocking the potential for building 100,000 homes of all types on developable Defence land.

The strategy makes recommendations about the organisation required to drive this transformation, as well as the funding stability needed to ensure that delivery represents commercial best practice and achieves good value for money.

The creation of a professional Defence Housing Service, a new public body dedicated to improving the supply of defence housing and spearheading the regeneration of defence communities, is included as a measure in the Armed Forces Bill. The Bill, introduced in January 2026, and expected to achieve Royal Assent at the end of the year, provides the statutory basis for the Defence Housing Service.

A new professionalised body delivering housing will enable improved value for money, delivery performance and income generation by adopting commercial practices in line with the best civilian landlords, and by accelerating delivery of housebuilding on Defence development land.

Good progress has been already made towards delivering improvements in the standard of housing and in the service provided to families. Key achievements delivered under our Consumer Charter commitments include:

- The transformation of 1,000 of the worst homes ahead of schedule by Christmas 2025
- Modernisation of outdated policies, granting families greater freedoms to make home improvements, simplifying processes for running businesses from home, and removing the need for permission to keep pets
- Delivery of named housing officers, property photos and floorplans, and a new online repairs service, fulfilling long-standing promises to families
- A rise in Service Family satisfaction with Defence Homes, now at its highest level since 2021, reaching 51% (AFCAS Results 2025).

Looking ahead, the Defence Housing Strategy outlines plans to modernise or upgrade 90% of Defence homes (over 40,000 properties), with 30% (over 14,000 homes) to be substantially refurbished or replaced, including new builds. These improvements demonstrate our dedication to enhancing the quality of life for Service Families and ensuring their housing meets modern standards.

All four regions; South West, South East, Central, Scotland & Northern Ireland, of the Defence UK Built estate have entered their fourth year of Future Defence Infrastructure Services (FDIS) contracts. The delivery of core services contracts has seen an increase in core services; planned preventative maintenance and care of historic buildings, as well as non-core services that continue to allow a greater degree of flexibility for changing customer needs.

In 2025, Defence Infrastructure Organisation awarded a £237M contract to modernise the

Defence estate in the East Midlands, formed a partnership with Hounslow Council and Greater London Authority to deliver a regeneration project in Feltham and completed the installation of over 1,370 roof-mounted solar panels at Larkhill Garrison. Work on our partnership project with the NHS on Catterick Integrated Care Centre is ongoing.

Improvements to Single Living Accommodation are also underway, the Defence Housing Service will substantially refurbish or entirely rebuild 14,000 ailing Service Family Accommodation properties, with thousands of Single Living Accommodation bedspaces also replaced or refurbished. Over the past three years, more than 614,000 maintenance calls have been completed on single living accommodation, including over 38,000 heating and hot water repairs, with 95% resolved within target timescales. £244 million has been spent on improvement works during this period.

In September 2025, as part of the changes to the Defence operating model, leadership of the infrastructure function transferred to the National Armaments Director. Governance of the function through the NAD Group facilitates the oversight of the whole estate that is essential to responding to the challenges of estate resilience and affordability set out in the SDR and crucially enhances the interface with industry.

We continue to maximise receipts from the sale of surplus Defence land through a disciplined, value for money approach led by the Defence Infrastructure Organisation. Land is released only where it is no longer required for current or future military capability, in line with Strategic Defence Review priorities, and is prepared for disposal in a way that seeks to enhance value, by undertaking appropriate de-risking activities prior to sale including through local plan allocations and site specific policies. Where appropriate, we use development partnerships and alternative commercial models rather than early disposal, recognising that value is often optimised later in the development lifecycle.

Disposal routes are selected on a case-by-case basis to reflect site specific issues, local market conditions and wider government objectives, including housing delivery. In line with the Strategic Defence Review's emphasis on estate optimisation and recapitalisation, disposal receipts are, subject to HM Treasury agreement, recycled to support investment in the Defence estate, enabling further rationalisation and contributing to the long-term sustainability, affordability and operational effectiveness of Defence infrastructure. This approach supports our delivery of an overarching Infrastructure Recapitalisation Plan and to maximise value from Defence assets.

We continue our active engagement with the Ministry of Housing, Communities and Local Government, Homes England and other Government Bodies to maximise opportunities for strategic land release or development, to meet Government objectives.

A Service member with his pet dog at their Service Family Accommodation in Whittington Barracks, Lichfield.

Defence Digital

Digital is the core enabler of an Integrated Force, providing the data, Artificial Intelligence (AI) networks and synthetic environments that connect people, platforms and allies. It is essential to increasing lethality through machine speed decision making and digitally linked sensors, deciders and effectors; and it underpins the UK's ability to innovate at wartime pace, with a mandated shift toward next generation digital capabilities. Digital is the backbone of UK Defence's transformation

and is key to remaining competitive, resilient and effective on the future battlefield.

We have effectively executed delivery of our core activities required to achieve performance against the Department's following five key strategic priorities:

- Deliver leading edge military and business outcomes, in conjunction with leading edge technology and AI and using common services and re-usable Foundry software components.
- A common Digital Backbone to connect any sensor, to any effector, to any decision maker in real time and to which all defence systems and military platforms will connect by default, and which continually evolves to keep pace with technology opportunities.
- Strong and resilient cyber defence to ensure systems and platforms are secure by design, resilient to attack and led by an intelligence view of threat with dynamic risk responses.
- Leading edge digital and data skills within the function and its supply partners and a wider Defence workforce equipped to lead and operate in the digital age.
- Evolve the digital and data function in line with SDR recommendations and embed it within the wider Defence Reform model linking effectively across DoS, NAD Group, MSHQ Commands and DNE.

Despite resource pressures, delivery of essential outcomes has been maintained. During 2025-26, in support of the strategic priorities, we have successfully delivered:

Leading edge military and business outcomes

- Defence Artificial Intelligence Centre Sprints five totemic projects in response to the Deputy National Security Advisor and Number 10 demand.
- Rolled-out Chat MOD which is now operating at increasing scale and functionality within Defence to over 65,000 users.
- Expedited negotiation and delivery of the new Palantir strategic partnering arrangement and enterprise agreement, enabling rapid exploitation of critical data across all classification.

A common Digital Backbone

- Windows 11 upgrade to 228,025 users across Defence as at 31 March 2026.
- Knowledge and Information Management advice across Defence, managing high-profile data breaches, whilst embedding lessons to keep data and information safe.
- Strengthened Defence's Data Catalogue to provide a scalable Defence wide foundation for understanding, accessing and reusing critical data assets, improving decision making and operational insight. To date 60% of data domains are catalogued.
- The development of Data and Information governance and standards through strong functional leadership.
- Pan-defence digital category strategies and taxonomy shared with Digital Commercial Centre of Excellence for adoption and rolled out pan government.
- Provided key support to Strategic Decision Support which was established to drive better-informed, data-enabled strategic decision making in the Department through improved integration and exploitation of data.

Strong and resilient cyber defence

- Increased both strategic connectivity and tactical lethality with upgrades to the Battlefield Information Collection and Exploitation System.
- Enhanced cyber security with the achievement of Initial Operating Capability for the Sustain Key and Key Distribution project providing over the network cryptographic key distribution.
- A strengthened Chief Information Security Officer function across Defence Areas, including development of the extended CISO network to Defence outer agencies, and recruitment of cyber specialists to bolster Defence cyber expertise and accountability.

Leading edge digital and data skills

- The ‘My Digital Skills’ platform continues to support around 270,275 learners, leaders and digital specialists as at 31 March 2026.
- The Defence Digital and Cyber Bursary Programme in Lancashire currently supports 500 students studying digital A Levels and T levels.

Evolve the digital and data function

- We have integrated the Digital Function High Level Operating Model into the Defence Operating Model blueprint.

The Digital Function has continued to provide a single, coherent model for leading, governing and assuring digital across Defence. It has driven clear accountability under the Chief Digital and Information Officer and enabled Defence to deliver outcomes through a unified strategy and shared standards.

A highly engaged organisation that recognises people are fundamental to UK Defence, enables everyone to fulfil their potential and takes a whole of society approach to the security and defence of the nation

Our People

People are fundamental to UK Defence and are at the heart of Defence plans. They are the critical component of Defence capability and remain our most important asset. World events have forced us to re-evaluate our strategic approach and adapt our people system so that we are able to attract and retain the talent we need to protect the nation.

Defence needs a dynamic blend of Regulars, Reserves and Civil Servants to give us the mix of skills, experience and strategic depth required for the threats of this new era. We have reformed our approach to recruitment across the whole force and have made fundamental improvements to workforce planning across Defence.

To fulfil the roles set out in Strategic Defence Review, we are working to improve our offer to our armed forces to support the retention of our highly trained and equipped Regulars across all three Services and to increase recruitment.

We are taking steps to reinvigorate and re-engage the Strategic Reserve of ex-Regular personnel with enduring legal obligations, and we are releasing military personnel in back-office functions to front-line roles.

We are reshaping the Civil Service workforce with an emphasis on performance, productivity and skills, to reduce costs by at least 10% by 2030, kick started by a Voluntary Exit Scheme.

And we are reforming military training and education and providing civilian qualifications and education where possible to increase efficiency and to reduce the barriers between Defence, industry, and wider society.

In addition, young people in the UK will gain new opportunities to experience military life through a 'gap year' Foundation Scheme which was announced on 27 December 2025. An initial cohort of around 150 participants will spend a paid year gaining experience and training with the Royal Navy, Army, and Royal Air Force. The scheme offers tailored courses that build skills, confidence, and employability, supporting future success in civilian life or offering a pathway into a rewarding armed forces career. Initially a pilot, it is expected to scale up, providing the experience of Service life without any commitment beyond the programme itself.

	Apr-26	Apr-25
Armed Forces (including reserves)	183,410	181,890
Civil Service[2]	55,351	55,802
Apprenticeships	25,691	24,389

[2] Figures include UKHO.

Recruitment and Retention

In the 12 months to 30 September 2025 people joining the UK Regular Armed Forces increased by 13% (1,650) compared to the previous 12 months, and people who left the UK Regular Armed Forces decreased by 8% (1,220) during the same period. For the first time since the 31 December 2021, Intake to the UK Regular Armed Forces exceeded Outflow, with 240 more people joining than leaving in the 12 months to 30 September 2025.

We recognised the professionalism and dedication of the armed forces with a 4.5% pay rise in 2025-26, which follows the previous year's record pay deal at 6% (5% for senior officers).

Armed Forces Recruitment Programme

On 6 February 2025 a contract for the Armed Forces Recruiting Programme was announced and a tri-Service recruiting Headquarters was initially established in October 2023, with the Armed Forces Recruitment (AFR) Service due to launch in 2027. Across various Service Commencement Dates (SCD) AFRS will replace the individual recruiting schemes run by the Royal Navy, British Army, and Royal Air Force. The new contract will ensure better value for taxpayer money and improved recruitment for the armed forces.

The first-ever tri-Service recruitment service will provide a streamlined, single-entry point for prospective recruits, with the aim of attracting the best talent from across the country into the armed forces to strengthen national security as the foundation of the Government's Plan for Change. This will make joining the armed forces quicker and easier under a new first-of-its kind recruitment service that cuts red tape and transforms the way people sign up to serve.

AFR is now over 15 months into a 21-month transition phase to the forthcoming service set to launch in 2027. Effective collaboration among Defence and the supplier (Team Serco) has facilitated the timely completion of a comprehensive discovery phase and allowed design activities to advance. Transition performance is systematically monitored through a robust governance framework, which provides mechanisms for escalation and resolution of any issues that may arise. Significant work has been progressed across all workstreams with digital and data workstream continuing to be the most challenging to deliver to time and prudent contingency planning has been occurring at the same time to mitigate.

The challenge within the digital and data work is primarily due to the complexity and significant scale of the new digital platform which is being designed to incorporate best in class products to manage the candidate, the recruiter interface and provide extensive data analysis.

Skills

The Strategic Defence Review placed a strong emphasis on transforming Defence through a modern, skilled workforce, highlighting the need for deep technical proficiency, adaptability, and continuous professional learning to meet rapidly evolving threats. Developing the right skills is central to building an integrated force capable of exploiting emerging technologies, from drones to cyber and electromagnetic capabilities. Whoever can get cutting-edge technology into the hands of their armed forces fastest will maintain strategic advantage, making investment in training, education and talent development essential.

Training and Education is a key enabler for the delivery of the Integrated Force, providing Defence People with the knowledge, skills, experience and behaviours that act as a force multiplier to operational capability. The Strategic Defence Review highlighted that Training and Education must become more agile, able to adapt and innovate at pace to operational lessons, research and technological developments. To achieve this, the SDR recommended that Defence Training and Education policy was rewritten by January 2026, empowering those responsible for Training and Education to revise courses at speed to meet the evolving needs of the Integrated Force.

The revised policy was published on 30 January 2026 in line with the SDR Recommendation. In meeting the broader requirements of the SDR, the revised policy directed the following changes:

- Strategic intent. Rebalancing policy away from process compliance to a more agile system, based on risk management, enabling the owners of training to move at pace to

support increased innovation, inculcate lessons quickly, and prioritise training and education based on operational need.
- Outcomes focused. Revised policy to place greater emphasis on the effectiveness of training, ensuring that the golden thread of operational requirements drives the design of the Collective and Individual Training and Education system in support of the Integrated Force.

Work continues to develop a Defence Training and Education Strategy in support of the MSHQ. This will be followed by an MSHQ Training and Education Plan setting out how the Defence Training System will support greater integration, across the armed forces, within NATO and across government. Specific elements of this plan will include achieving SDR Recommendations to create an Integrated Professional Military Education pathway, and to support the NAD Group in developing a Synthetic Training Environment.

Training and Education is central to Defence in developing the warfighting edge required across the Whole Force. The greater flexibility provided by the revised policy and the increased governance from within the MSHQ will ensure that Training and Education delivers the outcomes for Defence.

The Pan Defence Skills Framework (PDSF) is the critical enabler of Defence's transition to Skills Based Organisation (SBO). It provides a unified method for identifying, defining, managing and deploying talent across Defence through PDSF Skills and Pan Defence Roles, ensuring that the right people with the right skills are deployed in the right place, and at the right time.

As the first framework designed to align both military and civilian personnel, PDSF has evolved into the single, authoritative system for skills management across Defence.

In April 2025, the Engineering Skills Based Supplement Trial was launched using five PDSF skills across the Royal Navy, Royal Air Force, and Army. Mass onboarding of Defence personnel began on 23 March 2026 and rollout is expected to take 12-18 months, as Defence adopts the framework at scale.

In time, PDSF will play a critical enabling role not only in skills deployment but across the full people ecosystem:

- Appraisals and Talent Management: by providing clear definitions of skills and proficiency levels, PDSF will enable a more consistent and evidence-based assessment of performance, potential, and talent. This supports fairer decision making, targeted development, and improved visibility of workforce capability; it is closely linked with the Future Appraisals Review (FAR) project which will also address the behavioural aspect of appraisal.
- Learning, Development and Professional Growth: the framework will identify skills gaps at both individual and organisational level, directly informing learning pathways and development interventions. Individuals will gain clearer recognition of their contributions and can access more targeted development opportunities
- Strategic Workforce Planning (SWP): as a shared, Defence wide skills model, PDSF will be able to provide planners greater granularity in understanding workforce capability and management.

Collectively, these capabilities through PDSF, strengthen our ability to operate as an agile, Integrated Force, with the right expertise deployed across domains and Services. PDSF represents a long-term strategic investment that will shape how we attract, retain, develop and manage our people well into the 2030s.

Alongside the Defence Industrial Strategy, we have launched an £182M skills package aimed at harnessing the skills needed for the future, from submarine engineers to specialists and the cyber warfare specialists defence will need in the years to come. The package includes: establishing five Defence Technical Excellence Colleges in England, training people in the skills needed to secure new defence jobs; funding thousands of short courses, so that defence employers can

upskill new hires and existing staff more quickly; and investing in our world-leading universities through the Strategic Priorities Grant, enabling them to fund cutting-edge facilities and expand places for more people to study subjects like engineering and computer science that are critical to defence innovation. All of the initiatives in the package will help deliver the ambition set out in the Strategic Defence Review and the Defence Industrial Strategy. Since publication we have selected and announced the five DTECs across England, the bids for funding as part of the SPG are being assessed, and applications for the Defence Universities Alliance are now open.

Engineering Technician Marine Engineer in the engine compartment of HMS Dauntless

Support to Families

To support military families and retention, The UK Armed Forces Families Strategy 2022 – 2032 sets the direction on work to mitigate the impact on family life that an association with the military can sometimes have.

One of the key issues that families have often stated is that communication with them can be less than optimal, with a reliance on the Serving person relaying messages of interest, rather than an ability for direct contact. In February 2025 our Armed Forces Families and Safeguarding (AFFS) launched an online Families Hub; this tool is accessible without the need for a specific Defence account and provides a signposting service to relevant family related policies and information.

Access and affordability of childcare remained an issue of interest throughout 2025 and during this period Defence launched the Defence Wraparound Childcare Overseas (WACO) scheme in January 2025 and then Primary School Aged Childcare Overseas (PSACO) in January 2026. Both schemes are derivatives of the Defence Wraparound Childcare scheme which refunds the cost of childcare for eligible families with children aged 4 to 11, (4 to 16 years old if in receipt of certain UK disability benefits). The launch in January 2026 means that wherever in the world an eligible family is assigned they will be able to reclaim costs for before and after school childcare for up to 20 hours a week and for up to 39 weeks of the year. In the UK this could save a family around £3,400 per child per year.

Establishment of an Armed Forces Commissioner

His Majesty the King gave the ‘royal seal’ for the appointment of the first ever independent champion to support the armed forces and their families, delivering on a key Government manifesto commitment to improve service life and renew the nation’s contract with those who serve.

The Commissioner will be a direct point of contact for personnel and their families and will have unprecedented powers to investigate welfare issues and raise concerns that impact service life, including equipment, housing and unacceptable behaviours.

The commissioner will elevate the experiences of our brave personnel and drive forward critical improvements for them and their families, able to visit UK Defence sites unannounced, commission reports and report directly to Parliament, to hold the Government to account.

An interim Armed Forces Commissioner (AFC) has been appointed for a period of 12 months with the Office of the AFC being operational since 1 April 2026. As well as independently overseeing the Service Complaints system and reporting on the effectiveness, fairness, and efficiency of the system as a whole, the

Commissioner can investigate individual welfare cases or conduct wider reaching thematic investigations into broader welfare issues facing Service personnel and their families. The independent reports and recommendations they publish will highlight these issues to Parliament and the wider public, holding the government and armed forces to account

Armed Forces Covenant

The Government has announced an important step forward in honouring the brave personnel that keep us safe every day and the families who sacrifice so much to support them. We are delivering on the manifesto commitment to extend the Armed Forces Covenant Legal Duty. The new Legal Duty will apply to all Government Departments and Devolved Governments and at the local level in a broad range of policy areas affecting the armed forces community.

This law will make sure that respect for our armed forces community is not just spoken but woven into the very fabric of our policy and service delivery decisions.

The new Armed Forces Covenant Legal Duty will ensure:

- fair access to services: ensures that serving personnel, veterans, and their families are not disadvantaged
- priority support for those most in need: provides additional help for those who have given the most, such as the injured or bereaved
- legal duty on public bodies: Local authorities, NHS bodies, and schools must consider the needs of the armed forces community in their decision-making
- annual reporting: the government is legally required to publish an annual report on Covenant delivery and progress.

The Armed Forces Covenant is a central tool for Defence to strengthen ties between the armed forces community and wider society. It embodies the shared understanding and appreciation between the armed forces and the public, recognising their sacrifices. This approach aligns with the SDR, which aims to deepen the relationship between defence and society. By promoting greater understanding and support through the Covenant, Defence advances a more resilient and inclusive national security framework, ensuring the armed forces community's contributions are acknowledged throughout society.

This year, the Armed Forces Covenant has experienced notable expansion, reaching a total of 14,463 signatories by 31 March 2026. At the same date, the defence employer recognition scheme had awarded 1,211 gold, 1,482 silver, and 5,650 bronze accolades to organisations, supporting Defence to renew the nation's contract with those who serve or have served.

Veterans Strategy

In November 2025, the Government took a further step to strengthen its support for those who serve and have served in the armed forces.

The UK's 1.8 million veterans make an important contribution to society, and the Government's new Veterans Strategy sets out its approach to recognising their service and supporting their continued contribution, which enhances the resilience and effectiveness of our defence, supports critical industries, and bolsters the wider economy. Many veterans have benefited from a military career that provided them with unique skills, experience, confidence and opportunities that they took forward into civilian life. For many, a career in the armed forces continues to be a powerful driver of social mobility.

The new Veterans Strategy sets the long-term outcomes the Government wants veterans to achieve, grounded in three core themes that challenge the whole of society to think differently about those who have served in the armed forces and their ongoing potential:

- Celebrate: we want society to respect those who serve and have served. Ensuring the benefits of military service for individuals are recognised and their role in

defending our freedoms and society is celebrated
- Contribute: we want to ensure the unique skills, experience and personal values of veterans are appreciated and understood, including how they contribute to our national security, our economy, and our communities
- Support: for the overwhelming majority, veterans' lives are better for having served. However, some veterans continue to need access to timely, appropriate and effective support that meets their needs following service. To meet this need we've also launched VALOUR which will transform the way we provide support to veterans who need it.

Together, the themes represent a new approach to recognising veterans as one of the UK's great assets.

While the strategy is set for 10 years, it includes 36 commitments to be progressed in the first 2 years. Notable progress since November 2025 includes:

- the launch of VALOUR will help veterans in need access the support available to them, supported by £70 million in funding through the Office for Veterans' Affairs and Op VALOUR. £13M has been awarded to 14 veteran centres in the first phase of UK wide VALOUR recognised centres, with more to follow in 2026.
- the change in law allowing Veteran Cards to be used in elections, and the first ever government document to be digitised, helping to make access to a wide range of services quicker and easier
- through the Defence Housing Strategy 'Forces First' approach, Service personnel and veterans should have purchase priority for new homes on Defence development land
- the Government has committed an additional £12M to vital homelessness services through the Reducing Veteran Homelessness programme. Op FORTITUDE will also be extended, putting the service that has already housed over 1,100 veterans on a sustainable footing
- the Government continues to support Op COURAGE, which has received over 35,000 referrals since it launched in 2017
- Second World War veterans will be supported by the Government to travel to overseas commemorative events (to mark the anniversaries of VE Day (8 May), of D-Day (6 June), Battle of Arnhem (Airborne Wandeltocht, 26 September), Operation Market Garden and Dutch Liberation in the Netherlands), ensuring those of the greatest generation, who served in that conflict, can attend remembrance ceremonies whilst they are still able. A grant will be made available to the Royal British Legion over the next 5 years to support veterans and charities.

We are committed to redesign the underpinning governance supporting the upholding of the Armed Forces Covenant and delivery of the Veterans Strategy, ensuring ministers have greater oversight of activity, progress and data. These changes ensure work across government is better aligned and informed by clearer evidence and insight.

New government structures have been implemented to ensure cross government coordination and to bring together departments, delivery bodies and wider society in a more collaborative and coherent way. Over the coming year, we will continue to strengthen this approach. This will enable government and partners to work more openly and transparently, ensuring activity is mutually reinforcing and better able to demonstrate progress against the outcomes of the Veterans Strategy.

Reserves

Reserves provide the UK with the ability to meet the threats we face at home and overseas, with the scale, skills, agility and connection to society that it needs, in a cost-effective way.

As set out in the SDR, we are committed to increasing our reserves to improve our readiness for warfighting and home defence. We are taking steps to reinvigorate and re-

engage the Strategic Reserve of ex-Regular personnel with enduring legal obligations.

In January 2026, the Minister for the Armed Forces introduced the Armed Forces Bill 2026 to Parliament, which includes important measures to grow our Strategic Reserve (former Service personnel with an Ex Regular and Recall Reserve liability) and help Defence draw more easily on their valuable skills and experiences in times of crisis.

During 2025-26, our priorities and transformation activities for Reserves have included: launching a zigzag careers pilot; improving our access to better quality data on Reserves; introducing legislative, policy and process changes to help re-establish the Strategic Reserves to provide strength in depth; planning Reserves' contribution to UK home Defence plans; applying relevant lessons learned by our NATO allies in managing their Reserve Forces; and improving and simplifying our Reserves mobilisation processes.

Reservists from the London Guards conduct urban and subterranean training as part of their two-week annual training package.

Cadets

Building society's understanding of what the armed forces do, can be achieved in part by expanding the Cadet Forces. Cadet Forces provide skills and qualifications to young people, inform and inspire future Defence personnel, and support economic growth. We are putting greater focus within the Cadets on developing STEM (science, technology, engineering, mathematics) skills and exploring modern technology. The Cadet CyberFirst Programme aims to equip over 2,000 cadets a year with the skills and expertise to become future leaders in this emerging industry.

	2025-26	2024-25
Number of Cadets in the Community Cadets	88,870	88,160
Number of Cadets in the Combined Cadet Force	48,240	50,350
Number of Adult Volunteers in the Community Cadets	23,540	23,230
Number of Adult Volunteers in the Combined Cadet Force	4,540	4,470

Raising our Standards

During 2025-26, Defence continued to strengthen standards and behaviours through Raising Our Standards (ROS), delivering improvements to complaints handling, leadership capability and cultural assurance across the Whole Force.

Key activity included the delivery of the pilot tri-Service Complaints Unit for the most serious cases of bullying, harassment and discrimination, enhancements to the civilian complaints process supported by increased case working capacity, and the implementation of Active Bystander learning. In addition, measures in the new Armed Forces Bill, which is currently before Parliament, will deliver a much stronger package of measures to protect victims of serious and sexual offences within the Service Justice System.

2025-26 saw the publication of the inaugural Armed Forces Sexual Harassment and Sexualised Behaviours Survey: conducted to gather experiences and perceptions of sexual harassment and sexualised behaviours among service personnel and will provide vital data to inform preventative programmes.

Armed Forces Sexualised Behaviours & Sexual Harassment Survey (2025) – Overarching observations of the findings for Regulars and Reserves:

- verbal sexualised behaviours (VSB) were the most commonly experienced – females

and males most commonly experienced jokes or comments of a sexual nature
- females were more likely to experience all four types of sexualised behaviours (Verbal, Non-Verbal, Cyber, Physical)
- sexualised behaviour most commonly occurred in an open workplace at the military home or training unit
- regulars/Reserves most commonly experienced sexualised behaviour from two to three different individuals
- out of the 19 behaviours, both females and males most commonly have seen (or had knowledge of) jokes or comments of a sexual nature
- males were more likely than females to believe their Service tries to prevent sexual harassment and supports those who have been harassed to a large-very large extent.

Most Service personnel uphold exemplary standards, but this survey and recent cases highlight the need for renewed determination to tackle Violence Against Women and Girls (VAWG). Defence is broadening its approach to address the root causes of VAWG with a pivot to prevention, early intervention, and investing in better support for victims.

With prevention at its core, the VAWG Prevention Taskforce pilots in Catterick and Plymouth aim to tackle the root causes of harmful behaviour rather than simply responding to incidents. Insights from this work will inform wider activity across Defence during 2026–27. When criminal incidents do occur, our Victim Witness Care Unit will continue to provide end-to-end support for victims, ensuring those who come forward receive the right support, care and advocacy they deserve.

To support personnel, we have established independent mechanisms to ensure complaints and serious criminal offences are handled appropriately:

- The Defence Serious Crime Command (DSCC): investigates allegations of serious criminal wrongdoing across the armed forces and is outside the single Service chain of Command
- Victim Witness Care Unit (VWCU): the VWCU, part of the DSCC, provides comprehensive care and support to victims and witnesses of serious crimes. It ensures that victims are aware of their options in line with the Code of Practice for Victims of Crime
- Tri-Service serious complaints team: investigates the most non-criminal serious complaints, such as bullying, discrimination and harassment, outside the single Service chain of command
- Service Complaints App and Civilian My Complaints App: faster, easier and simpler ways for Service personnel to raise Service complaints and for civilians to raise unacceptable behaviours complaints or more general grievances
- Confidential reporting channels are available 24/7 for military and civilian personnel: Bullying, Harassment, and Discrimination Helpline and Confidential Hotline for Whistleblowing
- Service Police Complaints Commissioner: providing independent oversight of complaints made against the Service Police, ensuring investigations are fair and impartial.

During 2025-26, external challenge and assurance continued through the External Challenge Panel, the Defence Voices Panel and the ministerially chaired Steering Board, providing senior leaders with independent insight, lived experience and scrutiny of Defence's cultural reform programme. Their input has shaped the direction of ROS activity and supported more consistent application of standards across the Department.

In 2026–27 we will move from piloting to embedding improved complaints handling, reforming the military appraisals and promotion system, launching of the Independent Legal Advocacy Scheme, expanding VAWG prevention activity to additional locations, and continuing to build leadership capability across the Whole Force. The introduction of the Armed Forces Commissioner will further strengthen independent oversight of welfare and complaints systems. Looking ahead, ROS will

continue to deliver Whole Force educational and behavioural campaigns to raise awareness of what constitutes unacceptable behaviours, while reinforcing organisational values, standards and behaviours.

Success will be measured through our strategic objectives to improve leadership accountability, reduce unacceptable behaviours, and develop the capability for lasting behavioural and cultural change across Defence. Through these measures, RoS is not just setting higher standards – it is raising them, creating a Defence culture people trust, value, and aspire to join.

Lord Etherton's Independent Review into the treatment of LGBT Veterans

Lord Etherton's Independent Review into the treatment of LGBT veterans during the Armed Forces Ban (1967–2000), published in 2023, led the Government to accept all 49 of the review's recommendations. To date, 48 have been implemented, with the final recommendation, the establishment of a Women's Forum led by the Office of Veterans' Affairs, expected to be implemented in the coming months.

In response to the Etherton's review, the Financial Recognition Scheme (FRS) was launched on 13 December 2024, offering two payments: £50,000 for LGBT veterans who were dismissed or discharged and up to £20,000 for LGBT veterans who experienced wider Impacts of the ban, assessed by an Independent Panel. Chaired by Lord Paddick, the panel, appointed on 13 May 2025, ensures fair and equitable determinations for LGBT Impact Payment applications. As of 27 April 2026, the FRS has made payments to 1,424 eligible applicants with payments totalling over £50M.

On Saturday 5th July 2025, people from across Defence marched as part of Pride in London.

Overhauling the Provision of HR.

The Defence Human Resource Services (DefHRS) programme was established to deliver simplified, improved, and modernised HR services which will directly benefit users at all levels; enhancing experience, providing improved automation, enabling more intuitive access, and supporting effective decision-making through improved data analysis.

A core objective of the DefHRS programme is to deliver a step-change improvement in the HR experience for all Defence personnel. Oracle Fusion HCM provides an intuitive, self-service interface available via mobile and desktop, reducing reliance on manual processes and intermediaries. Improved automation will reduce administrative burden on personnel and HR professionals alike, provide greater transparency of HR transactions, and a more empowering experience for the individual. The platform's configurable dashboards, real-time data access, embedded AI capability and personalised workflows are designed to support the diverse needs of a modern, mobile Whole Force workforce.

Beyond administrative efficiency, Oracle Fusion HCM directly supports Defence's warfighting capability. Accurate, real-time workforce data is essential for force generation, readiness assessment, and operational planning. A consolidated, cloud-based HR system will give commanders and planners reliable visibility of personnel availability, easy access to training, skills, qualifications, and readiness status, enabling faster and better-informed decision-making in both peacetime and operational contexts. By enabling flexible career pathways, dynamic reward structures, and improved talent management, DefHRS will help strengthen the recruitment, retention, and motivation of the skilled workforce on which operational effectiveness depends.

The Climate and Environment

Climate Adaptation

During 2025-26, Defence continued its focus on climate adaptation and resilience, driven by the Strategic Defence Review's recognition of climate change as a transnational challenge. As part of this effort, we have maintained our international leadership on the security implications of climate change and the energy transition. The UK remains a leading sponsor nation of the NATO Climate Change and Security Centre of Excellence (CCASCOE) and co-chairs NATO studies on capability adaptation.

Defence infrastructure resilience activity continued through the Climate Impact Risk Assessment Methodology (CIRAM), which uses industry-recognised tools to assess climate-related hazards across the Defence estate. In 2025-26, the Defence Approach to Sustainable Infrastructure (DASI) developed this work by analysing the cumulative risks to critical capabilities and reporting on risk management and mitigation strategies.

Climate adaptation activity beyond the estate was supported by the Defence Climate Risk Assessment Methodology (DCRAM), developed in line with National Audit Office guidance and risk taxonomy. DCRAM enables the identification, assessment and management of climate-related risks and opportunities beyond those associated with infrastructure, ensuring a holistic approach to resilience.

Identified risks are recorded and monitored through the Department's corporate governance and integrated into the Principal Risk process. Further details can be found under Task Force on Climate related Financial Disclosures. Future Defence resilience efforts shall align to the National Adaptation Programme 4 planning assumption, which states that at a minimum, the UK should prepare for the weather extremes that will be experienced if global warming levels reach 2°C above preindustrial levels by 2050. This, and the high end assumption of reaching 4°C above preindustrial levels by 2100, shall form the basis of Defence risk assessments and adaptation plans. To raise awareness of climate change associated risks, the Climate Change Awareness & Defence Resilience course is hosted on the Defence Learning Environment and can be accessed by all staff. Further resources and guidance are available on the Defence intranet and Defence's corporate ISEP member provides additional resource to support ongoing staff engagement.

Sustainable Procurement

Defence continues its commitment to sustainable procurement in line with the Procurement Act 2023 and government policies, including Procurement Policy Notices (PPNs), HM Treasury Green Book, and Government Buying Standards (GBS) including the 2025-2030 GBS refresh.

Sustainable procurement is considered in MOD procurement as part of commercial policy, with environmental impacts assessed to ensure compliance with policy and alignment with the Defence Industrial Strategy. Commercial policy also promotes environmental protection with regards to polluting activities, resource efficiency, waste management and greenhouse gas emissions (supported through PPN 006, which focuses on accounting for carbon reduction plans in major government procurement contracts, and PPN 016: Carbon Reduction Contract Schedule).

Social Value

Social value forms part of the commercial process and is undertaken in line with the Procurement Act 2023 using PPN 002: Taking account of social value in the award of contracts. The MOD has mandated use of the updated PPN 002 Social Value Model for all in-scope procurements which began on or after 1 October 2025 and promoted its use for those starting on or after 24 February 2025. The updated Model has enabled MOD

procurements to include social value outcomes which directly contribute to the government's mission objectives such as kickstarting economic growth, enhancing supply chain resilience and creating opportunities for skills. The Social Value Model is applied to individual projects and principal infrastructure framework contracts.

Furthermore, Defence's Commercial Policy Statement addresses positive social outcomes such as poverty reduction, improved equity and respect for core labour standards. Delivery teams apply these principles across procurement activities.

The MOD is also looking to implement objectives of the Defence Industrial Strategy 2025 (DIS) within its policy guidance. The DIS outlines a new approach to applying social value in defence, to incentivise industry to support DIS objectives of driving growth and a more thriving industrial sector in the UK. For example, delivery partners have supported local economic growth by employing apprentices and veterans within remote training locations across the UK, ensuring that Defence investment directly strengthens local skills and employment.

Sustainable Support

Implementation of the Sustainable Support Strategy[2] and the Defence Operational Energy Strategy[3] are ongoing and focusing on research to reduce vulnerabilities, enhance operational effectiveness and improve supply chain resilience through insights into the decision-making process. The last year has seen the development of the Defence Energy Enterprise, highlighting the growing importance of energy security. This is underpinned by a newly developed energy governance structure, bringing greater alignment between operational energy, estates energy, and the Oil & Pipelines Agency. The Defence Energy & Capability Resilience Board is co-chaired by the Chief of Defence Logistics & Support and the Chief Executive of the DIO. It directs the delivery of the energy transition across Defence, operations and estates to safeguard operational advantage and energy security.

The Defence Energy conference was held in January 2025 and explored how using the NATO Energy Transition by Design approach could aid the Department in navigating the energy transition, underlining the importance of collaboration.

Following the publication of the 'Sustainable circular economics for Defence concept note'[4] on GOV.UK, we worked with industry on a decision support framework to mitigate supply chain risks, applicable across capabilities, platforms, and components. Experimentation took place throughout the year to research the use of out of service material as feedstock for new components. This includes the 'Tornado to Tempest' project, which demonstrated the potential of recycling surplus assets to make new parts, including for the MOD's FCAS programme.

Digital/ICT

Defence continues to deliver against the 'Greening Government: ICT and Digital Services Strategy 2020-2025', actively partnering with cross-Government counterparts and industry to embed initiatives that reflect a strong commitment to environmental and social responsibility, climate resilience and operational effectiveness.

Across Defence, digital capabilities continue to deliver energy efficiencies and subsequent carbon emission reductions, whilst actively promoting social value, community engagements and enhanced training and awareness. In 2025, as part of the Secure Cloud Services contract with Google, Defence reinforced its commitment to reducing environmental impact by embedding sustainable practices in cloud services and fostering a culture of 'green awareness' across the supply chain and workforce.

2 Sustainable Support Strategy – GOV.UK
3 Defence Operational Energy Strategy – GOV.UK
4 Sustainable circular economics for Defence concept note – GOV.UK

Digital transformation programmes are delivering measurable reductions in digital-related carbon emissions and increasing environmental benefits. The Managed Print Service (MPS) alone is projected to deliver an annual reduction of 5,300 tonnes of carbon through reduced electricity consumption and responsible resource use. The Digital Foundry continues to drive efficiencies across the organisation, whilst championing sustainable business practices through digital sustainability assessments, awareness campaigns, and community volunteering initiatives. These actions, among others, demonstrate Defence's commitment to align digital transformation and technology innovation with long-term digital sustainability intent.

Sustainable Construction

Defence continues to lead on best practice in built infrastructure policy, standards, and guidance through the continuous improvement of infrastructure and estates policy. We are incorporating within Defence 'Building Performance Standards', robust energy performance targets which apply to all new build and major refurbishment work undertaken across the Defence Estate. Following the successful introduction of the ten-year programme for Single Living Accommodation to be built utilising Modern Methods of Construction (MMC) the 'Off-site Construction Solutions' framework is being called on for additional projects across Defence, further increasing the use of MMC or offsite construction across the estate. MMC supports the journey to Net Zero with faster construction times, reduction of waste to minimise environmental impacts and optimising material usage.

Environmental Protection

During the 2025-26 reporting period, Defence continued to deliver positive Environmental Protection (EP) outcomes, building on earlier progress and maintaining momentum across policy development, compliance activities, and the management of key environmental risks. A significant milestone was the publication of the Secretary of State's Environmental Protection Policy Statement, which reaffirmed Defence's strong commitment to environmental stewardship and strengthened the overarching framework for environmental management. In parallel, Defence progressed the development of an Environmental Operating Model, which will provide a clear and consistent approach for embedding environmental considerations into enterprise-wide governance, decision making, and operational delivery. Together, these initiatives are intended to reduce environmental risks and support Defence in achieving both strategic and tactical advantage while fulfilling its environmental responsibilities.

MOD have an Environmental Management System and EP Policy in place (JSP 418 L13) which details expectations for incident reporting and management. Incidents are reported via MySafety (combined reporting system for Health and Safety and EP). MOD have MOU's in place with the statutory regulators in dealing with issues of compliance with statutory EP requirements, including reporting of material incidents. Due to potential security restrictions relating to data, MOD do not report externally, but have open exchange of information with the regulators.

Nature Recovery

In 2025-26, Defence continued to fund and deliver nature recovery projects across the estate with over £1.2m directly invested in 113 projects to improve the condition of Sites of Special Scientific Interest (SSSI). A further £0.55m was invested in 37 nature related projects not related to SSSI condition, including £0.23m spent on peatland restoration.

The Defence estate is one of the UK's most important landholdings for nature because it includes 169 SSSIs covering a total area of 81,246 hectares (ha), which is approx. 37% of the estate. The latest data from the MOD Natural Capital Asset Register (NCAR) shows the estate includes 46,171 ha of peatland, which is important for biodiversity and a range of other ecosystem services such as carbon sequestration and flood alleviation. NCAR

data also highlights the estate's high value habitats, including 29,816 ha of calcareous grassland, 31,354 ha of acid grassland and 16,118 ha of broadleaved woodland across the estate.

In line with the Greening Government Commitments, the MOD's first Nature Recovery Plan has been published internally and is undergoing final review. It makes clear that managing land for nature will ensure the Defence estate is fit for modern defence needs and shall improve resilience to climate change and other environmental pressures.

MOD SSSIs	2023-24	2024-25	2025-26
Total Area UK	81,671 ha	81,667 ha	81,667 ha
Total Area England	70,476 ha	70,472 ha	70,472 ha
% Favourable England	49.8%	34.4%	34.4%
% Favourable or Recovering England	97.2%	76.1%	76.1%

Historic Environment (Heritage)

Defence conducts five-yearly inspections of its 'Scheduled Monuments' and uses the survey results to commission work to improve their condition. Defence is also committed to minimising the number of assets deemed to be 'Heritage at Risk'.

MOD Scheduled Monuments	2023-24	2024-25	2025-26
Total Number	773	773	784
Good Condition	40%	40%	41%
Moderate Condition	42%	42%	41%
Poor Condition	16%	16%	16%
Unassessed	2%	2%	2%

MOD Listed Buildings	2023-24	2024-25	2025-26
Total Number	856	856	847
Good Condition	61%	61%	61%
Moderate Condition	29%	29%	28%
Poor Condition	8%	8%	10%
Unassessed	2%	2%	1%

Finite Resources

The MOD recognises the importance of monitoring finite resource consumption in line with government sustainability objectives. Beyond water, the MOD has identified key finite resources vital to its operations and strategic objectives, including energy provided by fossil fuels, critical minerals and materials and construction materials.

The MOD has implemented measures to better manage these resources. Targets focus on reducing energy consumption, increasing estate renewable energy generation and adhering to sustainable procurement policies such as the Procurement Policy Note for steel in government contracts. The MOD also considers indirect resource use, such as embedded energy in procured goods.

Recent achievements include reductions in fossil fuel use for the MOD Estate, working to embed circular economy principles into our use of critical minerals and materials, increased sustainable sourcing of paper, and enhanced waste reduction and recycling initiatives. The MOD remains committed to improving data collection, refining methodologies for indirect resource assessment and collaborating with industry to reduce resource consumption.

Greening Government Commitments

The Greening Government Commitments (GGCs) are non-statutory requirements against which Departments' environmental performance is measured and reported. Reduction targets are set for Greenhouse Gas (GHG) emissions, waste and water, as well as measures for electric vehicles, sustainable procurement, nature recovery and climatic impact.

The previous five-year cycle of GGCs for the period 2020-25 concluded on 31 March 2025. A set of commitments for the period 2025-30 has yet to be agreed therefore, the following reporting is against the 2020-25 target period:

Defence 2025-26 Greening Government Commitment Performance

	Baseline				Current year	GGC 2025 Target
	2017-18	2023-24	2024-25	2025-26	Performance against baseline (%)	
MOD Committed Target						
CO_2 Emissions (Millions of tonnes) Estate	1.34	0.86	0.89	0.78	(42%)	(30%)
CO_2 Emissions (Millions of tonnes) Direct Estate	0.61	0.51	0.51	0.47	(23%)	(10%)
CO_2 Emissions (Millions of tonnes) Travel	0.08	0.06	0.04	0.03	(63%)	(30%)
CO_2 Emissions (Thousands of tonnes) Domestic Flights	6.53	6.36	5.89	5.20	(20%)	(30%)
Contribution to Wider Government Targets						
Total Waste (Thousands of tonnes)	81.42	61.00	55.82	55.96	(31%)	(15%)
% Waste to Landfill	10%	1%	2%	1%		Reducing waste to Landfill to 5% of total waste
% Waste to Recycle	51%	49%	47%	50%		Increasing recycling to 70% of total waste
Water (millions cubic metres)	16.15	15.97	15.81	15.62	(2%)	(8%)
Paper (millions of A4 equivalent)	0.94	0.40	0.35	0.31	(67%)	(50%)
New Stream under GGC 2021-2025 framework						
International flight travel distance (millions of km)	–	723	743	705		GGC reporting requirement. No link to any GGC performance metric
Ultra Low Emission Vehicle (ULEV)	–					By 31st Dec 2022, 25% car fleet to be ULEV
Zero emission vehicles		11.61%	24.28%	39%		100% Zero emission vehicles by 2027

Notes:

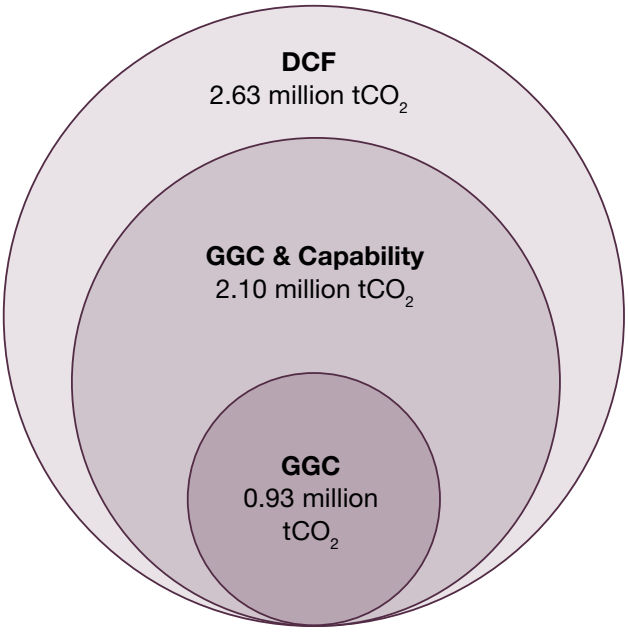
1. Water consumption represents the scope for GGC 2025-30 which includes ~2,400 Aquatrine PFI sites in GB. Northern Ireland is excluded. The scope also excludes distribution losses and service family accommodation.
2. Waste data follows the GGC 2025-2030 scope which includes all MOD UK estates waste generated. The scope excludes military end of life equipment, absolute hazardous waste, waste generated from service family accommodation, sanitary and clinical waste.
3. The GGC scope for waste reporting has changed from a few specified meters to the new EWC (European Waste Codes) for Municipal and Major Mineral, requiring a restatement of waste figures across all previous years.
4. The ULEV target has been replaced by the zero emission vehicles target. Hybrid vehicles are therefore no longer included in the totals reported.
5. A minor restatement has been made to the estate energy consumption data and the associated emissions reported in 2024-25. This is due to reconciliations and access to better data during 2025-26.
6. See Annex E for further breakdown of water and waste data.

Defence Carbon Footprint

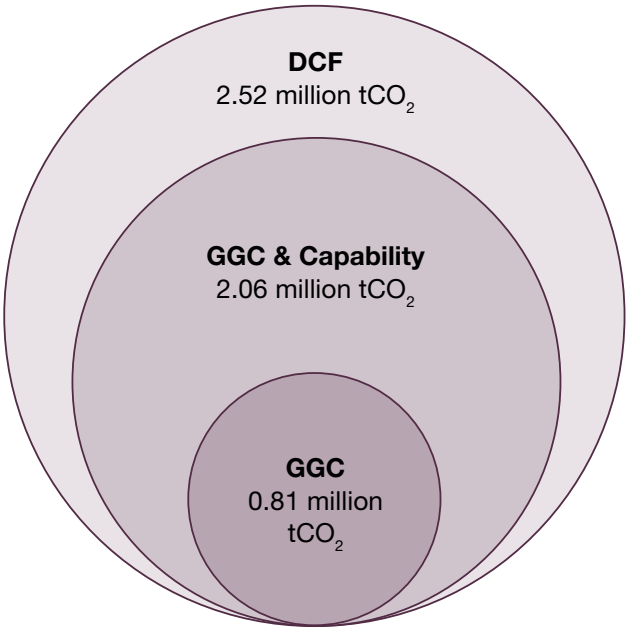
The Defence Carbon Footprint (DCF) covers direct estate emissions (UK and overseas), capability energy, fugitive emissions, emissions electricity and heat (UK and overseas), waste generated, employee commuting, service family accommodation, and duty travel. The Defence sustainability reporting boundary was based on the Defence Operating Model for 2025-26 and will be redefined for 2026-27 alongside the Defence Reform model and sub-areas. This year the overall Defence Carbon Footprint has reduced due to a reduction in estate energy usage. The DCF is aligned to the Greenhouse Gas Protocol and covers emissions that Defence can directly influence across Scope 1, 2 and 3. The visuals below illustrate the different components of the DCF and how they have changed over the past financial year.

MOD Carbon Emissions Reporting

2024-25 MOD Carbon Emissions reported



2025-26 MOD Carbon Emissions reported



Carbon Offsets

MOD have purchased 9,000 UK carbon credits and 5,000 EU carbon credits for the RAF's UK and EU ETS (Emissions Trading Scheme) reporting obligations for 2025-26. This covers Royal Household and Ministerial flights (UK ETS only), and all Military flights on Civilian registered aircraft. Carbon credits are surrendered to UK ETS by 30 April 2026 and to EU ETS by 30 Sep 2026. These carbon credits are for total emissions as a result of fuel burned on reportable flights under both Emissions Trading Schemes.

In addition, DIO purchased 105,000 UK carbon credits for MOD sites which qualified within the combustion of fuels threshold in accordance with the Greenhouse Gas Emissions Trading Scheme Order 2020.

See table at Annex E for a more detailed breakdown of carbon credits purchased and surrendered during 2025-26.

Task Force on Climate-related Financial Disclosures (TCFD)

Compliance Statement

The MOD has provided climate-related financial disclosures in line with HM Treasury's TCFD-aligned disclosure application guidance. The MOD has complied with all of the TCFD recommendations, as outlined within each section below.

Governance a) Describe the Board's oversight of climate-related risks and opportunities.

The governance of climate-related risks follows the core framework for risk reporting within the Department which is described and illustrated in the Governance Report section of this Annual Report.

Defence Executive Committee (ExCo): The ExCo acts as the primary body for day-to-day governance, using risk data to examine areas of concern and direct appropriate action.

The Department of State Management Board (DOS MB). During 2025-26, the Permanent Under Secretary (PUS) was principal risk owner for the Climate Change & Environment (CCE) principal risk. PUS is supported in the discharge of his duties by the DOS MB.

Climate and Environment Governance Board: This group comprises senior leaders from across the MOD enterprise. Defence Reform has designated this board as the senior responsible forum for CCE ensuring that climate change and environmental risks are integrated, assessed and appropriately mitigated at all levels of the organisation.

For climate related opportunities, oversight is provided at Board level through plans including the Defence Industrial Strategy[5], which identifies opportunities arising from clean technology. The Board ensures that these opportunities are integrated into broader defence objectives, emphasising not only resilience but also the potential to gain operational advantage through new energy technologies.

Governance b) Describe management's role in assessing and managing climate-related risks and opportunities.

The MOD risk management framework sets out the governance arrangements and roles and responsibilities for those involved in risk management. See DRA risk section included in the Governance Report. All groups within the MOD are required to report their climate change and environment risks. Directorate of Energy, Environment and Infrastructure (DEEI), produce an aggregated risk assessment which is reported to the DOS MB and, where appropriate, to the Defence Board. Individual risks and issues are escalated for deep dive discussion and direction to the CEGB and DOS MB where appropriate.

Climate risks are assessed and managed through various committees and structures, ensuring integration into policy and assurance processes:

5 https://assets.publishing.service.gov.uk/media/68bea3fc223d92d088f01d69/Defence_Industrial_Strategy_2025_-_Making_Defence_an_Engine_for_Growth.pdf

Committee/Structure	Role	Focus
Defence Audit and Risk Assurance Committee (DARAC)	Periodically reviews progress in identifying and mitigating climate-related risks. Provides assessment and oversight of climate risk management efforts.	Ensures accountability and effectiveness in addressing climate risks.
Finance Committee	Approves financial policies and procedures. Ensures climate change considerations are integrated into: Investment decisions, Financial risk management, Financial planning processes.	Aligns financial strategies with climate resilience and sustainability goals.
Directorate of Energy, Environment and Infrastructure (DEEI)	Accountable to the PUS for Defence for managing and reporting climate-related risks (2025-26). Defines and leads climate change strategy and policy. Ensures MOD alignment with Government sustainability commitments and climate resilience goals, including the net-zero target. Oversees integration of the Defence Climate Risk Assessment Methodology (DCRAM). Advises on and coordinates climate and environment activities across the Defence sector.	Strategic leadership in climate risk management and sustainability.

Management plays a critical role in assessing and managing climate-related opportunities. The Defence Energy and Capability Resilience Centre of Excellence (DECX) will launch in 2026 and focuses on evaluating both resilience and the operational benefits of emerging energy technologies. Additionally, management is exploring further energy-related income generation opportunities from the MOD estate. While these opportunities are at an early stage, they reflect proactive management of climate-related benefits.

Risk Management (a) Describe the organisation's processes for identifying and assessing climate-related risks.

The MOD's risk management framework aligns with the principles set out in HM Treasury's Orange Book and the Cabinet Office's Management of Risk in Government, ensuring appropriateness for the defence sector.

MOD uses the CIRAM (Climate Impact Risk Assessment Methodology), specifically for infrastructure, and the DCRAM (Defence Climate Risk Assessment Methodology) to assess climate-related risks both in the UK and abroad. Physical and transition risk causes are identified as part of the risk generation process.

MOD's risk identification processes follow the mandatory guidance in JSP 892: Risk Management, with regular updates incorporated into the corporate reporting system. Multi-disciplinary teams categorise climate risks (physical or transition) and map them to principal risks.

Physical Risks: The CIRAM is employed to assess risks at MOD estate sites, including critical infrastructure. The identified climate risks are integrated into broader risk management processes and escalated through governance structures.

Transition Risks

These are related to socio-economic shifts that impact strategy, operations, infrastructure, and reputation. Examples include:

Fuel Use: The phasing out of fossil fuels in diesel-powered fleets risks obsolescence of existing platforms and infrastructure, while challenging operational capability during the transition. Investments in electric vehicles, alternative fuels, and supporting infrastructure are critical to maintaining readiness and resilience. Adopting new technologies will require adjustments to systems, supply chains, and training programmes to prevent capability gaps and ensure interoperability across Defence assets.

Procurement: Ensuring contracts incorporate environmental standards to promote sustainable sourcing, reduce carbon footprints, and encourage the adoption of greener technologies and materials.

Infrastructure: Retrofitting Defence estates to comply with low-carbon building standards, improving energy efficiency, reducing emissions, and enhancing the sustainability of MOD infrastructure.

Physical and transition risks can combine to have an integrated impact. In this scenario, the subsequent mitigation takes into consideration all causes and possible events.

Assessing Risks

MOD continuously reviews climate-related risks, recognising that the global landscape is dynamic. The risk assessment process incorporates impact and likelihood evaluations, informed by data and expert judgment across disciplines.

During 2025-26, MOD has enhanced its CIRAM process to improve the identification and strategic analysis of climate risks by asset type, management actions required, and cost estimation where applicable. These updates have been tested at establishments, with further refinements ongoing. The CIRAM process is regularly updated to incorporate new requirements, advancements in climate adaptation, and updated scientific datasets, such as the Met Office Local Authority Climate Reports. The process now includes the use of multiple scenarios and timelines to improve risk analysis.

Risk Management (b) Describe the organisation's processes for managing climate-related risks and **c)** Describe how processes for identifying, assessing and managing climate related risks are integrated into the organisation's overall risk management.

Ownership of individual climate risks lies with the capability or policy owners, with reports on priority climate risks submitted to DEEI. As necessary, risks are aggregated to create a consolidated risk profile for MOD. Priority, material risks were managed by the PUS in 2025-26 and cascaded through the leadership structure, with accountability assigned to senior leaders.

The MOD's principal climate change risk is fully integrated into existing risk management processes, with DCRAM aligned to JSP 892. The policy in JSP 892 sets out the principles and standards for risk management in Defence. It provides a framework, ensuring that risk is understood and managed robustly to a consistent level of rigour. Risk deep dives are conducted at various levels throughout the governance structure, with increasing maturity in the incorporation of climate risks across Defence functions.

Work is ongoing to further integrate climate risk awareness into finance and commercial functions, enhancing the consideration of these risks in future investment and spending decisions. See further information under the strategy pillar.

Case Study: Managing Climate-Related Risks in Cyprus

Challenge: Cyprus, a climate hotspot, is experiencing rising temperatures and prolonged heatwaves. Metal clad Defence estate buildings frequently overheat, limiting working hours. On 13 August 2025, temperatures reached 40°C, with July 2025 the hottest in 40 years.

Response: Local teams monitored conditions and adjusted work rates. Air-conditioned portacabin shelters were provided for cooling breaks. Technical trials tested low-cost passive cooling methods for metal clad buildings, showing they can effectively reduce overheating.

Outcome: An investment of approximately £15,000 in materials has been shown to deliver significant passive cooling improvements, enhancing working conditions and reducing heat-related risks. This scalable approach can be applied across similar environments, demonstrating that proactive monitoring and cost-effective cooling solutions not only strengthen climate resilience but also enhance the safety and wellbeing of MOD personnel.

Case Study: Leveraging the DNV Energy Outlook for Climate Resilience

Challenge: The Navy faces climate-related risks, including resource accessibility, vulnerable maritime energy supply chains, and the need to adapt to global energy transitions. Without clear insights into future energy availability and the costs of inaction, operational resilience and sustainability goals are at risk.

Response: The Navy adopted the **DNV Energy Outlook**[6] to analyse global energy forecasts, evaluate climate risk metrics, and set strategic targets. This enabled the Navy to:

- Assess maritime energy supply chain resilience.
- Estimate the costs of inaction on climate adaptation.
- Align with global and regional energy transition trajectories.

Outcome: By leveraging the DNV Energy Outlook, the Navy improved decision-making on resource accessibility and climate risks. This proactive approach enhances operational resilience, reduces potential costs of inaction, and ensures alignment with sustainability goals.

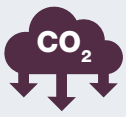
This case study demonstrates the value of data-driven tools in addressing climate challenges and ensuring operational resilience.

Metrics and Targets – (a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Key metrics used to assess climate risks and opportunities align with the HMT[7] 2025-26 Sustainability Reporting Guidance. These include MOD's GGCs and GHG emissions reporting. These metrics are disclosed in the sustainability section above.

MOD tracks various quantitative metrics, such as energy consumption, GHG emissions, waste, and water usage. Metrics are gradually expanding as work matures around climate risk and the energy transition, including renewable energy generation and storage.

The visuals below provide examples of some of the wider metrics currently used by MOD across the Defence estate to support the assessment of climate related risks and opportunities:



563,290 tonnes/CO_2e
Overall estate emissions reduction since 2017-18

10,783
Building Management System (BMS) Assets
6,101 Built Assets with a BMS Asset

137,516 tonnes/CO_2e
Direct estate emissions reduction since 2017-18

881 Posts
1,163 Sockets EV charging points installed to date

65% of Core Establishments with completed CIRAMs
(Climate Impact Risk Assessment Methodology) (of these, 70% in date)

6 https://www.dnv.com/energy-transition-outlook/
7 https://www.gov.uk/government/publications/sustainability-reporting-guidance-2025-26

Other examples of MOD assessing metrics related to climate risks are presented in the table below. The table highlights potential impacts on the Army's readiness. It is based on high-emission scenarios, which assume a slow rate of technology adoption.

						Potential impacts		
			Consequence	**Metric**	**Scenario**	**Baseline**	**2030**	**2050**
Physical risks	Readiness	Extreme heat	Prevented from achieving readiness due to extreme heat causing disruption to training schedules.	Number of days above 24°C wet bulb global temperature in a year.	High emissions	> 25 days	> 80 days	> 120 days
		Wildfires	Prevented from achieving readiness due to increased occurrence of wildfires resulting in disruption to training schedules.	Number of days impacted by wildfire risks in a year.	High emissions	> 110 days	> 140 days	> 260 days

Metrics and Targets (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks**.**

MOD is committed to disclosing Scope 1 and 2 GHG emissions (see Annex D). The MOD's Defence Carbon Footprint Methodology follows the GHG Protocol and includes an assessment of Defence emissions within its direct control, extending to cover some Scope 3 emissions, such as business travel. Supply chain emissions represent a significant portion of MOD's Scope 3 emissions. MOD is collaborating with suppliers to understand emission reduction opportunities and challenges within the defence industrial base, as well as contributing to policy development.

Metrics and Targets (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

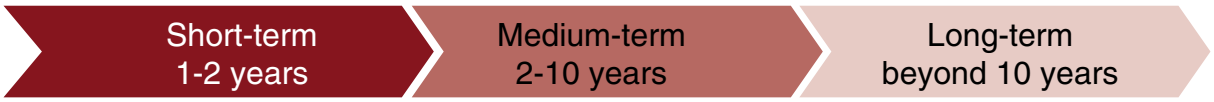
MOD follows DEFRA's GGCs and has previously reported progress against the targets set for 2020-2025. For the period 2025-2030, targets are still under negotiation and therefore the reporting this year reflects the performance for 2025-26 against the 2020-2025 targets for each GGC area (see the sustainability section, above).

It is MOD policy that CIRAM's are undertaken every five years. CIRAMs inform risk and estate management plans, business cases, strategic plans, maintenance programmes and business continuity.

Strategy (a) Describe the climate-related risks and opportunities identified over the short, medium, and long term.

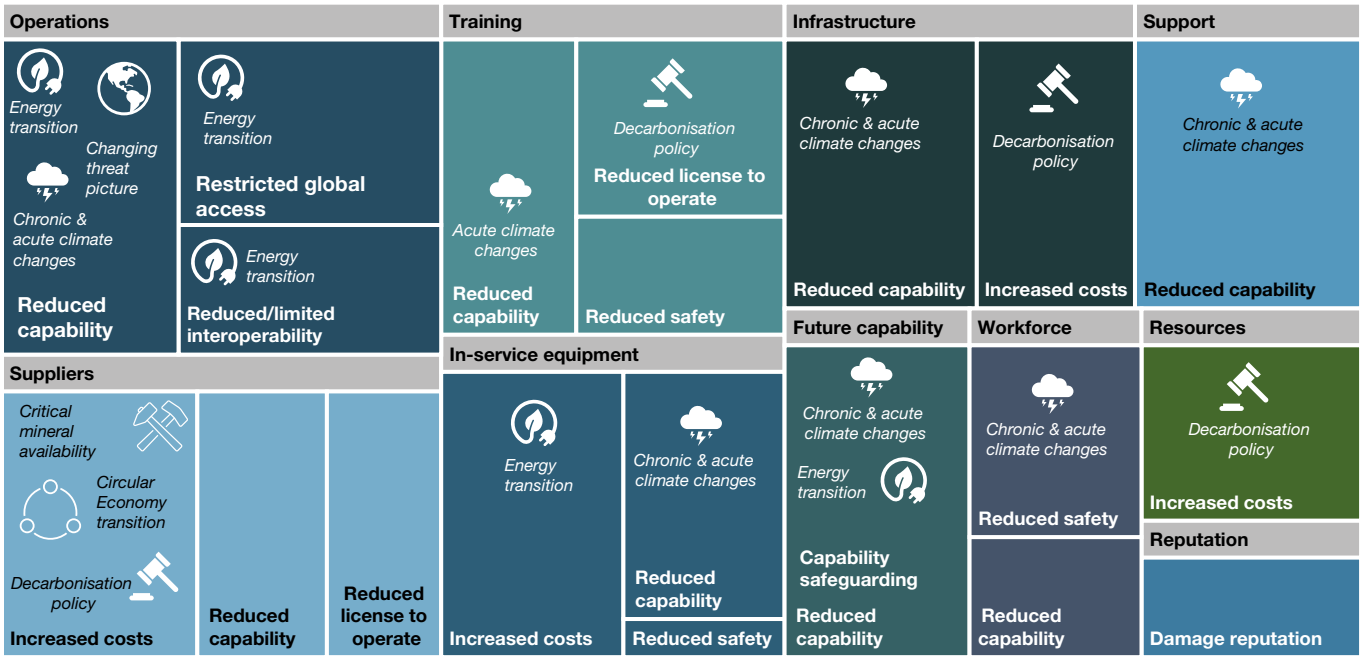
MOD has determined the following time horizons for short, medium and long term climate related risks.

These align to the MOD Strategic Planning Cycle.



The potential impacts of climate risks to the MOD, split by area, is summarised below. These risks are grouped by category, with a related key source of the risk and associated risk impact type.

Potential impacts of climate risks to Defence risk area



The following table provides some examples of key MOD risks, their potential impacts and mitigation response.

Risk Category	Key source of risk	Risk Description	Impact	Time horizon	Mitigation response
In-service equipment	Chronic climate change	Capabilities with long asset lives experience greater maintenance burden due to harsher operating environments	Increased costs due to remediation. Reduced/loss of capability	L	Use of climate data to inform increased maintenance requirements and planning
Infrastructure	Acute climate changes	Increased frequency and intensity of extreme weather events impacting infrastructure through damage and temporary disruptions, such as landslips, flooding.	Increased costs. Reduced capability	S	Business continuity measures in place for initial event. Funding needed for repairs/ changes to maintenance
Operations	Energy transition	Reduced ability to source the energy used by capabilities when on operations, increasing the dependency on supply chains or reducing freedom of manoeuvre.	Increased costs. Reduced interoperability. Reduced capability. Restricted global access	M/L	Work with allies and suppliers to secure access to an assured supply. Consideration of available energy as part of future capability design.

Climate related opportunities

MOD recognises the importance of addressing climate-related risks and opportunities as part of its commitment to sustainability and resilience. Through identifying and exploiting opportunities to mitigate climate risks, MOD is enhancing operational efficiency and supporting the transition to a low-carbon economy. The table below outlines key climate-related opportunities that contribute to the MOD's strategic objectives and long-term resilience.

Opportunity	Description
Informed Decision-Making	Using global energy forecasts to anticipate energy availability and assess climate-related risks.
Supply Chain Resilience	Strengthening maritime energy supply chains to mitigate climate vulnerabilities.
Cost Avoidance	Estimating financial impacts of inaction on climate adaptation and energy transition.
Energy Transition Planning	Forecasting energy transition trajectories to align with climate resilience and sustainability.
Risk Mitigation	Identifying and addressing climate-related risks to operational readiness and resource security.
Energy Efficiency	Lower energy demand and cost savings due to reduced energy use in milder winters.
Nature-Based Solutions	Using natural systems and collaboration to address climate risks and enhance resilience.
Strategic Integration	Embedding CIRAM into strategic plans and driving infrastructure innovation.
Emerging Technologies	Enhancing resilience and operational advantages through new energy technologies and circular economy.
Energy-Efficient Lighting	Using DESNZ funding for LED lighting projects to reduce costs, carbon footprint, and maintenance.
Decarbonisation Projects	Financing large-scale decarbonisation initiatives on MOD sites with Public Sector Decarbonisation Scheme funding.
Energy Generation	Adopting renewable energy sources like solar, wind, and biofuels to reduce fossil fuel reliance.

Strategy (b) Describe climate's impact on the organisation's operations, strategy, and financial planning

Impact on operations

Climate-related risks are already impacting the MOD in several ways, particularly through extreme weather events and their effects on the Defence estate.

Climate change is also affecting operations through chronic changes in precipitation, temperature, humidity, sea level rise, and storms (e.g., high winds, electrical storms). While current operational risks are managed through business continuity measures, such as staff rotations during heatwaves, delays, and activity rescheduling, both acute and chronic climate changes are expected to intensify under all warming scenarios, including 1.5°C. Existing vulnerabilities, such as ageing infrastructure, constrained budgets, and the condition of obsolete assets, further compound some of these impacts.

The table below provides examples of where extreme weather events have caused impacts/highlighted risks to MOD operations.

Location	Event	Impact	Cost
Lossiemouth October 2025	Drought escalating effect of wildfires near to station boundaries	No impact to station as was successfully dealt with. However, highlighted the real risk to station and essential operations.	None
Fylingdales August 2025	Hot, dry and windy conditions escalating wildfires near RAF Fylingdales	No impact to station as was successfully dealt with. However, highlighted the real risk to station and essential operations.	Unknown
Brize Norton February 2022	During Storm Eunice large sections of the roof were ripped off a new hangar	Caused significant damage and cleanup operations although no immediate operational impact to flying. Highlighted vulnerability and prompted safety alerts.	Unknown
Brize Norton Summer 2022	Intense heatwave causing unsafe runway surface	Some change of plans but no operational impact	Unknown
Chicksands 2024	Unprecedented rainfall caused the River Flit to burst its banks.	Flooding of Service Family Accommodation (SFA): 30 properties affected, 27 families displaced.	Total cost in response to the flooding ~£670Kplus additional ~ £200K to install defences and enhance resilience.
Akrotiri 2024	Tornado conditions.	Hangar damaged beyond economic repair, leading to helicopter displacement and lack of covered aircraft servicing capability.	Not specified

Impact on strategy

The Strategic Defence Review (SDR), published in June 2025, serves as the overarching strategy document for the MOD. It sets the direction for policy work and implementation, identifying climate change and environmental degradation as key transnational challenges shaping the operating environment. The SDR highlights the interaction of these challenges with trends such as increased strategic competition and rapid technological change, emphasising the need to prepare for new geographic realities, such as ice-free Arctic summers by 2040. It provides the foundation for a range of plans and initiatives aimed at managing climate-related risks and ensuring Defence resilience.

MOD Plans to Manage Climate Risks

Plan/Strategy	Description
Strategy for Defence Infrastructure (SDI)	Focuses on ensuring the Defence estate is resilient to security threats, natural hazards, and climate impacts.
Joint Service Publication 850: Infrastructure and Estate Policy, Standards, and Guidance	Commits to ensuring the estate's ability to support military capability is not compromised by climate impacts.
Defence Adaptation Plan	Currently under development, this plan will provide objectives to increase resilience, aligned to the National Adaptation Programme 4.
Defence Industrial Strategy (DIS)	Strengthens industry partnerships and develops sovereign capabilities in dual-use energy technologies and circular economy approaches.
Energy Resilience Initiatives	Focuses on building resilient supply chains and increasing energy generation 'at source' to mitigate risks and ensure operational advantage.
Defence Energy and Capability Resilience Centre of Excellence (DECX)	Launching in 2026, DECX will unite MOD, industry, academia, and research to drive innovation in energy technologies and circular economy approaches.
Climate and Environment Strategies	Embed climate risk management into Defence's strategic planning to ensure resilience and operational effectiveness.
MOD Global Strategic Trends out to 2055	Provides a long-term analysis of global environmental and geopolitical trends, highlighting the need to address climate change impacts, such as resource scarcity, extreme weather, and shifting geopolitical dynamics, in planning.

Impact on MOD financial planning

The MOD is actively integrating climate-related risks into its financial planning through a range of initiatives, ensuring resilience and sustainability across its operations:

- **Estate Financial Planning**: Financial planning for risks and issues across the Defence estate is well-established and incorporates identified climate risks.
- **Investments**: Under JSP 507, all submissions to the Investment Approvals Committee must include a statement demonstrating how environmental and sustainability considerations have been addressed, including, where appropriate, the valuation of greenhouse gas emissions. The identification of climate-related risks and opportunities is driving targeted investments across the MOD. Examples include the installation of energy-efficient LED lighting and measures to enhance resilience to flooding.
- **Climate Resilience Risk Register**: The Climate Resilience Risk Register, developed through the CIRAM workshop, is maintained as a live document. It includes response plan activities, such as investments in infrastructure, equipment, and local management responses, along with associated costs. This ensures that financial planning and business decisions are informed by up-to-date climate resilience data.
- **Climate Risks Informing Financial Planning**: Climate risks are shaping financial planning across the MOD. For example, the Navy is developing Resilience Action Plans, which are detailed, costed 10-year plans covering Estates, Operational Capability, and the Value Chain. These plans map out risk mitigation activities, enabling their integration into financial planning and providing a clear understanding of the risks associated with non-investment.

Through these initiatives, the MOD is taking initial steps to strengthen its financial planning processes to better account for climate-related risks. While progress is being made in embedding climate resilience into decision-making, the approach is still in its early stages, with some areas of financial planning more advanced than others. Significant work

remains to fully integrate climate risks across all aspects of financial planning.

Strategy c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

MOD is embedding climate-related scenario analysis into its strategic planning processes to enhance resilience and ensure operational effectiveness in the face of a changing climate.

By assessing risks under multiple climate scenarios, including low-emission (2°C) and high-emission (4°C) pathways, MOD is identifying vulnerabilities, prioritising investments, and developing mitigation strategies to address potential impacts on its operations, infrastructure, and energy resilience. These efforts are supported by collaboration with key partners, the use of advanced climate modelling tools, and innovative approaches such as wargaming, ensuring that the MOD is prepared to adapt to future climate challenges while maintaining critical defence capabilities. The table below summarises the key areas of focus in the MOD's climate related scenario analysis and resilience planning.

Key Area	Summary
Climate Impact Risk Assessment Methodology	CIRAM incorporates data from UK Climate Projections, the Flood Warning Information Service, and the Environment Agency. Workshops produce tailored climate reports and Climate Resilience Risk Registers (CRRRs). Testing of 2°C in addition to 4°C scenarios is planned for 2026.
Climate Modelling at Key Sites	Modelling at DM Gosport and DM Crombie under high-emission scenarios (4°C) projects extreme flood hazards, structural damage from wind, and overheating risks by 2080. Insights inform investment priorities to build resilience.
Energy Resilience	MOD is addressing overseas energy resilience risks by investing in renewable energy and energy storage systems. These efforts align with the MOD's broader strategy to mitigate risks and adapt to climate change.
Army Scenario Analysis	The Army is analysing low-emission (2°C) and high-emission (4°C) scenarios, focusing on the most significant risks. High-emission scenarios assume slow technology adoption, while low-emission scenarios align with Paris Agreement pledges.
Defence Nuclear Organisation	Defence Nuclear Organisation is working with the Met Office to establish baseline climate scenario datasets for 2030, 2050, and 2080. These datasets enable consistent site-level scenario analysis to evaluate risks and determine required mitigations and timeframes.
Wargaming	The MOD is incorporating climate and energy risks into resilience wargaming. DEEI has hosted Global Competition Wargames with NATO allies, exploring strategic competition, technological change, and extreme weather to enhance resilience and interoperability.
MOD Collaboration with DSTL and Met Office	Conducted a proof-of-principle assessment to analyse climate impacts on equipment under projected temperature changes up to 2050. The work provided valuable insights into analytical methods, data requirements, and regional considerations for future assessments. Key recommendations include refining quantitative approaches, integrating qualitative data, considering additional climate factors, and addressing the broader impacts of climate change on Defence capabilities.
MOD Global Strategic Trends out to 2055	Provides a long-term analysis of global environmental and geopolitical trends, highlighting the need to address climate change impacts, such as resource scarcity, extreme weather, and shifting geopolitical dynamics, in planning.

This table provides a concise overview of the MOD's efforts to integrate climate-related scenario analysis and organisational resilience into its planning processes. To ensure full transparency while recognising operational sensitivities, the MOD acknowledges that detailed disclosure of the resilience of its strategy under different climate-related

scenarios is limited due to confidentiality and national security considerations. While the MOD undertakes scenario analysis to assess and enhance resilience, the specific results and strategic responses cannot be publicly disclosed in full. This approach aligns with TCFD guidance provisions allowing for such omissions where necessary, and the MOD remains committed to providing substantive information on climate-related risks, time horizons, and strategic impacts within these constraints.

United Nations Sustainable Development Goals

UN SDGs	Headline contributions
4 – Quality of education Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	• Through apprenticeship schemes and school cadet programmes, Defence has created awareness, extended equal opportunities and built skillsets in young people of all backgrounds with over 24,000 civilian and military apprenticeships being undertaken. • Defence was highlighted in the 'Top Apprenticeship Employers' for 2025, with the Army, Navy and RAF all making the top 60 ranking.
7 – Affordable and Clean Energy Ensure access to affordable, reliable, sustainable and modern energy for all.	• The last year has seen the development of the Defence Energy Enterprise, highlighting the growing importance of energy security. • The MOD's total estate energy emissions has reduced by 42% against 2017-18 GGC baseline. • Defence continues to improve energy efficiency and increase its use of clean energy: • On-site generation of renewable energy projects such as Prometheus. • Trials of sustainable drop-in fuels.
8 – Decent Work and Economic Growth Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	• Defence launched schemes to help military families reclaim overseas childcare costs for before and after school care. • The new Veterans Strategy focuses on celebrating service, recognising veterans' contributions, and providing tailored support, backed by a commitment to legislate the Armed Forces Covenant. • The People Development and Skills Framework (PDSF) enhances talent management, learning, and strategic workforce planning across Defence. • The Armed Forces Covenant expanded to 14,130 signatories by November 2025, with 8,346 accolades awarded through the Defence Employer Recognition Scheme.
9 – Industry, Innovation and Infrastructure Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.	• Defence is applying 'Building Performance Standards' to improve energy and thermal efficiency in all new builds and major refurbishments. • Single Living Accommodation uses Modern Methods of Construction to speed up building, reduce waste, and support Net Zero goals.

10 – Reduce Inequalities Reduce inequality within and among countries.	• 2025-26 saw the publication of the inaugural Armed Forces Sexual Harassment and Sexualised Behaviours Survey, conducted to gather experiences and perceptions of sexual harassment among service personnel. This will provide vital data to inform preventative programmes.
11 – Sustainable Cities and Communities Make cities and human settlements inclusive, safe, resilient and sustainable.	• MOD is taking steps to strengthen, protect and safeguard cultural and natural heritage through management of Defence's 847 listed buildings and 784 scheduled monuments.
12 – Responsible Consumption and Production Ensure sustainable consumption and production patterns.	• Sustainable procurement considers environmental impacts aligned with the Defence Industrial Strategy. • GHG emissions are managed through PPN 006: Taking account of Carbon Reduction Plans in the procurement of major government contracts and PPN 016: Carbon Reduction Contract Schedule. • Social value is undertaken in line with the Procurement Act 2023 using PPN 002: Taking account of social value in the award of contracts. • The Defence Industrial Strategy 2025 (DIS) outlines social value in defence and incentivises industry to drive growth and a thriving industrial sector in the UK. • To reduce supply chain risks, developed a framework with industry to recycle surplus Defence assets, including the 'Tornado to Tempest' project.
13- Climate Action Take urgent action to combat climate change and its impacts.	• Defence infrastructure resilience assessed using CIRAM, with DASI analysing cumulative risks and mitigation strategies in 2025-26. • Climate adaptation beyond infrastructure was supported by DCRAM, enabling holistic risk identification and management per National Audit Office guidance. • Identified climate risks are recorded, monitored through corporate governance, and integrated into the Principal Risk process.
15 – Life on Land Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.	• In 2025-26, Defence continued to fund and deliver nature recovery projects across the estate with over £1.2m directly invested in 113 projects to improve the condition of Sites of Special Scientific Interest (SSSI). A further £0.55m was invested in 37 nature related projects not related to SSSI condition, including £0.23m spent on peatland restoration.

16 – Peace, Justice and Strong Institutions Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.	• Defence has carried out counterterrorism and operational activity across the broader Middle East. • AUKUS demonstrates a strong partnership between Australia, the United States and the UK. • The Global Combat Air Programme, strengthens alliances, partner and security both in the Euro-Atlantic and the Indo-Pacific. • The Joint Expeditionary Force (JEF) is a UKled, ten nation Northern European military and political framework that contributes to security in the Euro-Atlantic area by providing an agile, flexible, and fast-response mechanism that complements NATO.

Jeremy Pocklington CB
Accounting Officer

9 July 2026

Accountability Report

For the year ended 31 March 2026

Royal Air Force Regiment Gunners in the King's Colour Squadron.

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 (ExCo), People Committee (Non-Executive Members only) and Defence Audit and Risk Assurance Committee (DARAC) during 2025-26. They include detail on the number of meetings attended during the year.

Ministerial Members of the Defence Board		
Ministers	**Role**	**Defence Board**
The Rt Hon John Healey MP (from 5 July 2024)	Secretary of State for Defence	6 of 6
Luke Pollard MP	Minister of State for Defence Readiness & Industry[1]	5 of 6
The Rt Hon Maria Eagle MP (to 6 September 2025)	Minister of State for Defence Procurement and Industry	1 of 2
Alistair Carns MP	Minister for the Armed Forces[2]	4 of 6
Louise Sandher-Jones MP (from 6 September 2025)	Minister for Veterans and People	3 of 4
Lord Coaker (from 8 July 2024)	Minister for the House of Lords	4 of 6

[1] Moved from Minister for the Armed forces to Minister for Defence Readiness & Industry on 6 Sep 2025.
[2] Moved from Minister for Veterans and People to Minister for the Armed forces on 6 Sep 2025.

Non-Executive Members	Role	Defence Board	People Committee	Defence Audit and Risk Assurance Committee[1]
Robin Marshall	Non-Executive Board Member	5 of 6		
Kate Guthrie	Non-Executive Board Member	5 of 6	1 of 1	
Dr Brian Gilvary	Non-Executive Board Member	5 of 6		6 of 6
Prof Tracy Myhill	Non-Executive Member		1 of 1	
Alison White	Non-Executive Member			6 of 6
Angela Henderson	Non-Executive Member			5 of 6
David Holt	Non-Executive Member			5 of 6

[1] An additional meeting on 13 November was reclassified as informal at the request of the Chair, as neither the PUS nor DG Finance were able to attend. All NEDs attended, and received updates on internal audit, financial audit and value-for-money matters, with actions agreed and recorded.

Executive Members of the Defence Board, Executive Committee and DARAC	Role	Defence Board	Executive Committee (ExCo)	Defence Audit and Risk Assurance Committee
David Williams CB (to 30 November 2025)	Permanent Secretary	3 of 3	12 of 12	4 of 4
Jeremy Pocklington CB (from 24 November 2025)	Permanent Secretary	3 of 3	5 of 5	2 of 2
Admiral Sir Tony Radakin KCB ADC (to 30 September 2025)	Chief of the Defence Staff	2 of 2	5 of 6	
Air Chief Marshal Sir Richard Knighton KCB ADC FREng (from 1 September 2025)	Chief of the Defence Staff	4 of 4	11 of 11	
General Dame Sharon Nesmith DCB ADC (from 9 June 2024)	Vice Chief of the Defence Staff	6 of 6	11 of 17	
Aneen Blackmore (from 3 June 2024)	Director General Finance	6 of 6	17 of 17	6 of 6
Andy Start (to 14 October 2025)	National Armaments Director (Interim)	2 of 2	10 of 10	
Rupert Pearce (from 13 October 2025)	National Armaments Director	4 of 4	5 of 7	
Madelaine McTernan CB (from 27 November 2024)	Chief of Defence Nuclear	5 of 6	10 of 17	
Charlie Forte (from 23 June 2025)	Chief Information Officer		13 of 15	

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[8] and the Register of Members' Financial Interests held on the UK Parliament Website[9].

Details of directorships and other significant interests held by members of the Defence Board can be found on GOV.UK[10].

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.

8 https://www.gov.uk/government/publications/list-of-ministers-interests
9 https://members.parliament.uk/members/commons/interests/publications
10 https://www.gov.uk/government/collections/ministry-of-defence-register-of-board-members-interests

Related Party Transactions & Conflicts of Interest[11]

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 in the section on Directorships and Significant Interests.

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.

Any significant Related Party Transactions associated with the interests of ministers or Defence Board members, are shown in Note 18 to the Financial Statements – 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. All personal data incidents reported using the MOD's Security Incident Reporting Form (SIRF) are assessed by the MOD Data Protection Officer's team (DPOT) to determine if they meet the criteria for notification to Information Commissioner's Office (ICO). The MOD DPOT will then directly notify the ICO through an established ICO process for notification.

MOD has not reported any incidents to the Information Commission (ICO) in this reporting year.

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	2025-26	2024-25
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	18	19
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	3	32
III	Insecure disposal of inadequately protected paper documents.	0	0
IV	Unauthorised disclosure.	465	499
V	Other.	76	101
Total		**562**	**651**

11 Section relates to IAS24 – Related party transactions.

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 Public Bodies (NDPBs) and other Arm's Length Bodies (ALBs), designated by order made under the GRAA by Statutory Instrument 2025 No.1336 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed at Note 19 to the accounts). They also include financial support made to third parties using statutory powers through the issue of grants for specific purposes and grants in aid. 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 NDPBs 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 Permanent Secretary of the Ministry of Defence by the Prime Minister and appointed as its Accounting Officer by the Permanent Secretary of HM Treasury, on 6 April 2021 and his term ended on 30 November 2025. Jeremy Pocklington CB was appointed Permanent Secretary by the Cabinet Secretary and as Accounting Officer by Permanent Secretary of HM Treasury on 24 November 2025.

As Accounting Officer for the Department, the Permanent Secretary has appointed the Chief Executives of the Department's Agencies and sponsored NDPBs 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 NDPBs and other ALBs for which the Accounting Officer is responsible, are set out in Managing Public Money published by HM Treasury.

The Chief of Defence Nuclear supports the Permanent Secretary with nuclear deterrent aspects of national security and works closely with the First Sea Lord (responsible for submarines in-service and operations that include the Continuous-At-Sea Deterrent, (CASD). The Defence Nuclear Enterprise (DNE) describes the federation of organisations and arrangements that supports our strategic nuclear deterrent capability and CASD. To aid in the effective management of this, the Chief of Defence Nuclear is an Additional Accounting Officer (AAO).

Accounting Officer Confirmation

David Williams CB was the Accounting Officer until my arrival on 24 November 2025. I have taken all 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.

I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that the information presented is fair, balanced and understandable. I confirm that the annual report and accounts as a whole 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 adequate. 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.

Principal Risks

The Department's principal risks are categorised into ten risk themes, which have been agreed by the Defence Board. The scope of the risks managed by the Department includes the following:

Principal Risk Theme	Our Response to principal risks linked to these themes
Nuclear Deterrent	The response isn't declared for reasons of national security.
Warfighting Capability	The response isn't declared for reasons of national security.
Strategic Alliances	Measured as a proportion of GDP, in line with our NATO allies, the money spent on defence by the end of the decade will be 2.7% of GDP. The UK made a commitment to its allies to reach 3.5% of GDP on defence spending by 2035. It has reaffirmed its commitment to supporting Ukraine, including continued leadership of the Coalition of the Willing and Ukraine Delivery Contact Group. Additionally, the UK is strengthening relationships with allies through enhanced collaboration and the export of defence equipment.
People Capability	The MOD is committed to building a skilled, motivated, and sustainable workforce by maximising talent and delivering an attractive, affordable offer. Guided by the Strategic Defence Review, reform is focused on strengthening capability and readiness, while Raising our Standards drives cultural change by addressing unacceptable behaviours, removing barriers, and embedding consistent values. Together, these efforts aim to create a meritocratic, representative workforce that enhances warfighting readiness and underpins a stronger, more effective Defence force.

Principal Risk Theme	Our Response to principal risks linked to these themes
Climate Change & Environment	Energy security, the need to adapt to the changing operating environment and maintain Environmental Statutory Compliance are major and growing concerns that can directly affect the delivery of the MOD's primary objectives. Linked mitigation action is underway to transform how the MOD manages its operational and estate energy; standardise the approach to environment management and assure compliance with Statutory Duties. Further information is available in the Performance Report.
Safety, Health and Wellbeing	The MOD is committed to ensuring safe, healthy, and supportive environments for living, working, and training. This is achieved through robust policies and controls aligned with legislative requirements, which are regularly reviewed and enhanced as part of the ongoing development of the Department's safety management system.
Cyber	The MOD remains proactive in deterring cyber threats by implementing technical controls, strengthening cyber security awareness and culture, hardening systems, and enhancing resilience. Defence takes a risk-led, data-driven approach to managing cyber risks. The adoption of the National Cyber Security Centre's Enhanced Cyber Assessment Framework ensures Defence provides oversight and demonstrates robust cyber security and resilience. Following the Strategic Defence Review 2025, Defence has formed the new Cyber and Electromagnetic Force ensuring coherence to defend Britain from daily attacks across the cyber domain.
Security and Resilience	The Department is addressing these risks through a range of prioritised actions, recognising that progress will take time to embed fully. Following the 2025 security review, commissioned in response to the incursion at RAF Brize Norton, the Department has initiated measures to enhance physical security across the Defence estate. This includes improvements to surveillance and digital capabilities to support better threat detection. Further improvements are planned and will be prioritised in line with available resources. Work is also underway to strengthen the management of personnel and insider risk, including a review of vetting processes. The relaunch of the Security Incident Reporting Form has improved the consistency and timeliness of reporting, supporting better understanding of risk across Defence. In 2025, People Security was established as a fourth principal security and resilience risk, reflecting the growing importance of protecting Defence personnel, with dedicated capability being developed during 2026.
Relationship with Industry	Over the past year, the MOD has taken significant steps to strengthen the resilience of its supply chains in line with the Defence Industrial Strategy (DIS) and commitments set out in the Strategic Defence Review (SDR). Central to this effort has been the Defence Supply Chain Capability Programme (DSCCP), which is driving a transformation towards end-to-end supply chains that are resilient, adaptive, and collaborative. Key initiatives include embedding resilience by design into capability development, introducing risk-informed procurement frameworks, and leveraging digital tools for real-time visibility and scenario planning. MOD has also prioritised surge capacity and stockpiling to enable mobilisation at "wartime pace," alongside forging deeper partnerships with industry and allies through NATO and AUKUS to ensure interoperability and collective readiness. These measures, underpinned by significant procurement reform and innovation, aim to create a thriving industrial base that not only supports operational independence but also acts as an engine for economic growth.
Science, Innovation and Technology and Modernisation	Technologies are redefining the nature of warfare, making science, technology and innovation essential to maintaining a competitive edge. The MOD is expanding its understanding of emerging technologies – such as Artificial Intelligence, Quantum Technologies, Human Augmentation, and Engineering Biology – to drive innovation, secure the UK's global leadership in these fields, and sustain the nation's strategic advantage through cutting-edge science and technology. To achieve this, the MOD is enhancing collaboration with academia, industry, other government departments like the Department for Science, Innovation and Technology (DSIT), and international allies. These partnerships ensure that Defence requirements are embedded in cross-government, cross-sector, and global science, technology and innovation efforts, enabling the UK to remain at the forefront of technological advancement.

National Audit Office (NAO) Management Letter

The NAO qualified the MOD's 2024–25 accounts because of a material limitation of scope over Assets Under Construction (AUC) and a breach of the Parliamentary budgetary control totals linked to legal claims. The NAO also highlighted significant weaknesses in the controls over legal claim provisions.

MOD has responded by strengthening AUC controls, including asset recognition, data quality and reconciliations. Provisions guidance has also been updated, with stronger central review and challenge. A new assurance process has been introduced to test completeness, improve audit evidence and reduce the risk of recurrence.

The extended audit report for 2025-26 notes a material audit adjustment was made in relation to provisions. This issue arose due to the timing and flow of management information to support critical accounting judgements. The department will revisit this process in 2026-27 to ensure timely recognition and reporting.

Governance Framework

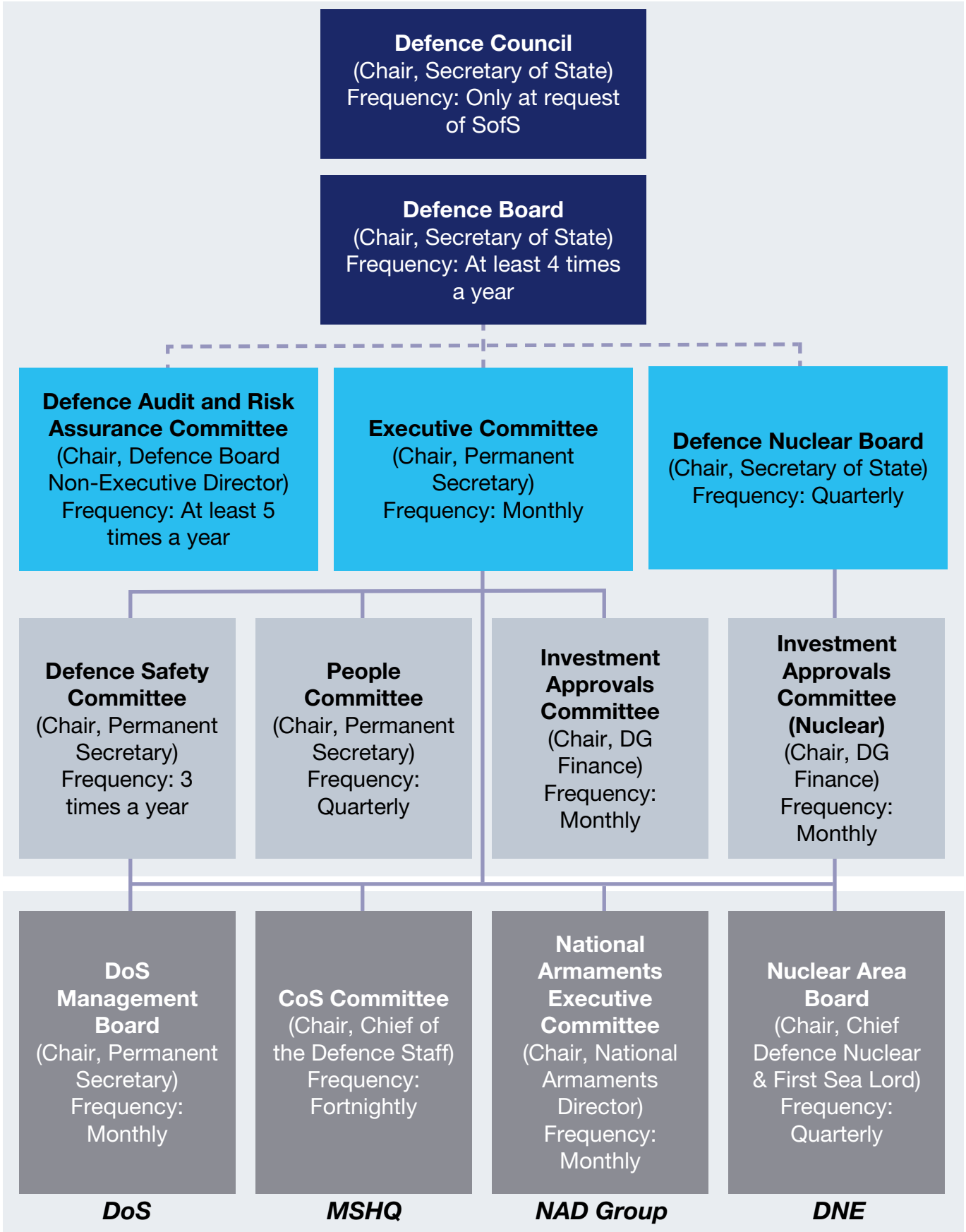
In 2025–26, Defence focused on embedding the governance foundations established during the previous year as part of the Defence Reform Programme. Work continued to mature the new governance architecture, streamline legacy boards, and clarify roles and accountabilities across Areas, Functions and the wider enterprise. Implementation planning for the reformed committee structure progressed throughout the year, including decommissioning redundant committees and finalising ministerial and 3-Star arrangements ahead of Initial Operating Capability in April 2026.

Alongside this, the Department advanced work to create a coherent and unified Defence Target Operating Model. This included clarifying accountabilities, strengthening governance and approvals, improving funding flows, and aligning operating models across both functional and area structures. These arrangements were prioritised to support Initial Operating Capability from April 2026, with further refinement, embedding and completion of residual design continuing through 2026–27 as the model matures, and Full Operating Capability planned for April 2027.

The governance system also remained under regular review to ensure it continues to support Defence's transformation ambitions. Scenario-testing of governance cycles, implementation of streamlined processes, and embedding consistent functional governance standards have all progressed at pace.

Overall, this period has been one of consolidation and strengthening, embedding new structures, maturing processes, and preparing Defence for full implementation of the reformed governance framework in 2026.

Defence Board Sub-Committees and the Executive Committee to end March 2026



Summary of discussions of the Key Committees and Boards

Defence Board	During 2025-26 the Defence Board concentrated on driving delivery of the Strategic Defence Review, the Defence Investment Plan, and progressing the wider Defence Reform agenda. It oversaw efforts to improve performance, data, and accountability, including early adoption of digital and AI-enabled systems to strengthen readiness and decision-making. The Board engaged closely with in-year financial management, long-term planning through the Defence Investment Plan, and the development of the Defence Industrial Strategy and defence-led economic growth. It also reviewed the emerging Defence Diplomacy Strategy and reaffirmed a NATO first posture amid a challenging strategic environment. Throughout, members emphasised the need for cultural and behavioural improvement, particularly through Raising Our Standards, as essential to sustaining delivery across a demanding and interconnected programme of change.

Defence Council	The Defence Council provides the formal legal basis for the conduct of Defence in the UK through a range of powers vested in it by law. 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 2025-26.

Defence Nuclear Board (DNB)	The DNB is a subgroup 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 SofS in overseeing and assuring delivery of the UK's strategic nuclear deterrent and the Defence Nuclear Enterprise (DNE) that sustains it.
Defence Audit and Risk Assurance Committee (DARAC)	Throughout 2025-26, DARAC maintained oversight of risk, assurance, audit and financial governance, during a period of organisational change. DARAC had oversight of the challenges and opportunities created by Defence Reform recognising its potential to strengthen governance in the longer term. Throughout the year, the Committee emphasised the importance of reinforcing the control environment, improving balance sheet oversight, and developing clearer and more consistent governance arrangements, where continuity had been challenged, to support a stronger overall assurance framework. The DARAC reviewed the Department's Annual Report and Accounts including the Governance Statement. The Committee focused on major financial matters, including the qualification issues within the 2024-25 accounts to ensure the Department was responding effectively.

Executive Committee (ExCo)	During 2025–26, the Executive Committee focused on strengthening Defence's planning, performance and financial management, including oversight of the Defence Investment Plan and improvements to financial controls supporting delivery of priority programmes. The Committee maintained oversight of risk management and organisational resilience, promoting coherent planning and mitigation of key delivery risks. ExCo also provided strategic direction on Defence Reform, steering the Department through a transition year, including workforce changes, estate modernisation, digital and cyber transformation, industrial strategy, and improvements to security and data protection.
People Committee (PC)	During 2025–26, the People Operating Model and associated governance arrangements, including the role of the People Committee, were refreshed and strengthened as part of Defence Reform. Reflecting this transition, the People Committee met once during the year. The Committee is focused on monitoring and mitigating major Civil Service and military workforce risks, with particular emphasis on culture and leadership. Workforce-related issues continued to be overseen through the Defence Reform Programme and the Executive Committee, maintaining leadership, accountability and progress throughout the period of transition.
Investment Approval Committee and Investment Approval Committee Nuclear (IAC and IAC Nuc)	During 2025–26, the Investment Approvals Committee (IAC) and IAC (Nuclear) considered a wide range of investment proposals across key capability areas, including maritime, air and land platforms, weapons and munitions, digital and enabling services, and estate and infrastructure programmes. The Committees provided scrutiny and assurance on major acquisition and support decisions, supporting effective prioritisation, affordability and value for money across the Defence portfolio.
Defence Safety Committee (DSC)	During 2025-26 the Defence Safety Committee oversaw key aspects of Defence's safety governance as the organisation underwent significant reform. The Committee focused on ensuring that structural changes were introduced safely, including through successive Organisational Safety Assessments and work to establish a new Safety Function Target Operating Model. It examined emerging risks and incident trends, received updates from the Defence Accident Investigation Branch, and monitored progress on major safety programmes such as land system certification, environmental protection, noise induced hearing loss, cold injury prevention and exertional heat illness. Throughout the year, the Committee emphasised the importance of a consistent safety culture, clear accountabilities, strong second line assurance and improved organisational learning to support safe and effective delivery during a period of change.

From 1 April 2025, Defence began operating under a new four Area model, and over 2025-26 significant progress has been made in embedding this structure and maturing the governance that supports it. The Department of State (DoS), Military Strategic Headquarters (MSHQ), the National Armaments Director Group (NAD Group) and the Defence Nuclear Enterprise (DNE) have continued to refine their internal operating models, with clearer accountabilities, strengthened management boards, and increasingly coherent processes for leadership and delivery.

Over the year, Defence has focused on integrating these structural changes into a single, end-to-end Defence Operating Model. This has included designing the strategic planning, force development and strategic effects cycles; aligning funding flows and approvals; and modernising governance through a simplified enterprise framework. New enterprise level governance, centred on the Defence Board, Executive Committee and Area Management Boards, is now moving toward full implementation, enabling faster decisions, greater consistency across Areas and improved performance oversight.

The period has also seen further reforms across the functions of Defence, including finance, people, safety, security, digital and commercial, functional operating models and governance. Legacy governance structures are being retired and the new system for holding leaders to account is being embedded, supported by updated delegation letters, clearer roles and responsibilities, and a shift to more data enabled decision making.

Collectively, this work reflects the shift from establishing governance foundations to embedding and maturing a more integrated, enterprise-wide governance and operating model. During 2025–26, Defence focused on refining the new governance architecture and progressing implementation planning, supporting Initial Operating Capability from April 2026, with further embedding and maturation continuing through 2026–27 to strengthen alignment, coherence and delivery of ministerial priorities and Defence outcomes.

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

During 2025–26, the Defence Board has operated at the centre of a significantly strengthened governance system, reflecting both the ambition of Defence Reform and the scale of strategic challenges facing the Department. As the reformed enterprise governance model has matured, the Board has taken on a clearer and more strategic role, anchoring Defence's long-term direction, setting expectations through enhanced risk and performance frameworks, and providing focused scrutiny across a concentrated set of priority areas.

Over the past year, the Board has engaged deeply with the major strategic themes shaping Defence. This has included sustained oversight of Strategic Defence Review (SDR) implementation; detailed examination of the Defence Budget, the Defence Investment Plan (DIP), and wider financial sustainability; and regular updates on Defence Reform, international engagement and operations, and international capability collaboration. The Board has also played an active role in steering the Defence Industrial Strategy (DIS) and using growth levers to strengthen the Defence sector. In addition, the Board has conducted structured deep dives into specific priority issues such as NATO transformation ambitions, values and standards, and the Department's people and cultural agenda. Raising Our Standards is now incorporated as a standing item, with the Board receiving updates at every meeting to support continuous scrutiny of cultural improvement and behavioural change across Defence.

The introduction of improved strategic dashboards, supported by more consistent, digitised and joined up management information, has enabled the Board to interrogate readiness, financial resilience and programme delivery with greater depth and rigour. This has helped drive a more disciplined approach to prioritisation, ensuring that strategic decisions are grounded in a clearer understanding of risks, performance, and long-term trade-offs.

The Board's role has been further strengthened by the Defence Reform programme, which has introduced a streamlined enterprise governance architecture in which the Defence Board provides top level strategic leadership. This year the Board has benefited from a clearer forward programme, directly shaped by Ministerial top-level priorities, with structured sequencing of business across Area Management Boards, ExCo and the Board itself. This structured approach has improved the flow of business through the system and supported more timely, strategically aligned decision making. Alongside this, the Board has increasingly guided the integration of risk, performance and accountability mechanisms across the reformed Areas, supported by new holding to account approaches, improved risk appetite work, and maturing enterprise level dashboards.

Non-Executive Directors have continued to play an active role in strengthening governance and bringing external challenge. This has included support to the Defence Investment Plan, scrutiny of the Defence Reform programme, and close involvement in crosscutting areas such as data security, Raising Our Standards, and enterprise level risk oversight. On Raising Our Standards, my colleague Kate Guthrie has continued to Chair the External Challenge Panel, providing external scrutiny and challenge on the implementation of critical changes to improve behaviours and culture across the organisation. In addition, regular NED only sessions and early engagement with senior officials have supported a strong flow of insight into Board discussions, sharpening the Board's ability to interrogate evidence and focus on the most material strategic issues.

As Defence prepares for full implementation of its reformed operating model in 2026, the strengthened Defence Board is increasingly providing the strategic coherence, disciplined prioritisation and sustained oversight required to guide the Department through significant fiscal pressures, major structural change and a demanding international context. I am confident that, through the continued contribution of both executive and non-executive leaders, the Board is well placed to direct the next phase of Defence Reform and ensure Defence remains aligned, accountable and focused on delivering for the nation.

Robin Marshall
31 March 2026

Review and Challenge

There is a cross-government requirement for departments to undertake an Annual Board Effectiveness Review (BER), in line with the Corporate Governance Code for Central Government Departments. During 2025–26, the Department did not conduct a BER. Significant changes to the Defence Board's composition, at both Ministerial and senior executive levels, combined with the introduction of the reformed enterprise governance framework, meant that the Board required time to embed before a review could be undertaken meaningfully. A full BER will be undertaken over the summer of 2026, once the Board has operated in its new form for a sufficient period to enable an evidence-based assessment.

Across Defence, work to strengthen challenge and scrutiny has continued to progress as part of the Defence Reform programme. Some senior Boards and Committees have continued to use structured challenge mechanisms, including the Challenge Board model, which enables junior and mid-level staff to review papers and provide alternative perspectives directly into senior decision-making forums. This approach reduces the risk of groupthink and broadens the diversity of voices contributing to policy development and organisational decision making.

In line with the redesigned enterprise governance system, Areas are now required to embed challenge more systematically within their governance architecture. Areas have begun reviewing how challenge is incorporated across their structures, including through streamlined board and sub board arrangements, alignment of risk and performance discussions, and revised ways of working aimed at improving transparency, accountability and escalation. These developments are designed to support more coherent decision making and ensure that scrutiny is applied consistently throughout the governance chain, not solely at senior executive or Ministerial levels.

A broader departmental review is underway to identify how challenge can be further strengthened across Defence, recognising the importance of embedding constructive challenge as a core cultural expectation. This includes work on organisational behaviours, leadership development, and the role individuals play in contributing to organisational effectiveness, as well as the integration of challenge into the new performance and risk frameworks being implemented across the enterprise. These improvements will support a more mature and robust governance environment and ensure that, once conducted, future Board Effectiveness Reviews are grounded in a stronger system of departmental challenge and assurance.

Arm's Length Bodies (ALBs)

(This section has been subject to audit)

The Defence Equipment and Support (DE&S), Defence Science and Technology Laboratory (Dstl) and Submarine Delivery Agency (SDA) were executive agencies, within the departmental accounting boundary for 2025-26.

MOD has one Trading Fund, an executive agency, the UK Hydrographic Office (UKHO), which is outside the departmental accounting boundary.

The Department's Non-Departmental Public Bodies (NDPBs) with Executive Functions: the Royal Navy Museums, 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, are sponsored by the Department and fall within the departmental accounting boundary.

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 all except AFCFT who are audited by independent auditors, are audited by the National Audit Office (NAO). The

UKHO's Chief Executive is appointed as an Accounting Officer (AO) 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 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

The Defence Functional Leadership Model provides the mechanism through which the Department sets, assures and maintains consistent standards, aligned with cross government Functional expectations. It supports coherent enterprise delivery by clarifying roles, strengthening governance, and ensuring specialist expertise is applied effectively in support of Defence priorities and outcomes. Each Function is led by a Functional Owner with responsibility for strategic direction, Functional standards, and the provision of expert advice and services across the Department.

As part of Defence Reform, the Functional Leadership Model has been aligned to the Defence Operating Model and the Government's wider Functional agenda. Changes to the Functional landscape reflect the Department's revised operating structures, including the establishment of Science as a Function and the removal of Military Capability Management, Intelligence and Medical, which no longer operate as standalone Functions; although their specialist activities will continue. All Functions are accountable to the Permanent Secretary. Functions led from the Department of State include People, Finance, Safety, Security, Analysis, Communications, Science and Legal. Delivery of Commercial, Digital, Infrastructure, Project Delivery and Support is undertaken through the National Armaments Director Group under delegated authority.

The Defence Reform Functions Framework, published in July 2025, established a consistent set of expectations for all Functions. It defined six core activities: setting departmental strategy; maintaining Functional standards and assurance; developing Functional capability; providing expert advice; driving continuous improvement; and delivering services. The Framework also set out the core artefacts required to support effective Functional leadership, including Functional Strategies, Operating Models and Annual Plans.

Functional governance operates at enterprise, Area and Functional levels, providing structured oversight and clear lines of accountability. Functional Owners are accountable for performance within their remit, with established mechanisms for escalation and resolution where issues cannot be discharged at lower levels. Functions operate within the Department's wider risk, assurance and performance frameworks, supporting informed decision-making and organisational resilience.

Functions play a central role in providing cross-cutting coherence, specialist capability and business improvement across Defence. They also support delivery of the Government's Shared Services Strategy, which Defence is progressing through the Corporate Services Modernisation programme, initially focused on HR, Commercial and Finance. Further work will continue to ensure Functions remain aligned with Defence Reform priorities, reflect the Government's Functional agenda, and support sustained improvement in enterprise coherence and effectiveness.

Defence Reform

Defence Reform continues to deliver the structural, governance and behavioural changes required to operate Defence as a more coherent, accountable and strategically aligned enterprise. The reforms underpin the Defence Operating Model and establish clearer separation between direction setting, delivery and assurance, while strengthening the Department's ability to prioritise effort,

manage risk and deliver outcomes in support of readiness and deterrence.

From 1 April 2026, Defence Reform entered its next phase with the implementation of the Defence Operating Model, supported by new enterprise governance arrangements and updated delegated funding approvals. This phase focuses on embedding the model into day-to-day operation and will continue through 2026–27. Activity now centres on completing the remaining detailed design of Area operating models, informed by early experience of live operation, and ensuring consistent application across Defence.

The emphasis has shifted from the establishment of structures and formal accountabilities to improving how the system functions in practice. This includes embedding clearer ownership of outcomes, strengthening the quality and timeliness of information flows, and reducing duplication across the enterprise. Together, these changes are improving Defence's ability to prioritise effectively, support timely decision-making, and manage interdependencies across Areas and Functions.

Alongside structural reform, Defence continues to focus on the behavioural and cultural change required to sustain reform over the long term. Senior leaders across Defence remain actively engaged in agreeing and role modelling the behaviours expected under the Defence Operating Model, reinforcing collaboration, constructive challenge, and enterprise-wide accountability.

Defence Reform is a sustained, multi-year programme. Continued focus will be placed on embedding the Defence Operating Model, strengthening governance and assurance, and ensuring the organisation remains adaptive and resilient in response to a changing threat environment. Together, these reforms provide the foundation for enduring improvement in how Defence is governed, led and operated.

Our Approach to Risk Management

Risk management is fundamental to our operations. The MOD faces a number of risks that could impact the delivery of strategic priorities.

The Departmental risk management framework is outlined in an internal Joint Service Publication (JSP), which sets out roles and responsibilities, explains how risk reporting and governance operate, and defines the risk escalation process.

Risk themes and principal risks are agreed and owned by the Defence Board (DB). Each principal risk is owned by an Executive Committee (ExCo) member, who is the single point of accountability for the effective management of the risk. The Principal Risk Owner is accountable for providing assurance to the Executive Committee and Defence Board that the risk is being managed effectively. For 2025-26, the formal assessment of the effectiveness of the Department's internal control framework is provided by the Government Internal Audit Agency (GIAA) through the Head of Internal Audit's annual opinion. This is complemented by an Annual Assurance Assessment carried out by the Department.

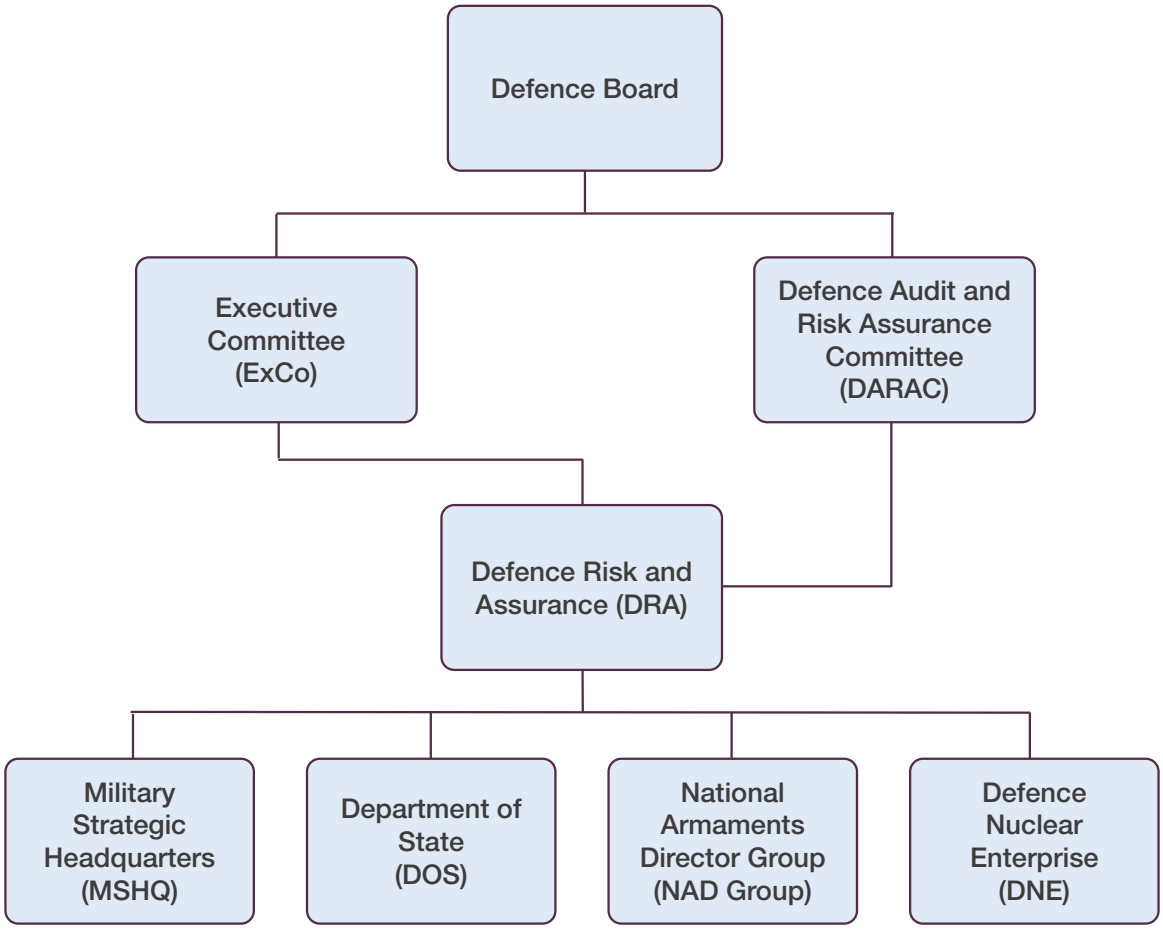
The Department's risk governance has been updated in 2025-26 to align with the new Defence Reform operating structure and governance arrangements. The updated risk governance framework enhances assurance and reinforces accountability for managing risk in the delivery of defence objectives.

Orange Book Comply or Explain Statement 2025-26

We have assessed our risk management approach against HMT's Orange Book and have confirmed alignment with the five key principles.

Risk Management Responsibilities

The following diagram outlines the MOD risk management reporting structure and the associated key responsibilities.



Role	Responsibility
Defence Board	The Defence Board is accountable for risk management, sets the risk culture and determines the Departmental risk appetite, and monitors the Department's top risks. Due to classification, nuclear risks are governed within the Defence Nuclear Enterprise, with the Defence Nuclear Board, overseeing any relevant Nuclear principal risks.
Defence Audit and Risk Assurance Committee	Defence Audit and Risk Assurance Committee (DARAC) provides independent advice to the Defence Board and the Accounting Officer on the integrity and reliability of the Department's risk and assurance frameworks.
Executive Committee	The Executive Committee (ExCo) is the senior risk decision-making forum for the Department and serves as the primary day-to-day authority on behalf of the Defence Board. Departmental principal-level risks are overseen and actively managed at ExCo level. Where necessary, ExCo provides considered escalation to the Defence Board, supporting informed decision making and maintaining robust governance across the risk framework.
Chief Risk Officer	The Chief Risk Officer (CRO) leads risk management and assurance in Defence and advises the Defence Board. The CRO has the authority to set the Departmental standards for enterprise risk management and assurance policies, ensuring alignment with government policy and best practice.
Area Management Boards	Area Management Boards (AMBs) hold primary responsibility for managing strategic risks within the scope of the Area and implementing effective risk mitigations. They maintain a regular cadence of identifying, managing, reporting, and escalating/de-escalating risks and oversee an Area level risk register.
Areas/Enabling Organisations/ Military Commands/ Functions	Responsible for the effective implementation of Departmental policy on risk management in their Areas, ensuring that appropriate risk management governance structures, processes and activities are in place.

Assurance and Controls

The Department maintains a framework of governance, risk management and internal control to support delivery of Defence objectives and safeguard public resources. This operates through management controls, functional leadership, oversight committees and independent assurance activity.

Assurance is drawn from across the Three Lines Model, including management oversight, functional assurance, internal audit, external audit and independent scrutiny. These inputs are brought together through the Department's Annual Assurance Review, providing a consolidated view of assurance coverage and control effectiveness across Defence.

During 2025-26, Defence continued to implement significant organisational change through Defence Reform. New governance arrangements, operating models and functional accountabilities have strengthened strategic oversight. As these arrangements mature, assurance activity and supporting control frameworks are being further embedded to improve the consistency of oversight, testing and validation. However, assurance coverage and supporting evidence are not yet fully consistent across the Department.

The Department has strengthened its approach to assurance through delivery of the Assurance Improvement Plan. This has included establishing a Defence-wide control baseline, defining Minimum Control Requirements and improving the integration of evidence across management, functional and independent assurance. Together, these developments have improved the quality of assurance information available to senior leaders, strengthened the evidence base supporting assessment of control effectiveness and provided a stronger foundation for targeted improvement activity.

Consistent with the Government Internal Audit Agency's assessment, assurance across Defence remains Limited. This reflects the continued development of assurance arrangements, the scale of organisational change under Defence Reform and the application of a more rigorous, evidence-based assessment approach.

During 2026-27, Defence will build on this progress by further developing the Defence Assurance Map and strengthening the use of assurance information to support a more coherent, integrated view of assurance coverage and control effectiveness across the Department.

Opinion of the Government Internal Audit Agency (GIAA)

GIAA provided an overall Limited opinion on the framework of governance, risk management and control within the MOD for the period between April 2025 and March 2026.

The opinion noted significant changes to the Department's governance arrangements were developed and rolled out during 2025-26, as part of the delivery of Defence Reform. This included significant changes to structures through the embedding of four Areas; the development of new operating models for MOD Functions; and changes to the status of individual MOD entities. A number of these changes were still ongoing as at the end of 2025-26.

As with previous years, the implementation of controls continued to be inconsistent across the Department. Internal Audit work identified the need to improve the control framework in areas related to commercial, digital, people and security processes.

Overall, MOD policies and procedures were adequately aligned to appropriate Government Standards and in most cases were effectively communicated. Controls were largely well defined but not consistently monitored and assured. A range of audits identified that second line assurance processes remained relatively immature. Resource constraints were cited in some areas. However, there was scope to improve prioritisation of limited assurance resources.

Toward the end of 2025-26, GIAA noted some improvement in selected governance and risk assurance processes, as new structures were implemented. The principal and strategic risk management process has been further refined and plans for changes to functional assurance had begun to be implemented. However, these changes did not reflect the position across the whole year.

Quality Assurance of Analytical Models

Quality Assurance of Analytical Models in MOD is delegated to the four areas of Defence: The Department of State, the Military Strategic Head Quarters (MSHQ), the National Armaments Director Group, and the Defence Nuclear Enterprise. Accordingly, each of those areas and their associated executive agencies and ALBs are responsible for managing their own models. MOD helps to cohere this, provide guidance and share best practice through our Quality Assurance Working Group (QAWG). We routinely publish a list of Defence's Business Critical Models (BCMs) and will do so again in mid-2026.

Since the structural changes under Defence Reform, we have increased our engagement with representatives from across the Department. Collation of information on BCMs is co-ordinated through the QAWG and we will work with teams across Defence to ensure that all models are identified and managed through local risk and assurance processes. This will ensure we are aware of all BCMs and further promote Quality Assurance across Defence.

Compliance with the Corporate Governance Code

The Department's compliance with the HM Treasury Corporate Governance in Central Government Departments – Code of Good Practice *(*April 2017) has been reviewed. The Department complies with all requirements, with three exceptions:

Section 5.9 of the Code requires that at least one Non-Executive Defence Board Member should sit on the Defence Audit and Risk Assurance Committee (DARAC), in addition to the Chair. Instead, since November 2022, there have been four non-executive members on the DARAC. These Non-Executive Members bring experience from the Enabling Organisations and both the private and public sectors, providing independent support to a range of governance meetings and offering diverse perspectives to the Department's approach to risk, assurance and governance. I remain confident that this composition maintains the necessary independence of the Committee while strengthening the breadth and quality of its scrutiny.

During 2025–26, work has begun to review Audit and Risk Assurance Committees (ARACs) across the Department, as part of wider Defence Reform and enterprise governance work. This includes early engagement with Areas on how ARAC structures are being developed and managed, with a view to exploring options for simplifying and consolidating the network of ARACs across Defence. This work will also consider the potential for Area ARAC Chairs to participate in, or be represented on, DARAC in future years.

This cross-Defence review will continue into 2026 and will inform a refreshed approach to DARAC membership for 2026-27, ensuring the Committee's composition remains aligned to the evolving governance framework, supports consistency in assurance standards across Defence, and maintains the necessary level of independence and expertise.

Section 5.2 requires the Board to take the lead on, and oversee, preparation of the Department's Governance Statement. The Governance Statement has been reviewed by members of the Executive Committee. The DARAC has also reviewed the Governance Statement and provided advice to me, as Accounting Officer, reflecting its expertise and its ongoing involvement in matters of governance, risk and internal control throughout the year. I am satisfied that these arrangements provide the appropriate level of review and scrutiny.

Section 4.1 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. During 2025–26, the Department did not undertake its Annual Board Effectiveness Review (BER). Significant changes to the Defence Board's composition, both at Ministerial and senior executive levels, together with the introduction of the reformed enterprise governance framework, meant that the Board required time to embed before a meaningful review could take place. Consistent with Cabinet Office guidance, which recognises that effectiveness reviews should align to board maturity during periods of transition, the BER has been deferred. A full review will be conducted in the latter half of 2026, once the Board has operated in its new form for a sufficient period to enable a robust, evidence-based assessment.

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 Cabinet Office Code of Good Practice (para 4.15)[12]. The Department ensures an annual confirmation of board members' interests and no actual conflicts requiring disclosure were identified during the reporting year. In line with Cabinet Office requirements, all Special Advisers have confirmed any relevant interests or confirmed that they have none.

Departmental policy requires all military and civilian personnel to declare any outside interests where a real or perceived conflict may arise with their official duties. This obligation is ongoing and must be reassessed whenever an individual takes up a new role or acquires a new outside interest. Relevant interests may include financial and commercial activities, consultancy or advisory work, and positions held in professional bodies.

Corporate Governance teams in delegated budget holding areas are responsible for ensuring compliance with the policy and for maintaining accurate records for their business areas. Periodic assurance from budget holders confirms adherence to the policy and the adequacy of local record-keeping arrangements.

Transparency

The Department recognises the requirement to report details of any remuneration reported by Senior Civil Servants (SCS) associated with outside interest and has separately published these details on GOV.UK[13].

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 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. Applications from those below SCS (and their military equivalents) are signed off at Second Reporting Officer level (with right of appeal to Resource/Finance Directors), from SCS Band 1 and 2 (and their military equivalents), at Resource/Finance Director level (with right of appeal to the MOD Business Appointments Panel), and from SCS Band 3 (and military equivalent) and above at Ministerial level. Until 13 October 2025 Ministers were advised on applications from SCS Band 3 (and military equivalent) and above by the MOD Business Appointments Panel, Permanent Secretary and the Advisory Committee on Business Appointments (ACOBA). Following the closure of ACOBA, from 13 October 2025 such advice to Ministers for civil servants is provided by the

12 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609668/PU2076_corporate_governance_guidance.pdf

13 https://www.gov.uk/government/publications/ministry-of-defence-senior-civil-service-secondary-paid-employment-2025-to-2026/ministry-of-defence-senior-civil-service-secondary-paid-employment-2025-to-2026

MOD Business Appointments Panel, Permanent Secretary, and the Civil Service Commission. For senior Service personnel, instead of the Civil Service Commission independent assurance is provided by the Non-Executive Chair of the DARAC.

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[14]. The following table provides information relating to the applications under these rules for 2025-26. The numbers refer to applications completed during 2025-26. The data covers SCS Band 2 and below (and their military equivalents) for Q1-Q3 of 2025-26 and 3-Star and 4-Star Service personnel only from 13 October 2025 (from which date responsibility for providing final advice to Ministers on their applications passed from ACOBA to the MOD) to Q3. Information on Civil Service applicants from those of rank SCS Band 3 and 4 was published by ACOBA up to 13 October 2025 and by their successor the Civil Service Commission[15] from this date. Information on 3-Star and 4-Star Service personnel up to 13 October 2025 was published by ACOBA[16].

While the Business Appointment Rules require all SCS Band 3 and 4 (and their military equivalents) to apply for clearance for any appointment they take up within two years of Crown Service, SCS Band 1 and 2 (and their military equivalents) only require clearance to be applied for if the appointment meets one or more of certain criteria as set out in the Business Appointment Rules. This explains why the number of applications assessed is much lower than the number of exits.

Some leavers took up more than one role requiring clearance under the Business Appointment Rules and therefore submitted multiple applications, resulting in the actual numbers of leavers requiring clearance being lower than the total number of applications for clearance.

The MOD does not routinely collect numbers on those cases where an application for clearance was considered but did not meet the criteria to require clearance. In the MOD any appointment meeting the criteria for which clearance is required will attract, as a minimum, a set of standard conditions. The date taken for applications assessed is the date on which the approving authority decision was made.

Business Appointment Rules (BAR) Applications 2025-26

Number of exits from the Civil Service and Military (SCS/1-star and above)	122

Details of BAR applications for Civil Service and Military (SCS/1 star and above)	SCS 1/1-Star	SCS 2/2-Star	3-Star Service personnel only (from 13 Oct 25)	4-Star Service personnel only (from 13 Oct 25)	Special Adviser
Number of BAR applications assessed by the Department	20	16	5	0	0
Number of BAR applications where conditions were set	20	16	5	0	0
Number of applications that were found to be unsuitable	0	0	0	0	0

14 https://www.gov.uk/government/collections/mod-business-appointment-rules-index
15 https://civilservicecommission.independent.gov.uk/business-appointment-rules/
16 https://www.gov.uk/government/organisations/advisory-committee-on-business-appointments

Number of breaches of the Business Appointment rules in 2024-25 (SCS2/2 star and below and Special Advisers of equivalent standing) was 0.

Tackling Fraud and Corruption Fraud

Fraud Defence leads the MOD's counter fraud function. The Defence counter fraud strategy and action plan deliver the Government Functional Standard for Counter Fraud (GovS 013), set by the Public Sector Fraud Authority (PSFA).

Analysis & Strategic Intelligence

The team undertakes targeted and detailed examination of allowances and expenses data to identify transactions that are irregular or outside policy. The team provides subject matter expertise to Commercial and Finance functions, supporting the implementation of fraud detection systems, including work on virtual cards and duplicate invoice analytics. It has also contributed to the development and ongoing work around the Counter Fraud Strategic Threat Overview, outlining current and emerging fraud and economic-crime risks to Defence, and plays a key role in producing assessments that review and strengthen the investigative journey across Fraud Defence.

Fraud Risk

The MOD has matured its fraud risk assessment processes across key business areas and sharpened prioritisation of the Department's most material threats. This has informed the development of an enterprise-wide Fraud Risk Strategy and improved visibility of emerging risks.

Major, high-value programmes now routinely benefit from Initial Fraud Impact Assessments (IFIAs), while closer collaboration with Defence Commercial and other stakeholders has embedded stronger, more consistent controls. Collectively, these changes are moving Defence toward a more coherent and intelligence-led approach to managing fraud risk.

Engagement, Training & Awareness

The PREVENT[17] strand of the Defence Counter Fraud Strategy aims to reduce the likelihood of fraud by strengthening ethical behaviour, designing out opportunities for misuse, and embedding a culture that prioritises integrity. All Defence personnel are required to complete tailored Fraud, Bribery and Corruption awareness training, ensuring they understand the threat landscape, their personal responsibilities, and the routes available for raising concerns, including the Confidential Hotline. Alongside this, we work closely with the PSFA, providing regular updates on progress against the Counter Fraud Action Plan and demonstrating how Defence is meeting the expectations of the GovS 013 standard. This includes supplying assurance, evidence, and reporting on the investment and resources committed to counter-fraud activity across the Department. International Fraud Awareness Week further supports prevention efforts by enabling focused communication and engagement across the MOD.

Confidential Hotline/Operational Intelligence

All Defence personnel and members of the public are encouraged to report suspected fraud and irregularities via the Confidential Hotline, supported by the annual 'Speak Up' campaign. The Hotline supports the Department's duty of care to whistleblowers by triaging reports, referring cases for investigation and capturing intelligence. Participation in the Single Online Home programme is enhancing access and supporting timely reporting, while engagement with the ministerial led Whistleblowing in Defence Review is informing improvements to reporting routes, clarity for users and oversight arrangements. Enhancements to the Hotline service and a new case management capability are improving case tracking, visibility and auditability, supporting more consistent

17 PREVENT is used in the context of the "4Ps" framework (Prevent, Prepare, Pursue, Protect) which is widely used across government agencies and departments.

handling and stronger assurance. Work with Commercial, Fraud Defence, CAAS and PSFA is developing more consistent approaches to tagging and recording disclosures, improving the identification of fraud related activity and strengthening oversight as these capabilities mature. In parallel, development of a joint investigative approach with policing partners, including the MDP, is underway, with initial workshops scheduled to improve triage, information sharing and access to case data. The MOD provides an annual return to the Cabinet Office and keeps whistleblowers informed when cases are resolved, including actions taken and organisational learning where appropriate, supporting transparency, accountability and a clear feedback loop on outcomes.

Investigations

Fraud Defence investigates complex misconduct cases which occasionally exhibit criminality including fraud, bribery and corruption. The team works closely with line management and DBS to investigate conduct cases and Defence Policing partners to investigate suspected criminality. Throughout 2025 the team has, in addition to investigations, pivoted towards pursuing and recovering financial losses resulting from conduct. This work continues into 2026, working with Commercial, CAAS and DBS partners, evaluating current processes and procedures across the Department and the costs associated with those recoveries, to improve Fraud Defence and partner productivity and annualised recovery performance.

The NAO has noted that the MOD has an opportunity to save money through better coordination and management of its counter-fraud and economic crime activity. The MOD has however recently strengthened its approach to managing fraud and economic crime by increasing and improving its use of fraud risk assessments, embedding police staff within counter-fraud teams, and has developed a joint investigative model for criminal economic activity. Fuller details of MOD's management of its losses from fraud and other economic crime can be found in the NAO 2026 report.[18]

Ministerial Directions

There were no Ministerial Directions to David Williams CB or Jeremy Pocklington CB as Accounting Officer, during 2025-26.

Conclusion

Defence has continued to deliver against its core priorities in a challenging strategic environment: protecting the UK, supporting NATO and allies, sustaining the nuclear deterrent, strengthening readiness and maintaining support to Ukraine. The Defence Investment Plan provides the route from the Strategic Defence Review into delivery and is backed by a £15bn increase in the Ministry of Defence's spending power over the next four years above what was agreed at last year's Spending Review. This provides an important foundation for warfighting readiness, the Defence Industrial Strategy and modernisation across cyber, digital, science, technology and infrastructure.

Defence Reform is now moving from design into implementation, with the Defence Operating Model, enterprise governance and clearer accountabilities being embedded. Continued progress will depend on the professionalism, resilience and commitment of military and civilian personnel, whose work remains central to operations, reform and the Department's obligations to Parliament and the public.

Jeremy Pocklington CB
Accounting Officer

9 July 2026

18 https://www.nao.org.uk/reports/mods-management-of-losses-from-fraud-and-other-economic-crime/

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) 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).

From Pay Round 2026, pay for members of the Senior Military is set by the Prime Minister following independent advice from the Armed Forces' Pay Review Body (AFPRB).

In reaching its recommendations, both the SSRB and AFPRB have 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.

Both the SSRB and AFPRB takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of both review bodies can be found on their websites.

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 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.

With effect from the current pay round, Senior (2-star and above) military officers' remuneration now falls within the purview of the independent AFPRB. Senior 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 7.0% of salary in 2025-26 (2024-25: 5.1%). 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

Both The Governance Code on Public Appointments and The Constitutional Reform and Governance Act 2010 require 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[19].

The Secretary of State for Defence appointed Robin Marshall as Lead Non-Executive Board Member (NEBM) for an initial three-year term from 1 December 2025. This appointment was regulated by the Commissioner for Public Appointments and conducted through fair and open competition in accordance with the Governance Code for Public Appointments. Robin Marshall had served as Acting Lead NEBM since June 2025, ensuring continuity during a fair and open recruitment process. In line with section 3.3 of the 2016 Governance Code, the Commissioner for Public Appointments was consulted on these interim arrangements following the early departure of the previous post-holder.

As of 15 November 2023, non-executive members of Departmental Boards, including Lead Departmental NEDs, have been listed on the Public Appointments Order in Council. This means the appointments are governed by the 2025 Governance Code on Public Appointment and regulated by the Commissioner for Public Appointments.

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

19 https://civilservicecommission.independent.gov.uk/

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[3]

	2025-26				2024-25			
	Salary £	**Benefits-in-kind £ (to the nearest £100)**	**Pension Benefits[1] £ (to the nearest £1,000)**	**Total £ (to nearest £1,000)**	Salary £	Benefits-in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £ (to nearest £1,000)
Secretary of State for Defence								
The Rt Hon Grant Shapps MP (to 4 July 2024) *Full year equivalent salary*	Nil	Nil	Nil	Nil	17,784 *67,505*	Nil	4,000	22,000
The Rt Hon John Healey MP (from 5 July 2024) *Full year equivalent salary*	67,505	Nil	18,000	85,000	49,903 *67,505*	Nil	14,000	64,000
Minister of State for Defence in The House of Lords								
The Earl of Minto (to 4 July 2024) *Full year equivalent salary*	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Lord Coaker (from 8 July 2024) *Full year equivalent salary*	117,896	Nil	24,000	142,000	86,171 *117,851*	Nil	16,000	102,000
Minister of State for Defence Procurement								
James Cartlidge MP (to 4 July 2024) *Full year equivalent salary*	Nil	Nil	Nil	Nil	8,346 *31,680*	Nil	2,000	10,000
Minister of State for Defence Readiness and Industry[2]								
Luke Pollard MP[4] (from 7 September 2025) *Full year equivalent salary*	17,952 *31,680*	Nil	7,000	25,000	Nil	Nil	Nil	Nil
Minister of State for Defence Procurement and Industry								
The Rt Hon Maria Eagle MP (from 8 July 2024 to 6 September 2025) *Full year equivalent salary*	13,728 *31,680*	Nil	3,000	17,000	23,164 *31,680*	Nil	6,000	29,000

	2025-26				2024-25			
	Salary £	**Benefits-in-kind £ (to the nearest £100)**	**Pension Benefits[1] £ (to the nearest £1,000)**	**Total £ (to nearest £1,000)**	Salary £	Benefits-in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £ (to nearest £1,000)
Minister of State for the Armed Forces								
Alistair Carns MP[5] (from 7 September 2025)	12,679	Nil	6,000	18,000	Nil	Nil	Nil	Nil
Full year equivalent salary	*22,375*							
Leo Docherty MP (to 4 July 2024)	Nil	Nil	Nil	Nil	8,346	Nil	2,000	10,000
Full year equivalent salary					*31,680*			
Luke Pollard MP[4] (from 9 July 2024 to 6 September 2025)	9,696	Nil	Nil	10,000	16,300	Nil	4,000	21,000
Full year equivalent salary	*22,375*				*22,375*			
Minister of State for Defence People and Families								
The Rt Hon Dr Andrew Murrison MP (to 4 July 2024)	Nil	Nil	Nil	Nil	5,894	Nil	1,000	7,000
Full year equivalent salary					*22,375*			
Minister for Veterans and People								
Louise Sandher-Jones MP (from 7 September 2025)	12,679	Nil	3,000	16,000	Nil	Nil	Nil	Nil
Full year equivalent salary	*22,375*							
Alistair Carns MP[5] (to 6 September 2025)	9,696	Nil	Nil	10,000	16,300	Nil	4,000	21,000
Full year equivalent salary	*22,375*				*22,375*			

[1] The value of pension benefits accrued during the year is calculated as the real 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] Change of title following restructure.

[3] Accrued pension benefits included in this table for any individual affected by the Public Service Pensions Remedy have been calculated based on their inclusion in the legacy scheme for the period between 1 April 2015 and 31 March 2022, following the McCloud judgment. The Public Service Pensions Remedy applies to individuals that were members, or eligible to be members, of a public service pension scheme on 31 March 2012 and were members of a public service pension scheme between 1 April 2015 and 31 March 2022. The basis for the calculation reflects the legal position that impacted members have been rolled back into the relevant legacy scheme for the remedy period and that this will apply unless the member actively exercises their entitlement on retirement to decide instead to receive benefits calculated under the terms of the Alpha scheme for the period from 1 April 2015 to 31 March 2022.

[4] Luke Pollard MP was Minister of State for the Armed Forces from 9 July 2024 to 6 September 2025. From 7 September 2025 he was appointed as Minister of State for Defence Readiness and Industry. Salary has been split according to role start & end dates. Prior year pension benefit reported against prior role, current year pension benefit reported against current role.

[5] Alistair Carns MP was Minister for Veterans and People from 9 July 2024 to 6 September 2025. From 7 September 2025 he was appointed as Minister of State for the Armed Forces. Salary has been split according to role start & end dates. Prior year pension benefit reported against prior role, current year pension benefit reported against current role.

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. One severance payment was made during 2025-26 in accordance with the Ministerial and Other Pensions and Salaries Act 1991. The Rt Hon Maria Eagle MP received £7,920.

David Williams CB was awarded a payment of £313,810 related to his voluntary exit from office, in line with Civil Service Compensation Scheme rules.

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 – £93,904 pa with effect from 1 April 2025 (change from the £91,346 pa with effect from 1 April 2024) 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)

(This section has been subject to audit)

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 2026.

HM Treasury published updated guidance on 27 April 2023; this guidance will be used in the calculation of 2025-26 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 following table.

The real increase in the value of the accrued pension compared to the 2025-26 value, is shown in italics (in bands of £2,500) in the first column of the following table:

Ministerial Accrued Pension[3] and Cash Equivalent Transfer Value (CETV)

	Total Accrued Pension at Retirement as at 31 March 26 £000	CETV at 31 March 25 or date of Appointment if Later £000	CETV at 31 March 26 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
Secretary of State for Defence				
The Rt Hon John Healey MP (from 5 July 2024)	**15-20** 0-2.5	286	**313**	**17**
Minister of State for Defence in The House of Lords				
Lord Coaker (from 8 July 2024)	**0-5** 0-2.5	19	**45**	**17**
Minister of State for Defence Procurement and Industry				
The Rt Hon Maria Eagle (from 8 July 2024 to 6 September 2025)	**10-15** 0-2.5	244	**252**	**3**
Minister of State for the Armed Forces				
Luke Pollard MP (from 9 July 2024 to 6 September 2025)[1]	**Nil**	4	**Nil**	**Nil**
Alistair Carns MP (from 7 September 2025)	**0-5** 0-2.5	Nil	**10**	**3**
Minister for Veterans and People				
Alistair Carns MP (from 9 July 2024 to 6 September 2025)[2]	**Nil**	4	**Nil**	**Nil**
Louise Sandher-Jones MP (from 7 September 2025)	**0-5** 0-2.5	Nil	**3**	**1**
Minister of State for Defence Readiness and Industry				
Luke Pollard MP (from 7 September 2025)	**0-5** 0-2.5	Nil	**11**	**4**

[1] Luke Pollard MP was Minister of State for the Armed Forces from 9 July 2024 to 6 September 2025. From 7 September 2025 he was appointed as Minister of State for Defence Readiness and Industry. Prior year CETV has been shown against prior role, current year CETV & pension values have been shown against new role.

[2] Alistair Carns MP was Minister for Veterans and People from 9 July 2024 to 6 September 2025. From 7 September 2025 he was appointed as Minister of State for the Armed Forces. Prior year CETV has been shown against prior role, current year CETV & pension values have been shown against new role.

[3] Accrued pension benefits included in this table for any individual affected by the Public Service Pensions Remedy have been calculated based on their inclusion in the legacy scheme for the period between 1 April 2015 and 31 March 2022, following the McCloud judgment. The Public Service Pensions Remedy applies to individuals that were members, or eligible to be members, of a public service pension scheme on 31 March 2012 and were members of a public service pension scheme between 1 April 2015 and 31 March 2022. The basis for the calculation reflects the legal position that impacted members have been rolled back into the relevant legacy scheme for the remedy period and that this will apply unless the member actively exercises their entitlement on retirement to decide instead to receive benefits calculated under the terms of the Alpha scheme for the period from 1 April 2015 to 31 March 2022.

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 Pension Benefits[6]

	2025-2026					2024-2025				
	Salary	**Annual Performance Award**	**Benefits-in-kind**	**Pension Benefits**[1]	**Total**	Salary	Annual Performance Award	Benefits-in-kind[2]	Pension Benefits[8]	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 Grant Shapps MP (to 4 July 2024)										
The Rt Hon John Healey MP (from 5 July 2024)										
Minister of State for Defence in the House of Lords										
Earl of Minto (to 4 July 2024)										
Lord Coaker (from 8 July 2024)										
Minister of State for Defence Procurement and Industry										
James Cartlidge MP (to 4 July 2024)										
The Rt Hon Maria Eagle MP (from 8 July 2024 to 6 September 2025)										
Minister of State for the Armed Forces										
Leo Docherty MP (to 4 July 2024)										
Luke Pollard MP (from 9 July 2024 to 6 September 2025)										
Alistair Carns MP (from 7 September 2025)										
Minister for Veterans and People										
The Rt Hon Dr Andrew Murrison MP (to 4 July 2024)										
Alistair Carns MP (from 9 July 2024 to 6 September 2025)										
Louise Sandher-Jones MP (from 7 September 2025)										
Minister of State for Defence Readiness and Industry[3]										
Luke Pollard MP (from 7 September 2025)										

	2025-2026					2024-2025				
	Salary	**Annual Performance Award**	**Benefits-in-kind**	**Pension Benefits[1]**	**Total**	Salary	Annual Performance Award	Benefits-in-kind[2]	Pension Benefits[8]	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 (to 30 November 2025) *Full year equivalent salary*	150-155 *205-210*	Nil	Nil	47,000	195-200	200-205	0-5	Nil	146,000	350-355
Jeremy Pocklington CB (from 24 November 2025) *Full year equivalent salary*	70-75 *205-210*	Nil	Nil	-17,000	55-60	Nil	Nil	Nil	Nil	Nil
2nd Permanent Under Secretary of State										
Paul Lincoln CB OBE VR (to 31 March 2025)	Nil	Nil	Nil	Nil	Nil	160-165	Nil	Nil	16,000	175-180
Chief of the Defence Staff										
Admiral Sir Tony Radakin KCB ADC (to 30 September 2025) *Full year equivalent salary*	165-170 *335-340*	Nil	54,900	-3,000	215-220	315-320	Nil	117,200	140,000	575-580
Air Marshal Sir Richard Knighton KCB FREng (from 1 September 2025) *Full year equivalent salary*	180-185 *315-320*	Nil	64,800	36,000	285-290	Nil	Nil	Nil	Nil	Nil
Vice Chief of the Defence Staff										
General Gwyn Jenkins (to 7 June 2024) *Full year equivalent salary*	Nil	Nil	Nil	Nil	Nil	35-40 *220-225*	Nil	9,900	-27,000	20-25
General Dame Sharon Nesmith DCB ADC (from 9 June 2024) *Full year equivalent salary*	220-225	Nil	55,100	94,000	370-375	170-175 *210-215*	Nil	44,500	-133,000	80-85
Director General Finance										
Tom Wipperman (to 14 June 2024) *Full year equivalent salary*	Nil	Nil	Nil	Nil	Nil	25-30 *125-130*	0-5	Nil	45,000	70-75
Aneen Blackmore (from 3 June 2024) *Full year equivalent salary*	160-165	0-5	Nil	63,000	225-230	130-135 *155-160*	Nil	Nil	41,000	170-175
National Armaments Director[7]										
Andy Start (from 31 October 2023 to 14 October 2025)[4] *Full year equivalent salary*	160-165 *300-305*	145-150	6,800	116,000	430-435	290-295	160-165	15,100	Nil	470-475
Rupert Pearce (from 13 October 2025) *Full year equivalent salary*	185-190 *395-400*	80-85	Nil	71,000	340-345	Nil	Nil	Nil	Nil	Nil
Chief Defence Nuclear										

	2025-2026					2024-2025				
	Salary	**Annual Performance Award**	**Benefits-in-kind**	**Pension Benefits[1]**	**Total**	Salary	Annual Performance Award	Benefits-in-kind[2]	Pension Benefits[8]	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
Madelaine McTernan CB (from 27 November 2024) *Full year equivalent salary*	205-210	40-45	Nil	79,000	325-330	65-70 *200-205*	35-40	Nil	30,000	135-140
Non-Executive Board Members										
Brian McBride (to 31 March 2025)	Nil	Nil	Nil	Nil	Nil	20-25	Nil	Nil	Nil	20-25
Robin Marshall[5]	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Kate Guthrie	20-25	Nil	Nil	Nil	20-25	20-25	Nil	Nil	Nil	20-25
Dr Brian Gilvary (from 1 May 2023)	20-25	Nil	Nil	Nil	20-25	20-25	Nil	Nil	Nil	20-25

[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. Pension benefits can be a positive or negative number. 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.

[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] Change of title following restructure.

[4] Andy Start did not receive a pensions benefit in 2024-25, he joined the CS pension scheme in 2025-26.

[5] Robin Marshall has elected to waive the fee of between £20K – £25K to which he is entitled.

[6] Accrued pension benefits included in this table for any individual affected by the Public Service Pensions Remedy have been calculated based on their inclusion in the legacy scheme for the period between 1 April 2015 and 31 March 2022, following the McCloud judgment. The Public Service Pensions Remedy applies to individuals that were members, or eligible to be members, of a public service pension scheme on 31 March 2012 and were members of a public service pension scheme between 1 April 2015 and 31 March 2022. The basis for the calculation reflects the legal position that impacted members have been rolled back into the relevant legacy scheme for the remedy period and that this will apply unless the member actively exercises their entitlement on retirement to decide instead to receive benefits calculated under the terms of the Alpha scheme for the period from 1 April 2015 to 31 March 2022.

[7] Board Membership changed from 'Chief Executive Officer Defence Equipment & Support' to 'National Armaments Director'.

[8] Opening balances for pension disclosures for some members are not consistent with the closing balances reported in the prior year. This is due to the availability in 2025-26 of more up to date data relevant to the calculation of the prior year benefits. Prior year pensions benefit values have been amended to align with revised statements received this year.

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 2025-26 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 2025-26 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[3] and Cash Equivalent Transfer Value (CETV)

	Total Accrued Pension at Retirement as at 31 Mar 26		CETV at 31 Mar 25 or date of Appointment if Later[2]	CETV at 31 Mar 26 or on Cessation of Appointment if Earlier	Real Increase in CETV
	£000	£000	£000	£000	£000
Secretary of State for Defence	See Minister's Pensions Table				
The Rt Hon John Healey MP (from 5 July 2024)					
Minister of State for Defence in the House of Lords					
Lord Coaker (from 8 July 2024)					
Minister of State for Defence Procurement and Industry[1]					
The Rt Hon Maria Eagle MP (from 8 July 2024 to 6 September 2025)					
Minister of State for the Armed Forces					
Luke Pollard MP (from 9 July 2024 to 6 September 2025)					
Alistair Carns MP (from 7 September 2025)					
Minister for Veterans and People[1]					
Alistair Carns MP (from 9 July 2024 to 6 September 2025)					
Louise Sandher-Jones MP (from 7 September 2025)					
Minister of State for Defence Readiness and Industry					
Luke Pollard MP (from 7 September 2025)					
Permanent Under Secretary of State	**Pension**	**Lump Sum**			
David Williams CB (to 30 November 2025)	**95-100** *2.5-5*	**240-245** *Nil*	2,131	**2,221**	**30**
Jeremy Pocklington CB (from 24 November 2025)	**90-95** *Nil*	**35-40** *Nil*	1,769	**1,769**	**-25**
Chief of the Defence Staff					
Admiral Sir Tony Radakin KCB ADC	**195-200** *0-2.5*	**510-515** *(5-10)*	5,019	**5,081**	**62**
Air Marshal Sir Richard Knighton KCB FREng (from 1 September 2025)	**110-115** *0-2.5*	**275-280** *(0-5)*	Nil	**2,947**	**2,947**
Vice Chief of the Defence Staff					
General Dame Sharon Nesmith DCB ADC (from 9 June 2024)	**105-110** *2.5-5*	**275-280** *0-5*	2,843	**2,923**	**79**
Director General Finance					
Aneen Blackmore (from 3 June 2024)	**25-30** *2.5-5*	**Nil** *Nil*	299	**357**	**35**
National Armaments Director[4]					
Andy Start (from 31 October 2023 to 14 October 2025)	**5-10** *5-7.5*	**Nil** *Nil*	44	**157**	**87**
Rupert Pearce (from 13 October 2025)	**0-5** *2.5-5*	**Nil** *Nil*	Nil	**73**	**58**
Chief Defence Nuclear					
Madelaine McTernan CB (from 27 November 2024)	**15-20** *2.5-5*	**Nil** *Nil*	168	**241**	**51**

[1] Change of title upon election of new Government.

[2] Opening balances for pension disclosures for some members are not consistent with the closing balances reported in the prior year. This is due to the availability in 2025-26 of more up to date data relevant to the calculation of the prior year benefits. Prior year pensions benefit values have been amended to align with revised statements received this year.

[3] Accrued pension benefits included in this table for any individual affected by the Public Service Pensions Remedy have been calculated based on their inclusion in the legacy scheme for the period between 1 April 2015 and 31 March 2022, following the McCloud judgment. The Public Service Pensions Remedy applies to individuals that were members, or eligible to be members, of a public service pension scheme on 31 March 2012 and were members of a public service pension scheme between 1 April 2015 and 31 March 2022. The basis for the calculation reflects the legal position that impacted members have been rolled back into the relevant legacy scheme for the remedy period and that this will apply unless the member actively exercises their entitlement on retirement to decide instead to receive benefits calculated under the terms of the Alpha scheme for the period from 1 April 2015 to 31 March 2022.

[4] Board Membership changed from 'Chief Executive Officer Defence Equipment & Support' to 'National Armaments Director'.

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)[20].

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 on GOV.UK[21]

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 12 of the accounts – Retirement Benefit Schemes.

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 remuneration Chief of the Defence Staff (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 2025-26 was £427,500. This was 9.5 (2024-25 10.2) times the median remuneration of the military workforce, which was £44,818 (2024-25 £43,022).

The mid-point of the banded remuneration of the highest paid civilian director during 2025-26 was £482,500. This was 12.0 (2024-25 12.2) times the median remuneration of the civilian workforce, which was £40,196 (2024-25 £38,888).

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

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

Salary ranges of Military and Civilian Staff

	Military		Civilian	
Salary Ranges	**2025-26**	2024-25	**2025-26**	2024-25
Mid-point of Banded remuneration of highest paid board member	**£427,500**	£437,500	**£482,500**	£472,500
Number of employees in receipt of remuneration above the highest paid board member	**1**	0	**0**	0
Salary range for all employees	**£23,588 – £455,115**	£22,572 – £415,795	**£20,500 – £400,000**	£20,461 – £293,166

[1] Midpoint of military highest paid board member has been pro-rated to show a full year equivalent to allow for direct comparison, as the new Chief of the Defence Staff took up post in September 2025.
[2] Civilian staff pay records are converted to a full time equivalent. For military staff it is not possible to convert pay records to FTE.

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

	2025-26		2024-25	
Salary & Allowances	**Military**	**Civilian**	Military	Civilian
Highest paid director[1]	**-2.29%**	**30.89%**	6.06%	3.36%
Staff average	**4.56%**	**3.38%**	8.63%	3.48%
Performance Pay & Bonuses[2]				
Highest paid director[1]	**–**	**-48.98%**	–	-3.70%
Staff average	**–**	**-3.31%**	–	10.64%

[1] The year-on-year variance in the highest-paid director's salary and performance bonus reflects a change in postholder. The current incumbent is employed under different contractual terms and conditions to their predecessor, resulting in a different salary package.
[2] 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 remuneration

	Military			Civilian		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
2025-26[1]	**12.1:1**	**9.5:1**	**7.3:1**	**15.2:1**	**12.0:1**	**9.5:1**
2024-25	12.8:1	10.2:1	8.0:1	15.4:1	12.2:1	9.6:1

[1] The reduction in Military ratios from prior year is due to a new Chief of the Defence Staff with a different remuneration package, combined with increased staff remuneration package as shown in staff remuneration table below.

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

	Military			Civilian		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
			Salary			
2025-26	**35,048**	**44,620**	**58,313**	**31,211**	**39,209**	**49,300**
2024-25	34,040	42,749	54,301	30,125	37,972	47,732
			Total Remuneration[1]			
2025-26	**35,235**	**44,818**	**58,520**	**31,837**	**40,196**	**50,835**
2024-25	34,302	43,022	54,600	30,752	38,888	49,256

[1] Increases in pay quartiles are in line with MOD military and civilian pay structure and policies.

Staff Report

Staff Numbers

Senior Civil Service (SCS)

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

Average Numbers of Senior Civil Service (SCS) 1 April 2025 to 31 March 2026

SCS PAY BAND	2025-26	2024-25
Band 1	**293**	285
Band 2	**72**	69
Band 3	**11**	12
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 2026

SLG PAY BAND	2025-26	2024-25
Band 1	**84**	82
Band 2	**14**	19
Band 3	**1**	2
Band 4	**–**	1

Number of SDA Senior Leadership Group (SLG) Staff as at 31 March 2026

SLG PAY BAND	2025-26	2024-25
Band 1	**32**	29
Band 2	**6**	6
Band 3	**1**	1

Staff Composition

The following table provides an analysis of the male and female employees 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 (FTE) 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 (2024-25: Male 3, Female 1). In 2025-26, the staff composition of DE&S SLG was: Male 65, Female 34 (2024-25: Male 72, Female 32). For SDA SLG the staff composition was Male 25, Female 14 (2024-25: Male 24, Female 12).

Male and Female Employees[1]

Gender	2025-26 Defence Board Members	2025-26 SCS and equivalent	2025-26 Military/ Civilian Employees	2024-25 Defence Board Members	2024-25 SCS and equivalent	2024-25 Military/ Civilian Employees
Male	**9**	**748**	**150,935**	10	749	150,791
Female	**5**	**252**	**38,778**	4	238	38,450

[1] This information is obtained from individuals on joining the Department.

Analysis of Staff Numbers

(This section has been subject to audit)

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

	2025-26 Core Department & Agencies	2025-26 Departmental Group	2024-25 Core Department & Agencies	2024-25 Departmental Group
Civilian Staff	**52,816**	**64,580**	54,240	65,051
Other Staff[1]	**7,763**	**8,485**	7,661	7,993
Ministers	**5**	**5**	5	5
Special Advisers	**5**	**5**	4	4
Armed Forces	**150,600**	**150,600**	150,177	150,177
Totals	**211,189**	**223,675**	212,087	223,230

[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, and 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. This calculation 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 Workforce Overview section of the Performance Report as that figure is Full Time Equivalent Strength as at 1 April 2026.

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 Workforce Overview section of the Performance Report as that figure is Full Time Trained Strength as at 1 April 2025.

More information on the Department's staff numbers, and the statistical calculations used, is available on GOV.UK[22].

22 https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics

Staff Turnover

Departmental Staff turnover percentages

	2025-26		2024-25	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
Civilian Staff Turnover[1]	**7.9%**	**8.2%**	9.0%	10.7%

[1] Turnover rates are derived from the calculation of outflow for 2025-26.

	2025-26	2024-25
	UK Regular Forces Trained Outflow rate in the 12 Months ending 31 Mar 25	UK Regular Forces Trained Outflow rate in the 12 Months ending 31 Mar 24
Military	**8.2%**	9.6%

Notes
1. UK Regulars are 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) and Non-Regular Permanent Staff (NRPS).
2. Figures show Outflow from the Trained (Royal Navy/Royal Marines and Royal Air Force) and Trade Trained (Army) UK Regular Forces, including personnel leaving the Services, deaths, and recalled Reservists on release. They do not include promotion from Other Ranks to Officers or flows between Services.
3. Figures are not comparable with Gains to Trained Strength figures which include promotion from Other Ranks to Officers.
4. Rates are the number of people who leave per 100 of the mean average Trained Strength, Trained Officer Strength, or Trained Other Ranks Strength as relevant. For details on the calculation used, see exit rate in the Tri-Service glossary of terms and abbreviations.

Staff Costs

(This section has been subject to audit)

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

Analysis of Staff Costs

	2025-26[1]					2024-25
	Civilian Staff	**Armed Forces**	**Other staff[2]**	**Ministers**	**Departmental Group Total**	Departmental Group Total
	£M	**£M**	**£M**	**£M**	**£M**	£M
Salaries and Wages	**3,220.4**	**8,074.6**	**422.2**	**0.3**	**11,717.5**	11,114.9
Social Security Costs	**414.3**	**950.5**	**–**	**–**	**1,364.8**	1,067.5
Pension Costs	**763.9**	**5,256.4**	**1.4**	**–**	**6,021.7**	5,749.9
Sub Total	**4,398.6**	**14,281.5**	**423.6**	**0.3**	**19,104.0**	17,932.3
Less capitalised staff costs	**(92.1)**	**(20.2)**	**(12.4)**	**–**	**(124.7)**	(135.0)
Less Recoveries in Respect of Outward Secondments	**(15.9)**	**(27.5)**	**–**	**–**	**(43.4)**	(44.3)
Total net costs	**4,290.6**	**14,233.8**	**411.2**	**0.3**	**18,935.9**	17,753.0

[1] Staff costs are also disclosed in Note 3.1 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 permanent civilian staff. This includes short-term contract staff, agency, temporary staff and locally engaged staff overseas.

For the year ending 31 March 2026 of the total pension contributions for the Departmental Group in the table above, £762.6 million (2024-25: £752.2 million) were payable in respect of the various schemes of 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 £671.5 million (2024-25: £730.0 million); the movement on non-PCSPS pension provision of £11.3 million (2024-25: £2.3 million); and contributions to non-PCSPS of £79.8 million (2024-25: £19.9 million).

Where employees have opened a stakeholder pension with an employer contribution, the Department has made contributions of £4.52 million (2024-25 £4.67 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 £0.89 million (2024-25 £0.94 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 2026 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £5,256.4 million (2024-25 £4,997.7 million) based on employer's pension contributions determined by the Government Actuary.

Further details of pension schemes covering Departmental personnel can be found at Note 12 – Retirement Benefits, in the Annual Accounts section.

As 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.

Legislation for the 2015 pension remedy (McCloud Remedy) came into force on 1 October 2023 and administrators are currently in the process of implementing this remedy.

Further detail is included within the Armed Forces Pension Scheme accounts, published 17 Dec 2025.

Special Advisers Costs and Severance Payments

From August 2019, all special advisers have been paid by the Cabinet Office and therefore no special advisers costs fell to the Department in 2025-26.

Civil Service and Other Compensation Schemes – Exit Packages

(This section has been subject to audit)

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972.

The table below shows the total cost of exit packages agreed and accounted for in 2025-26 (2024-25). Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. 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.

Ill-health retirement costs are met by the pension scheme and are not included in the table. 107 individuals retired early on ill-health grounds during 2025-26 (2024-25 111); their total accrued pension liabilities for the year were £0.4 million (2024-25 £0.5 million).

Armed forces redundancies are normally made on a compulsory basis only, 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'.

In addition to these, 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

	2025-26 (2024-25)					
	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	1 (0)	90 (220)	91 (220)	14 (14)	148 (252)	162 (266)
£10,000 – £25,000	0 (1)	32 (37)	32 (38)	3 (7)	49 (56)	52 (63)
£25,000 – £50,000	1 (0)	13 (40)	14 (40)	3 (0)	24 (62)	27 (62)
£50,000 – £100,000	0 (1)	36 (41)	36 (42)	0 (2)	37 (49)	37 (51)
£100,000 – £150,000	–	14 (14)	14 (14)	0 (0)	14 (14)	14 (14)
£150,000 – £200,000	–	5 (3)	5 (3)	–	6 (3)	6 (3)
£200,000 – £250,000	–	0 (1)	0 (1)	–	0 (1)	0 (1)
£250,000 – £300,000	–	–	–	–	–	–
£300,000 – £350,000	–	–	–	–	–	–
£350,000 – £400,000	–	–	–	–	–	–
Total Number of Exit Packages	**2** (2)	**190** (356)	**192** (358)	**20** (23)	**278** (437)	**298** (460)
Total Resource Cost £million	**£0.042** (£0.072)	**£6.300** (£7.829)	**£6.342** (£7.901)	**£0.235** (£0.295)	**£7.410** (£9.556)	**£7.645** (£9.851)

Notes
1 Prior year numbers are shown in brackets.
2 Package costs are rounded for reporting purposes. This creates a minor anomaly whereby the total sum of these rounded values, does not equal the rounded sum of the total.
3 This table excludes Special Severance Payments which are reported separately in the Special Payments table.
4 The exits table excludes departures relating to the Voluntary Exit Scheme announced in January 2026, as no exits or payments had occurred by 31 March 2026. The estimated costs of the scheme have been recognised as an accrual and provision in the accounts.
5 Total number of other departures agreed for 2024-25 have been amended to include Dstl.

Staff Sickness

Staff levels of sickness absence for MOD civil servants excluding UKHO: The average working days lost per person for the 12 months ending 31 March 2026 was 6.82 (6.73 days for the 12 months ending 31 March 2025). Mental and behavioural disorders continue to be the highest cause of sickness absence at 30% of all absences (2024-25: 28%). The percentage of staff with no sick absence for the 12 months ending 31 March 2026 was 51% (2024-25: 49%).

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 2022 – 2027.

Health and Safety

Significant progress has been made on the management of Health and Safety within MOD including across policy development, thematic interventions, acquisition scrutiny and digital

enablement. A notable step change is being delivered on safety training delivery, including the refinement of mandatory online training and expanded provision of NEBOSH-accredited courses to address competency shortfalls. During 2025-26, the Directorate of Defence Safety has also developed a new Target Operating Model for the Safety Function, aligned to the Defence Reform programme, while working closely with NAD Group and MSHQ as they evolve their own safety management arrangements.

The revised safety function operating model clarifies key responsibilities and assurance boundaries: Area leaders' accountability for safety risk; establishment of the Directorate of Defence Safety's Second Line of Defence functional assurance role and aggregated risk reporting; clarification of Defence Safety Authority's Third Line of Defence regulatory assurance role; strengthened functional training arrangements; updated Defence Safety Committee Terms of Reference; and the development of centrally-set key controls for the Safety Principal Risk.

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. MOD continues with the responsibility of delivering the Access to Work (AtW) scheme. The service is available through the DBS HR Advice and Casework Service Team. We have also piloted the Movement to Work (MtW) scheme, offering work experience opportunities to unemployed young people, which has enabled us to showcase Defence, as well as building a more inclusive organisation that reflects the communities we serve.

The Civil Service and Defence positively encourage employers to think differently about disability and take action to improve how we recruit, retain and develop people, 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 updated our departmental resourcing policies as part of an overarching policy simplification exercise, and we are currently strengthening our Internal Moves policy to support organisational agility and provide further development opportunities for our staff. Our policies contain improved guidance on sifting, utilisation of life chance schemes such as the Disability Confident Scheme (DCS) and the Great Place to Work for Veterans Scheme (GPTW) and supporting reasonable adjustments during recruitment. Recruiting managers will also be provided with a refreshed Success Profiles training offer, to complete prior to recruiting, to help minimise the possibility of unconscious bias within the selection process. We are also publishing a new Onboarding policy to enhance employee experience and engagement after recruitment.

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).

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 DCS and 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.

The Defence Business Services HR Advice and Casework Service provides HR functions, policy and process advice and support to all MOD employees and managers in the core department. Working alongside Civil Service HR Policy Leads and Trade Unions, and having conducted an extensive review, they introduced an enhanced service in February 2025 to improve the employee experience of HR Casework, featuring improved policies, processes, support, and aftercare. A new 'My Complaints App', which enables civilian employees to make a complaint on any device, including anonymously, or to report an incident and not make a complaint about it, was also launched in February 2025.

In Feb 2022, MOD successfully adopted MyHR Oracle Fusion Cloud (software as a service) as the HR system underpinning our civilian people services. Since then, the focus has been on further exploiting the Oracle technology, updating and improving the system interface, and applying quarterly updates; all of which support improving the employee experience by enabling a more agile and effective approach to delivering civilian HR policy. A whole force Defence HR Taxonomy has been created (based on the CS HR Taxonomy which provides a common HR language) and is another enabler driving a coherent 'people' approach across Defence; it has been used as the basis for structuring simplified HR policies. In support of Defence Reform, which in part aims to create operating efficiencies, the simplification of the majority of civilian HR policies and procedures has been achieved (reducing the overall number of policies from c.130 to 35, reducing the volume of material by 80% thereby creating a 60% reduction in time taken to find information) and these are hosted in a new and intuitive HR People Portal. Policy simplification has improved the employee experience, created efficiencies and achieved an improved HR offer for Civilian employees. It has also enabled Civil Service HR to be well positioned to shape the forthcoming introduction of a whole force HR platform which will exploit Oracle technology and utilise the Defence HR Taxonomy as a basis for its structure, while its configuration will utilise the simplified civilian HR policies and procedures, bringing it together with the military HR offer.

Civil Service Talent

Our aim is to ensure we provide stretching development for all our Civil Servants, 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, be that growing in their role, broadening their experience or attaining a promotion. We provide access to a range of opportunities for our people to learn and develop and we also provide line managers with frameworks to hold effective career conversations. We provide tools to assess whether people would benefit from accelerated or steady development opportunities and schemes and provide them.

Defence actively takes part in government talent schemes, complemented by an internal offer. The in-house Rise and Elevate talent programmes are aimed at nurturing our junior talent for more demanding senior roles in the future. During 2025-26, over 320 people in Defence were on talent schemes such as the Fast Stream, Future Leaders Scheme, Rise and Elevate.

Developing and supporting our people is a core priority to ensure we have the appropriately skilled individuals at the right place and at the right time within a modern, flexible, and sustainable working environment.

We continue to align our apprenticeship approach with the Government's Plan for Change, the ambition to reform the current education system and the transition to the Growth & Skills Levy in April 2026, focusing investment on the key priority skills gaps. Through 2025, we strengthened our apprenticeship model by improving inclusive access across all workforce locations and deepening collaboration with Strategic Workforce Planning, Professions, Skills England, cross-government, private sector networks and initiatives including The Times Top 100 Apprenticeship Employers and 5% Club. This enabled us to target high priority capability areas, such as project delivery, nuclear, science, engineering and digital, whilst preparing for the new apprenticeship units learning catalogue and reprioritisation of funded provision from 2025 onwards. We developed effective solutions across the department to tackle the removal of Level 7 funding on 31st December 2025, with Professions closely supporting. We also advanced our approach to skills forecasting and data accuracy, supporting the department to plan more effectively for future apprenticeship demand. Since January 2025, 903 new apprentices have joined our programmes, with more than 2,074 Civil Servants now engaged in an active apprenticeship.

Modernisation and Reform

The Prime Minister has set modernisation and reform as a departmental priority for Defence, through the creation of a strengthened Department of State and Defence Nuclear Enterprise, and the establishment of a Military Strategic Headquarters and a National Armaments Director alongside the Chief of Defence Nuclear. Defence Reform will ensure the MOD is ready for the challenges ahead, including delivering the SDR, ensuring value for money from the budget settlements and setting defence at the heart of future security and success of the UK.

Developing and supporting our people is a core priority to ensure we have the appropriately skilled individuals at the right place and at the right time within a modern, flexible and sustainable working environment. This ambition encompasses activity that falls within both the Place and Capability missions, and includes major initiatives such as Defence Reform, People Transformation and Defence Estate Optimisation.

Defence is undergoing operating model reform in order to both harness the power of data across the breadth of the services the department performs and embed multidisciplinary teams to improve delivery of our priorities and productivity. The Civil Service Reform Delivery mission is captured within this theme, and a suite of initiatives which target productivity, corporate service modernisation and functional transformation are embedded within this.

Harnessing digital solutions and data and enabling innovation are crucial to inform better decision-making, improve our services, and empower our people as an agile, solution-focused workforce. We are working closely with central government and Other Government Departments (OGDs) on the convergence of corporate functions designed to improve user experience, data capture, efficiency and performance. Better information management and the introduction of cloud-based Enterprise Resource Planning (ERP) solutions are priorities for Defence Digital, and we are actively embracing initiatives such as One Big Thing to enhance digital and data skills for all in Defence. In addition, we are augmenting AI and automation capabilities across the department to allow our people to focus on higher value functions.

The Defence HR Services (DefHRS) Programme will design and develop the future digital solutions through an evergreen Oracle based platform to provide simplified and modernised HR Services for all of Defence.

This will support Defence Reform and broader Defence strategies by support to delivering a skills-based workforce across Defence, so that we know the value of our people and can employ them with greater agility, where they have skills that we need. This will be aided by a far greater self-service HR function and considerably greater automation. This will alleviate administration burdens, provide clearer and more accessible data and by doing so, support staff in prioritising core operational outputs. The collaborative approach across the People Transformation Directorate ensures that key co-dependent programmes, Military Policy Optimisation, People Function Operating Model and DefHRS, maintain alignment and work effectively toward a common end goal.

DefHRS will finalise the Foundation Design plan for the modernised HR Services platform by May 2026, under the oversight of the Corporate Services Modernisation portfolio. This will enable Finance Journey to Cloud to complete initial implementation and will inform the next steps for build, test and implementation across wider HR Services. Completion of the detailed design in Autumn 2026 would then allow the Programme to move into build, test and implementation in 2027.

Strategic Workforce Planning (SWP)

Defence's approach to SWP provides the ability to understand and address our current and future capability challenges. It is a whole force approach to our people and supports our ability to modernise and increase the use of technology and innovation to transform and manage Defence.

Our SWP process provides Areas; (Department of State (DOS), Military Strategic Headquarters (MSHQ), National Armaments Director Group (NAD Group) and Defence Nuclear Enterprise (DNE)) the freedom and incentives to design a whole force workforce, to ensure our workforce is targeted at delivering the Government's and the Department's priorities whilst prioritising affordability and delivering value for money.

Our work to incentivise Armed Forces personnel looks at our people practices helping retain and grow the capabilities we need. For key capabilities we have designed initiatives based around a skills-based organisation to improve recruitment and retention in priority areas across all our workforces.

We are also investing in whole force people data analytic solutions, to assure our understanding of workforce risk and we are developing modern software tools to provide better and more agile insight to Defence people. This critical work ensures Defence has the right people, at the right time, in the right location to deliver Defence outputs in the most effective way.

Our ongoing workforce planning exercises allow us to identify risks, opportunities and strategic implications which impact the size and shape of our workforce, with the department using SWP to signal across the people function what needs to change and improve to deliver Defence outcomes. The Strategic Defence Review sets out ambitions for the Defence Civil Service workforce, including achieving a cost reduction of at least 10% by 2030 through reshaping the workforce with an emphasis on performance, productivity, and skills. We recognise the need to attract and retain key skills in a challenging external employment market and are seeking to establish a strategic resourcing service through a recruitment transformation project. This service will introduce a more cohesive approach to attracting talent into Defence's critical resource areas and support the departmental workforce planning agenda. This represents a modern recruitment approach which will focus on securing essential skills for current and future requirements, aligned with SDR and Defence Industrial Strategy recommendations. We remain committed to having an agile and sustainable workforce with the right skills, whilst maximising value for the taxpayer.

Other Employee Matters

Defence offers an unparalleled range of career opportunities in the Armed Forces and the Civil Service. In an increasingly competitive age, our operational advantage derives from the talent and skills of our people, so we must attract, recruit, and retain the best talent, drawn from the broadest range of thought, skills and background. This is mission critical as it is our people who guarantee we continue to meet the threats we face, and in so doing ensure that Britain remains secure at home and strong abroad.

As a government department we remain committed to recognising the contribution of all. Building an organisation that is inclusive, ensuring Defence harnesses the power of difference to drive performance and innovation, increase creative thinking, and reducing the risk of group think is fundamental and we remain committed to developing a culture that values everyone. We have zero tolerance for any abuse in the military, and the civil service.

Key to our approach is the use of the Public Sector Equality Duty to embed our vision into all activity. The Duty ensures that inclusivity is central to our policies, procedures, and procurement from the outset, enabling everyone to contribute fully to the mission. It also ensures we reduce the risk and cost of litigation, and the need to carry out retrospective activity to support a workforce that is increasingly reflective of society. We will be best positioned to meet the security challenges and threats that we face, both now and in the future, if everyone is confident their skills and experience are properly recognised, their individuality and background respected, and they are able to achieve their full potential.

Our performance statistics are included elsewhere in this report, and we continue to implement workstreams that will drive further growth; our Defence Reform Programme, our work to attract a workforce that reflects the population we serve, ensuring those from under-represented groups are better supported, and our cultural change programme, Raising our Standards, that makes clear our intention to maintain the highest professional standards and behaviours within Defence.

At their core, these initiatives seek to attract and retain the very best, strengthening Defence's culture whilst delivering the workforce of the future. This will ensure we continue to meet the threats we face and safeguard the security, stability and prosperity of our nation. Whilst we are committed to delivering a better future, we remain focused on ensuring those serving today are properly supported. The MOD continues to undertake formal consultation with our people through three annual surveys (the Armed Forces Continuous Attitude Survey, the Reserve Forces Continuous Attitude Survey and the MOD People Survey). The Armed Forces Bill will deliver a new and independent Armed Forces Commissioner, supporting the Government's aim of renewing the nation's contract with those who serve.

More routinely MOD continues to regularly engage with Trade Unions and Staff Associations, enabling their representatives to share members' views with Defence senior leaders. Representatives are given paid time off (i.e., facility time) to undertake union duties alongside their role within the Department. Our many staff networks also continue to offer a rich source of information on their personal experiences that help to shape both policy and procedure.

Expenditure on Consultancy and Temporary Staff

It does not make economic sense for the MOD to permanently maintain in-house, all of the specialist skills needed, so 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 on a short-

term basis, 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 2025-26.

Analysis of Consultancy and Temporary Staff

	2025-26		2024-25	
	Consultancy	**Temporary Staff[1]**	Consultancy	Temporary Staff[1]
Body	**£M**	**£M**	£M	£M
Ministry of Defence Main	**56.850**	**159.363**	62.957	158.466
On Vote Agencies				
Defence Equipment & Support Bespoke Trading Entity[3]	-	63.850	1.223	74.464
Defence Science & Technology Laboratory	-	15.328	0.207	23.310
Submarine Delivery Agency	2.124	23.747	2.799	12.108
Executive Non-Departmental Public Bodies				
Royal Air Force Museum	**0.118**	**0.371**	0.108	-
AWE[2]	**7.243**	**40.022**	11.020	39.500
Total Expenditure	**66.335**	**302.681**	78.314	307.848

[1] Cabinet Office definitions show Contingent Labour as Temporary Staff.
[2] AWE figures for Temporary Staff restated for 2024-25 due to internal improvements in categorising External Assistance Expenditure.
[3] Consultancy and Temporary Staff figures for DE&S for 2024-25 restated due to improved categorisation methodologies.

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 time-limited and will be provided outside of the 'business-as-usual' environment when in-house skills are not available. Consultancy support may include the identification of options along with recommendations, or assistance with the implementation (but not the delivery) of solutions.

The reduction in reported Temporary Staff expenditure is the result of savings measures implemented across the Department.

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".

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 31st March 2026 there were 1,294 existing off-payroll engagements. This is a decrease of 107% (1,385) over the previous year; 2,679 reported on 31st March 2025.

This decrease reflects the conclusion of a number of time-limited engagements during the year and the continued action of controls over the use of off-payroll labour, ensuring that such arrangements are used only where there is a clear and ongoing business requirement.

Off-Payroll Engagements Earning More than £245 Per Day as at 31 March 2026[1]

	Core Department	ALBs	Departmental Group
Number of existing engagements as of 31 March 2026 at time of reporting	1,058	236	1,294
Of which:			
Number that have existed for less than one year	530	108	638
Number that have existed for between one & two years	210	90	300
Number that have existed for between two and three years	111	23	134
Number that have existed for between three and four years	127	4	131
Number that have existed for four or more years	80	11	91

[1] The rate of £245 per day has not changed since inception, almost a decade ago, hence fiscal drag captures more off-payroll workers in this category without an actual increase in the workforce.

The use of workforce substitutes enables the Department to access specialist capability and capacity at pace where this cannot be met through the permanent workforce, particularly for time-limited or highly technical requirements.

Additional analysis

Although many of our off-payroll engagements are short-term in nature, the Department retains a number of long-standing arrangements, particularly where specialist skills or experience are essential to the delivery of complex projects or programmes.

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

Analysis of Off-Payroll engagements lasting over 3 years

	Between 3 and 4 Years	Over 4 years
Air	5	–
Army	3	8
AWE	15	21
Defence Electronics and Components Agency	2	–
Defence Equipment and Support	120	40
Defence Infrastructure Organisation	3	–
Defence Nuclear Organisation	1	–
Defence Science and Technology Laboratory	14	43
Head Office	3	11
Navy	5	2
Submarine Delivery Agency	3	3
UK Strategic Command	43	11
Total	**217**	**139**

While the overall number of off payroll engagements has reduced at year-end, the proportion of longer-term engagements has increased. This reflects the conclusion of short-term activity alongside improved identification and reporting of long-standing arrangements.

The table above shows the overall number of long-term engagements has increased by 125 (54%) compared to 2024-25. Engagements between 3 and 4 years increased by 111 (105%), and engagements of 4 years or more increased by 14 (11%). This increase primarily reflects improved identification and reporting of long-term engagements, resulting from strengthened record keeping and enhanced compliance processes.

The majority of long-term engagements are in Defence Equipment & Support, Defence Science and Technology Laboratory, and Defence Digital (part of UK Strategic Command), and represent specialist contractors holding niche skill sets, which are difficult to resource from the permanent labour market. The continuity provided by these arrangements remains important to programme delivery, including work undertaken with international partners.

All temporary Off-Payroll workers engaged at any point during the year ended 31 March 2026, paid more than £245 Per Day[1]

	Core Department	ALBs	Departmental Group
No. of off-payroll workers engaged during the year ended 31 March 2026	3,403	447	3,850
Of which:			
Off-payroll legislation does not apply	2,909	378	3,287
Off-payroll legislation does apply and determined as in-scope of IR35	202	22	224
Off-payroll legislation applies but determined as out-of-scope of IR35	292	47	339
No. of engagements reassessed for compliance or assurance purposes during the year	1,554	107	1,661
Of which: No. of engagements that saw a change to IR35 status following review	138	19	157

[1] 21% (791 in number) of our off-payroll engagements are short term (6 months or less), 27% (1,337) in 2024-25.

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, 3,850, (4,877 in 2024-25) includes a large number of workers, 2,909, (4,335 in 2024-25) who fall into the category for which the IR35 legislation does not apply.

Of the total engagements of 3,850 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 39% (1,488 in number) of the total engagements; 37% (1,790 in number) in 2024-25
- DE&S Delivery Partner arrangements placed 24% (934 in number) of engagements with specialist recruiters; 24% (1,193 in number) in 2024-25
- Fee Earners, such as guest speakers, lecturers, piano tuners, musicians, represent 4% (165 in number) of engagements; 8% (371) in 2024-25
- G-Cloud, DSP, DIPs and DOS frameworks account for 21% (795 in number); 18% (905 in number) in 2024-25.
- Bespoke contracts and other frameworks account for the remaining 12% (468 in number) of engagements; 13% (618 in number) in 2024-25.

Off-Payroll Engagements of Board Members and/or Senior Officials with Significant Financial Responsibility between 1 April 2025 and 31 March 2026

	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.	23	15	38

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 Employment Rights Act 2025 repeals the requirement for relevant public sector employers to publish trade union facility time, effective from 18 February 2026. There is therefore no requirement to include this in our 2025-26 and future annual reports.

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 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. The SOPS and Estimates are compiled against the budgeting framework as described in the Performance Report – Financial Performance Summary.

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual available on GOV.UK, for detail on the control limits voted by Parliament.

Summary of Resource and Capital Outturn 2025-26

		2025-26			2024-25
	SOPS Note	**Total Voted Outturn £000**	**Total Voted Estimate £000**	**Outturn compared to Estimate: Savings/(Excess) £000**	Outturn £000
Departmental Expenditure Limit (DEL)					
Resource	1.1	**47,923,761**	**58,231,616**	**10,307,855**	45,823,378
Capital	1.2	**23,066,362**	**23,130,816**	**64,454**	22,697,220
Total		**70,990,123**	**81,362,432**	**10,372,309**	68,520,598
Annually Managed Expenditure (AME)					
Resource AME	1.1	**3,582,333**	**7,045,460**	**3,463,127**	5,024,486
Capital AME	1.2	**(476)**	**1,000**	**1,476**	3,899
Total		**3,581,857**	**7,046,460**	**3,464,603**	5,028,385
Total Budget					
Resource	1.1	**51,506,094**	**65,277,076**	**13,770,982**	50,847,864
Capital	1.2	**23,065,886**	**23,131,816**	**65,930**	22,701,119
Total		**74,571,980**	**88,408,892**	**13,836,912**	73,548,983
Non Budget					
Non budget Resource	1.1	**2,021,279**	**5,377,000**	**3,355,721**	2,564,517
Total		**2,021,279**	**5,377,000**	**3,355,721**	2,564,517
Total Budget and Non Budget					
Total Resource	1.1	**53,527,373**	**70,654,076**	**17,126,703**	53,412,381
Total Capital	1.2	**23,065,886**	**23,131,816**	**65,930**	22,701,119
Total		**76,593,259**	**93,785,892**	**17,192,633**	76,113,500

The majority of the Resource Departmental Expenditure Limit (RDEL) variance (£10.308 billion) relates to asset revaluation and depreciation.

The Capital Departmental Expenditure Limit (CDEL) outturn variance was £0.064 billion and relates to small variances on a number of programmes.

For Annually Managed Resource Expenditure (AME), which by its nature is demand led and volatile, the outturn was £3.463 billion below budget which reflects updated assumptions underpinning the remeasurement of provisions.

Net Cash Requirement 2025-26

	SOPS Note	2025-26 Outturn £000	2025-26 Estimate £000	2025-26 Outturn compared to Estimate: Savings/(Excess) £000	2024-25 Outturn £000
Net Cash Requirement	3	**61,795,115**	**62,244,236**	**449,121**	64,068,238

Administration Costs 2025-26

	SOPS Note	2025-26 Outturn £000	2025-26 Estimate £000	2025-26 Outturn compared to Estimate: Savings/(Excess) £000	2024-25 Outturn £000
Administration Costs	1.1	**2,181,560**	**2,181,560**	**–**	2,014,863

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

Prior Period Adjustments

The Department has identified prior period adjustments arising from two areas. First, a review of Assets Under Construction (AUC) relating to AWE plc projects identified that carrying values had been misstated in previous years, resulting in material corrections to prior period balances.

Second, following the Office for National Statistics (ONS) revision of the Producer Price Index (PPI) and Service Producer Price Index (SPPI) in October 2025, the Department determined that its 2024–25 non-property asset valuations should have been updated prior to the authorisation of the accounts. These adjustments have been reflected through restatements of the relevant comparative figures across the primary statements, presented in the non budget resource line.

Description of Prior Period Adjustment	Resource/Capital	£000
DNE AUC	**Resource**	**2,151,025**
Indexation	**Resource**	**(129,746)**

SOPS Note 1 Outturn detailed by Estimate Line

SOPS Note 1.1 – Analysis of Resource Outturn by Estimate Line

	2025-26								2024-25
Resource Outturn in Departmental Expenditure Limits (DEL) – Voted Expenditure	**Administration Expenditure** £000	**Programme Expenditure** £000	**Programme Income** £000	**Total Net Resource Outturn** £000	**Total Net Resource Estimate** £000	**Virements** £000	**Total Net Resource Estimate Including Virements** £000	**Total Net Resource Outturn Compared to Estimate** £000	Total Net Resource Outturn £000
A. Provision of Defence Capability – Service Personnel Costs	–	12,764,254	–	**12,764,254**	12,805,190	(40,936)	12,764,254	–	11,998,846
B. Provision of Defence Capability – Civilian Personnel Costs	–	1,893,674	–	**1,893,674**	2,179,085	(218,554)	1,960,531	66,857	1,792,960
C. Provision of Defence Capability – Infrastructure Costs	–	5,695,924	–	**5,695,924**	6,037,250	(341,326)	5,695,924	–	5,209,027
D. Provision of Defence Capability – Inventory Consumption	–	1,213,407	–	**1,213,407**	1,173,975	39,432	1,213,407	–	1,423,502
E. Provision of Defence Capability – Equipment Support Costs	–	6,367,143	–	**6,367,143**	6,685,791	(318,648)	6,367,143	–	6,158,691
F. Provision of Defence Capability – Other Costs and Services	–	2,360,395	–	**2,360,395**	1,613,460	746,935	2,360,395	–	2,828,214
G. Provision of Defence Capability – Receipts and Other Income	–	–	(1,358,598)	**(1,358,598)**	(1,474,000)	115,402	(1,358,598)	–	(1,338,395)
H. Provision of Defence Capability – Depreciation and Impairment Costs	–	8,984,870	–	**8,984,870**	19,112,824	–	19,112,824	10,127,954	8,295,149
I. Provision of Defence Capability – Cash Release of Provisions	–	531,471	–	**531,471**	280,565	250,906	531,471	–	419,115
N. Provision of Defence Capability – Research and Development Costs	–	229,699	–	**229,699**	529,260	(250,906)	278,354	48,655	221,320
Q. Operations – Service Personnel Staff Costs	–	298,864	–	**298,864**	256,500	42,364	298,864	–	227,626
R. Operations and Peacekeeping – Civilian Personnel Staff Costs	–	18,938	–	**18,938**	15,785	3,153	18,938	–	20,335

	2025-26								2024-25
Resource Outturn in Departmental Expenditure Limits (DEL) – Voted Expenditure	**Administration Expenditure £000**	**Programme Expenditure £000**	**Programme Income £000**	**Total Net Resource Outturn £000**	**Total Net Resource Estimate £000**	**Virements £000**	**Total Net Resource Estimate Including Virements £000**	**Total Net Resource Outturn Compared to Estimate £000**	Total Net Resource Outturn £000
S. Operations – Infrastructure Costs	–	302,424	–	**302,424**	260,665	41,759	302,424	–	302,215
T. Operations – Inventory Consumption	–	254,143	–	**254,143**	248,945	5,198	254,143	–	256,325
U. Operations – Equipment Support Costs	–	922,222	–	**922,222**	1,048,680	(105,028)	943,652	21,430	742,743
V. Operations – Other Costs and Services	–	263,540	–	**263,540**	297,995	(4,470)	293,525	29,985	223,408
W. Operations – Receipts and Other Income	–	–	(19,016)	**(19,016)**	(31,570)	12,554	(19,016)	–	(14,994)
AA. Arm's Length Bodies (net)	–	242,027	–	**242,027**	192,180	49,847	242,027	–	238,927
AC. Defence Capability DE&S DEL Costs	–	1,119,093	–	**1,119,093**	1,230,025	(110,932)	1,119,093	–	1,264,005
AD. War Pensions Benefits	–	632,609	–	**632,609**	642,525	–	642,525	9,916	653,981
AE. Integrated Security Fund	–	40,388	–	**40,388**	43,446	–	43,446	3,058	51,537
AG. Defence Capability Defence Nuclear Enterprise DEL Cost	–	3,112,988	(128,258)	**2,984,730**	2,969,742	14,988	2,984,730	–	2,833,978
Administration Costs[1]									
O. Provision of Defence Capability Administration – Civilian Personnel Costs	638,990	–	–	**638,990**	625,000	13,990	638,990	–	614,929
P. Provision of Defence Capability Administration – Other Costs and Services	257,670	–	–	**257,670**	275,000	(17,330)	257,670	–	226,168
AB. Provision of Defence Capability Administration – Service Personnel Costs	1,006,110	–	–	**1,006,110**	896,298	109,812	1,006,110	–	919,207
AF. Administration – Cash Release of Provisions	6,890	–	–	**6,890**	6,000	890	6,890	–	4,463

Resource Outturn in Departmental Expenditure Limits (DEL) – Voted Expenditure	2025-26 Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Virements £000	Total Net Resource Estimate Including Virements £000	Total Net Resource Outturn Compared to Estimate £000	2024-25 Total Net Resource Outturn £000
AH. Defence Capability Defence Nuclear Enterprise Admin DEL Costs	271,900	–	–	**271,900**	311,000	(39,100)	271,900	–	250,096
Total Spending in Resource DEL	**2,181,560**	**47,248,073**	**(1,505,872)**	**47,923,761**	**58,231,616**	**–**	**58,231,616**	**10,307,855**	45,823,378

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

Resource Outturn in Annually Managed Expenditure (AME) – Voted Expenditure	2025-26 Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Virements £000	Total Net Resource Estimate Including Virements £000	Total Net Resource Outturn Compared to Estimate £000	2024-25 Total Net Resource Outturn £000
AI. Provision of Defence Capability – Depreciation and Impairment Costs	–	348,956	–	**348,956**	1,743,065	(53,945)	1,689,120	1,340,164	1,127,288
AJ. Provision of Defence Capability – Provisions Costs	–	3,694,422	–	**3,694,422**	5,692,748	–	5,692,748	1,998,326	4,139,062
AK. Provision of Defence Capability – Cash Release of Provisions Costs	–	(514,990)	–	**(514,990)**	(390,353)	–	(390,353)	124,637	(373,752)
Movement on the Fair Value of Financial Instruments	–	53,945	–	**53,945**	–	53,945	53,945	–	131,888
Total Spending in Resource AME	**–**	**3,582,333**	**–**	**3,582,333**	**7,045,460**	**–**	**7,045,460**	**3,463,127**	5,024,486
Total Resource Outturn	**2,181,560**	**50,830,406**	**(1,505,872)**	**51,506,094**	**65,277,076**	**–**	**65,277,076**	**13,770,982**	50,847,864

	2025-26								2024-25
Non Budget Resource Outturn	**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
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	£000
AM. Defence Capability Prior Year adjustment	–	2,021,279	–	**2,021,279**	5,377,000	–	5,377,000	3,355,721	2,564,517
Total Spending in Resource	**–**	**2,021,279**	**–**	**2,021,279**	**5,377,000**	**–**	**5,377,000**	**3,355,721**	2,564,517
Total Resource Outturn	**2,181,560**	**52,851,685**	**(1,505,872)**	**53,527,373**	**70,654,076**	**–**	**70,654,076**	**17,126,703**	53,412,381

SOPS Note 1.2 – Analysis of Capital Outturn by Estimate Line

	2025-26								2024-25
Capital Outturn in Departmental Expenditure Limits (DEL) – Voted Expenditure	**Administration Expenditure** £000	**Programme Expenditure** £000	**Programme Income** £000	**Total Net Capital Outturn** £000	**Total Net Capital Estimate** £000	**Virements** £000	**Total Net Capital Estimate Including Virements** £000	**Total Net Capital Outturn Compared to Estimate** £000	Total Net Capital Outturn £000
J. Provision of Defence Capability – Capital – Single Use Military Equipment	–	4,604,300	–	**4,604,300**	3,949,503	654,797	4,604,300	–	4,997,568
K. Provision of Defence Capability – Other Capital (Fiscal)	–	4,762,672	–	**4,762,672**	5,495,000	(732,328)	4,762,672	–	5,561,660
L. Provision of Defence Capability – Fiscal Assets/Estate Disposal	–	–	(34,506)	**(34,506)**	(163,800)	129,294	(34,506)	–	(97,646)
M. Provision of Defence Capability – New and Loan Repayment	–	70,956	–	**70,956**	58,000	12,956	70,956	–	–
N. Provision of Defence Capability – Research and Development Costs	–	2,709,278	–	**2,709,278**	2,821,700	(112,422)	2,709,278	–	2,588,049
X. Operations Capital Single Use Military Equipment	–	861,891	–	**861,891**	651,340	210,551	861,891	–	1,024,976
Y. Operations Other Capital (Fiscal)	–	1,054,764	–	**1,054,764**	1,138,915	(84,151)	1,054,764	–	569,117
Z. Operations Research and Development Costs	–	–	–	**–**	23,745	(23,745)	–	–	–
AA. Arm's Length Bodies (net)	–	38,784	–	**38,784**	16,968	21,816	38,784	–	41,276
AC. Defence Capability DE&S DEL Costs	–	111,460	–	**111,460**	166,000	(54,540)	111,460	–	206,556
AG. Defence Nuclear Enterprise	–	8,886,763	–	**8,886,763**	8,973,445	(22,228)	8,951,217	64,454	7,805,664
Total Spending in Capital DEL	**–**	**23,100,868**	**(34,506)**	**23,066,362**	**23,130,816**	**–**	**23,130,816**	**64,454**	22,697,220

	2025-26								2024-25
Capital Outturn in Annually Managed Expenditure (AME) – Voted Expenditure	**Administration Expenditure £000**	**Programme Expenditure £000**	**Programme Income £000**	**Total Net Capital Outturn £000**	**Total Net Capital Estimate £000**	**Virements £000**	**Total Net Capital Estimate Including Virements £000**	**Total Net Capital Outturn Compared to Estimate £000**	Total Net Capital Outturn £000
AL. Provision of Defence Capability AME Capital Fiscal	–	–	(476)	**(476)**	1,000	–	1,000	1,476	3,899
Total Spending in Capital AME	**–**	**–**	**(476)**	**(476)**	**1,000**	**–**	**1,000**	**1,476**	**3,899**
Total Capital Outturn	**–**	**23,100,868**	**(34,982)**	**23,065,886**	**23,131,816**	**–**	**23,131,816**	**65,930**	22,701,119

The Total Estimate columns include virements. Virements are the reallocation of provisions made in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail; it delegates to HM Treasury). Further information on virements are provided in the Supply Estimates Manual, available on GOV.UK. The Outturn Compared to Estimate column is based on the total including virements. The estimate totals before virements are included so that users can tie the estimate back to the Estimates laid before Parliament.

SOPS Note 2 – Reconciliation of Outturn to Net Expenditure

	Note	2025-26 Outturn £000	2024-25 Outturn £000
Net Resource Outturn			
Budget	SOPS 1.1	**51,506,094**	50,847,864
Non Budget	SOPS 1.1	**2,021,279**	2,564,517
Total Net Resource Outturn		**53,527,373**	53,412,381
Prior period adjustments		**(2,021,279)**	(2,462,610)
Adjustment for changes in discount rates not passing through net expenditure		**83,617**	187,112
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		**(23,573)**	(5,862)
Income in respect of donated assets and asset disposals, treated as capital income		**(36,635)**	–
Loss/(gain) on foreign exchange in respect of Capital purchases and other adjustments to net resource outturn		**115,323**	50,162
Movements on capitalised and other provisions included in resource or capital outturn but not passing through net expenditure in accordance with Central Budgeting Guidance		**883,517**	(3,260,220)
Adjust for the net effect of capital: grants, income and grants-in-kind included in net expenditure but excluded from net resource outturn		**1,761,048**	908,838
Add capitalised research and development costs included in net expenditure but excluded from net resource outturn under ESA 10 as set out in the Consolidated Budgeting Guidance		**3,168,634**	2,924,903
Net expenditure for the year in the Statements of Comprehensive Net Expenditure	SoCNE	**57,458,025**	51,754,704

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. This reconciliation explains the difference between resource outturn (see SOPS 1.1) and the net expenditure reported in the Statement of Comprehensive Net Expenditure (SOCNE).

SOPS Note 3 – Reconciliation of Net Outturn to Net Cash Requirement

	Note	2025-26 Outturn £000	2025-26 Estimate £000	2025-26 Outturn compared to Estimate: Savings/ (Excess) £000
Total Resource Outturn	SOPS 1.1	**53,527,373**	70,654,076	17,126,703
Total Capital Outturn	SOPS 1.2	**23,065,886**	23,131,816	65,930
Adjustments for Arm's Length Bodies (ALBs):				
Remove voted outturn (Resource and Capital)		**(280,811)**	(209,148)	71,663
Add cash Grant in Aid and other Departmental expenditure on behalf of ALBs		**284,527**	203,776	(80,751)
Adjustments to remove non-cash items:				
Depreciation and impairment		**(9,334,630)**	(20,855,889)	(11,521,259)
New provisions and adjustments to previous provisions		**(3,694,422)**	(5,693,748)	(1,999,326)
Prior period adjustments		**(2,021,279)**	(5,377,000)	(3,355,721)
Other non-cash items		**(969,682)**	–	969,682
Adjustment to reflect movements in working capital:				
Movement in net inventories and financial assets held for sale		**232,742**	–	(232,742)
Increase/(Decrease) in Receivables		**932,562**	–	(932,562)
(Increase)/Decrease in Payables		**(741,868)**	–	741,868
Use of provisions and unfunded pensions		**794,717**	390,353	(404,364)
Net cash requirement		**61,795,115**	**62,244,236**	**449,121**

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 2025-26 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. Most of these services are in the form of military support to foreign governments and other government departments. Costs are recovered in accordance with Managing Public Money. Where a chargeable activity produces a tangible benefit to Defence, we may reduce any charges levied below the full costs of the activity. 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 2026 are shown in the following table:

Quantified Remote Contingent Liabilities and Financial Guarantees	£M
Sensitive	
Not disclosed due to the reasons of commercial and/or national security. There are also some sensitive items where the liability is unquantifiable.	4,142.4
Special and Generic Risk Indemnities	
HM Treasury have delegated to MOD approval for a range of Special and Generic Risks that can be used when conducting normal business. In addition, there are remote unquantifiable liabilities classed as Generic and Special Risks.	202.7
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.	640.2
People – Liability for redundancy	
Uncertainties in calculating this liability include life expectancy, age, length of service, salary and number of dependants. There are also two unquantifiable CLs relating to support to NAAFI in the event of changes in MOD's service requirements.	7.1
Environmental	
The Government Pipeline and Storage System (GPSS) – This contingent liability allows for compensation to landowners where GPSS is laid outside deviation limits, or where the SofS' rights in respect of GPSS are lost. Other liabilities exist for possible site remediation exposure which are treated as unquantifiable contingent liabilities.	16.0
Other Remote Contingent Liabilities	
Insurance risk of exhibits on loan to the museums.	1.1
Foreign Military Sales activity.	3.3
Financial Guarantees	
Crown Guarantee for Pension Schemes.	150.0
Total	**5,162.8**

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 so 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. In addition to those mentioned in the table of quantified liabilities, details of other unquantifiable remote contingent liabilities are shown in the following table:

Unquantified Remote Contingent Liabilities
Contract Terms
Indemnities have been provided in relation to Strategic Weapons System Activities Future Delivery Project, an overall cap on contractor liability within the future submarine design phase contract with Devonport Royal Dockyard Limited, residual employee disease liability and residual public liability arising from the disbanding of DERA and indemnities to SERCO under the Continuous Provision of Marine Services contract.
Environmental
Indemnity for 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.
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, Babcock Group and AWE plc.
An unquantifiable 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.
Private Finance Initiative (PFI)
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, therefore, are unquantified.

Unquantifiable Financial Guarantees

The Department has entered into one financial guarantee contract, which is not 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. 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 2025-26 on all aspects of the Ministry of Defence's business. Defence Ministers participated in 48 debates on Defence issues in Parliament. Ministers responded to 14 debates in the House of Commons and 17 debates in Westminster Hall. There were 3 debates on Defence in the House of Lords. In addition, there were 14 debates on legislation and bills in both Houses. Details are published in Hansard.

Ministers made 13 oral statements to the House of Commons and 6 to the House of Lords – details are published in Hansard.

A total of 6,707 oral and written Parliamentary Questions were answered. Ministers also made 44 written Ministerial Statements to the House of Commons and the House of Lords – details are published on the Parliamentary written questions and answers system [23].

Accounting Officer Assessments

The MOD has published no Accounting Officer Assessments of Major Projects. Details of previous assessments can be found on GOV.UK[24].

Ministerial Correspondence

From 1 April 2025 to 31 March 2026, Defence Ministers were due to respond to 4,466 items of correspondence from Members of Parliament, Peers and members of the public where a Ministerial response was appropriate. Of these, 3,259 (73%) were answered within the target of 20 working days.

Evidence to the Defence Select Committee

Since 1 April 2025, the Ministry of Defence has given evidence to the Defence Select Committee on a number of occasions, covering a wide range of issues and the Government has responded to a number of the Committee's reports. All Committee publications, including published evidence given to the Committee, are available on the Parliament Website [25].

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 2025-26: MOD responses to reports published in previous Parliamentary Session

There were no responses to reports published in 2025-26.

Financial Year 2025-26: Defence Select Committee Reports (Government responses, if published are listed in brackets after the report to which they relate)

Report	Title	Publication Date
HC 572 (HC 1034)	The Armed Forces Covenant	8 Apr 2025
HC 405 (HC 1326)	Defence in the Grey Zone	9 Jul 2025
HC 520 (HC 1658)	The UK Contribution to European Security	19 Nov 2025
HC 1428	Pre-Appointment Hearing: Armed Forces Commissioner	27 Mar 26
HC 841	AUKUS	28 Apr 26

Financial Year 2025-26: Evidence to Defence Select Committee Inquiries without Reports

Select Committee	Inquiry
Defence Select Committee	ARAc 2024-2025
Defence Select Committee	Work of SofS
Defence Select Committee	Work of CDS
Defence Select Committee	Introductory session with the NAD
Defence Select Committee	AUKUS
Defence Select Committee	UK Contribution to European Security
Defence Select Committee	Work of CDS
Defence Select Committee	Work of SofS

23 https://questions-statements.parliament.uk/
24 https://www.gov.uk/government/publications/government-major-projects-portfolio-accounting-officer-assessments-mod
25 https://committees.parliament.uk/committee/24/defence-committee/publications/

Financial Year 2025-26: Visits by the Defence Select Committee to UK Armed Forces

Date of Visit	Establishment	Inquiry
15 May 2025	77 Brigade	Defence in the Grey Zone
10 Jul 2025	AFC Harrogate	Introductory Visit
20 Nov 2025	HMNB Clyde	Introductory Visit
15 Jan 2026	RAF Wyton	Introductory Visit
12 Mar 2026	Defence Serious Crime Command	Women in the Armed Forces
16 Apr 2026	DARR Visit	Afghan Data Breach and Resettlement Schemes

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

Since 1 April 2025, the Ministry of Defence has also given written and oral evidence on various issues to the following Select Committees of the House of Commons and the House of Lords:

Financial Year 2025-26: Other Select Committee Reports

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

Committee	Subject	Publication Date
Public Accounts Committee	HC 893 – MOD oversight of Reserve Forces' and Cadets' Associations (HC893)	05 Sep 25

Financial Year 2025-26: Evidence to Other Select Committee Inquiries without Reports

Select Committee	Inquiry
Numeracy for Life Committee	Numeracy for Life
Culture, Media, and Sport Committee	Protecting Built Heritage
Joint Committee on the National Security Strategy	Undersea Cables

Financial Year 2025-26: Visits by Other Select Committees to UK Armed Forces

There were no visits in 2025-26.

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 [26].

Title	Report Reference	Hearing Date	Publication Date
The Future of the Equipment Plan	HC 716	28 Apr 25	20 Jun 25
MOD Oversight of Reserve Forces and Cadets	HC 893	16 Jun 25	05 Sep 25
The UK's F-35 stealth fighter capability	HC 1232	08 Sep 25	31 Oct 25
Afghanistan Response Route (ARR)	HC 1391	08 Sep 25	14 Nov 25
Excess Votes 2024-25	HC 1711	N/A	23 Feb 26
The MODs tackling of economic crime and misconduct	HC 91	05 Mar 26	29 May 26
MOD follow up Spring 2026	HC 95	23 Mar 26	7 Jun 26

26 https://committees.parliament.uk/committee/127/public-accounts-committee

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.

Freedom of Information

MOD performance under the Freedom of Information Act (FOI) is published as part of the Cabinet Office FOI statistics[27].

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 2025-26, the PHSO received 81 complaints about the MOD (including Veterans UK). The following information applies to these complaints.

Description	Information	Values
The number of complaints accepted for investigation by the Parliamentary Ombudsman in the year		4
The number of investigations reported on by the Parliamentary Ombudsman in the year[1]		1
Of those reports where the complaint was	upheld in full	0%
	upheld in part	0%
	not upheld	100%
The number of Ombudsman recommendations	complied with	0%
	not complied with	0%

[1] Three out of the four cases accepted for investigation by the Parliamentary Ombudsman in year remain ongoing as of year-end.

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.[28]

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 at the point they occur, based on a most likely worse case value. Disclosure is based on cases that are transacted through the accounts (including where an accrual or provision has been expensed). Occasionally there may be losses reported that have future cost impacts. Where this is the case, these costs won't be reflected on an accruals basis but reflected in the accounts once they are incurred. The distinction between Advance Notifications and Closed Cases reported in previous years has been removed. All special Payments excluding special severance payments, are reported on an accruals basis. Special severance payments are reported on a cash basis except for those relating to AWE which are accrued. Other exit payments included earlier in this report are reported on a cash basis. The impact of reporting these on a cash basis rather than accruals is not material to the Department.

27 https://www.gov.uk/government/collections/government-foi-statistics
28 https://www.gov.uk/government/publications/managing-public-money

Losses

Reportable Cases	2025-26 Core Department and Agencies	2025-26 Departmental Group	2024-25 Core Department and Agencies	2024-25 Departmental Group
Total Number of Losses	**17,622**	**17,622**	18,982	18,982
Total Value of Losses (£000)	**1,234,125**	**1,234,125**	1,896,516	1,896,516
Details of Losses over £300,000	**£000**	**£000**	**£000**	**£000**
Total Cash and Overpayment Losses	**–**	**–**	661	661
Constructive Losses				
Impairments arising from historic AWE/AUC review	**408,000**	**408,000**		
Cancellation of Shadow Mk2	**253,580**	**253,580**		
Cancellation of Project Morpheus	**235,655**	**235,655**		
Building Assets AUC Balance Write-offs 2024-25	**85,948**	**85,948**		
HMS Richmond removal from service	**45,847**	**45,847**		
Property Demolitions Write-offs	**31,676**	**31,676**		
HMS Chiddingfold impairment pending removal from service	**10,896**	**10,896**		
Asset Impairment Losses	**9,948**	**9,948**		
RFA Argus removal from service	**9,450**	**9,450**		
Cancelled Project Guardian UKV2	**9,476**	**9,476**		
Thermal Imaging Camera & Laser Range Finder Replacement Programme Termination	**8,332**	**8,332**		
Quinquennial Review (QQR) Property Write-offs	**6,321**	**6,321**		
Porton Down Building Demolition	**6,249**	**6,249**		
Cancellation Project Janus	**6,020**	**6,020**		
Cancellation of PhotoVoltaic Farms project	**5,762**	**5,762**		
Cancellation of Software Module project	**4,739**	**4,739**		
Cancellation of Shelf-Life Extension Programme (SLEP) Project	**3,354**	**3,354**		
Marshall - site closures	**2,859**	**2,859**		
Cessation of Commercial Audit Tool	**2,147**	**2,147**		
Training equipment no longer needed by the Department	**1,871**	**1,871**		
Fleet Solid Support Automatic Small Calibre Gun Rationalisation	**1,704**	**1,704**		
Secondary Facilities Project - Project Terminated	**1,500**	**1,500**		
Cyber Resilience Programme	**1,349**	**1,349**		
Skyrora V1 Launchers surplus to requirements	**1,070**	**1,070**		
Through Barrier Imaging Systems (TBIS) Contract Terminated	**647**	**647**		
Cancellation of Operational Advantage Centre (OAC)	**620**	**620**		

Cases	2025-26 Core Department and Agencies	2025-26 Departmental Group	2024-25 Core Department and Agencies	2024-25 Departmental Group
Details of Losses over £300,000	**£000**	**£000**	**£000**	**£000**
Project cancellation of Physical Training Sports Facility at Lossiemouth	**480**	**480**		
Land Rover Fleet Reduction	**473**	**473**		
Project cancellation at Staxton Wold	**463**	**463**		
Project cancellation Heavy Equipment Transporters (HETS)	**421**	**421**		
Test facility cancellation	**397**	**397**		
Projects descoped within the Reserve Estate Optimised Programme	**385**	**385**		
Cancelled Marne Barracks - Building Energy Management System (BEMS)	**348**	**348**		
Cancelled High Wycombe Hurricane & Spitfire building Air Conditioning (AC) Project	**319**	**319**		
Total Constructive Losses	**1,158,306**	**1,158,306**	1,607,006	1,607,006
Stores losses				
Destruction of Resolute Valkyrie Air Vehicle	**2,368**	**2,368**		
Damage to aircraft	**1,656**	**1,656**		
ACTO Amnesty Loss	**965**	**965**		
Stock repair assessment	**977**	**977**		
Autonomous Underwater Vehicle Declared Beyond Economic Repair & Retired	**674**	**674**		
Loss of Stores Through Asbestos Contamination	**624**	**624**		
Vehicle Fire Jackal	**537**	**537**		
Storage/Packaging Compromised	**526**	**526**		
Accidental Loss of Defensive Aids equipment fitted to Merlin Mk4, Helicopter	**518**	**518**		
Incident involving Eagle Air Vehicle 641	**324**	**324**		
Incident involving Eagle Air Vehicle 620	**324**	**324**		
Total Stores Losses	**9,493**	**9,493**	250,597	250,597
Fruitless Payments				
Shadow Mk2	**5,424**	**5,424**		
HMS Bangor	**5,000**	**5,000**		
Training Activities linked to Submarine Acquisition Programme	**4,402**	**4,402**		
Departmental Cash Forecasting Performance 2025-26	**1,957**	**1,957**		
Dreadnought Supply Chain	**1,664**	**1,664**		
Project SERAPH Cancellation	**1,354**	**1,354**		
Seized Assets Unreturned	**1,039**	**1,039**		
Project costs in relation DPDY 3 Basin	**1,027**	**1,027**		
Rear Crew Sustainment Late Payment VAT Interest	**612**	**612**		
Late cancellation of a planned move	**601**	**601**		
Incorrect VAT Assessments	**332**	**332**		
Total Fruitless Payments	**23,412**	**23,412**	15,023	15,023

Cases	2025-26 Core Department and Agencies	2025-26 Departmental Group	2024-25 Core Department and Agencies	2024-25 Departmental Group
Details of Losses over £300,000	**£000**	**£000**	**£000**	**£000**
Claims Abandoned or Waived				
Partial Debtor Write-off against Cavalry Barracks	**7,153**	**7,153**		
International Military Services (IMS) Outstanding Claim Write-Off	**3,628**	**3,628**		
Aged Debt Irrecoverable Pension Overpayment	**2,383**	**2,383**		
Navy Marine Fuel Sale	**532**	**532**		
Total Claims Abandoned or Waived	**13,696**	**13,696**	1,220	1,220
TOTAL CASES OVER £300,000	**1,204,906**	**1,204,906**	**1,874,507**	**1,874,507**

Special Payments

	2025-26 Core Departments and Agencies	2025-26 Departmental Group	2024-25 Core Departments and Agencies	2024-25 Departmental Group
Total Number of Special Payments	**7,080**	**7,080**	5,225	5,225
Total Value of Special Payments £000	**168,591**	**168,591**	110,707	110,707
Details of Special Payments over £300,000	**£000**	**£000**	**£000**	**£000**
LGBTQ-Financial Redress Scheme	**48,450**	**48,450**		
Special Payments for Other Personal Injury	**11,163**	**11,163**		
Unexploded Ordnance (UXO) Settlement	**7,000**	**7,000**		
Special Payments for Noise-induced hearing loss	**6,857**	**6,857**		
Special Payments for Non-freezing cold injuries	**3,743**	**3,743**		
Special payments for Bullying, Harassment, Discrimination, Physical and Sexual Abuse and Assault	**2,840**	**2,840**		
Periodic Payments Common Law Structured Settlements	**2,494**	**2,494**		
Special Payments for Vehicle accidents	**2,351**	**2,351**		
Special Payments for Clinical Negligence	**1,906**	**1,906**		
Special Payments for Asbestos-related disease	**1,844**	**1,844**		
Employment Tribunal Special Payment	**800**	**800**		
Special Payments made under the War Widow Ex Gratia Payment Scheme	**700**	**700**		
Settlement Of White Fleet Contract	**530**	**530**		
TOTAL CASES OVER £300,000	**90,678**	**90,678**	39,928	39,928

Special Severance Payments

During 2025-26, 41 Special Severance Payments totalling £2,078,943 were approved. Further details (to the nearest £1,000) are:

Analysis of Special Severance Payments

	(to the nearest £1,000)
Maximum Payment	252,000
Median Payment	35,000
Minimum Payment	2,000

0 Special Severance Payments over £300,000 have been identified during the year.

Gifts

During 2025-26, 1,463 Gifts with a total value of £6,251,000 (to the nearest £1,000) were made. There have been two individual gifts with a value of £300,000 or more identified during the year but are yet to be handed to the recipient. Further details (to the nearest £1,000) are:

Details of Gift	**£000**
Operating Base (OB) SHAND	322
Gifting of proceeds of sale of Forkhill, Armagh; Drumadd Barracks, Armagh and Laurel Hill House Coleraine sites in Northern DIO Irelands to the Northern Ireland Executive	5,500
TOTAL OF GIFTS	**5,822**

Jeremy Pocklington CB
Accounting Officer

9 July 2026

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 2026 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 2025. The financial statements comprise: the Department's and the Departmental Group's:

- Consolidated Statement of Financial Position as at 31 March 2026;
- Consolidated Statement of Comprehensive Net Expenditure, Consolidated Statement of Cash Flows and Consolidated 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 2026 and its 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 2026 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 2026 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 (2024)*. 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 2024*. 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 Act
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.

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 of management override of controls, where my work has not identified any matters to report.

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 96.

In this year's report the following changes to the risks identified have been made compared to my prior year report:

- I have added a key audit matter in respect of the carrying value of the Ajax platform at 31 March 2026. The risk was identified due to the presence of impairment indicators following substantial media coverage in 2025-26 and significant judgement required by management in undertaking an impairment assessment.

- I have included a key audit matter in respect of the valuation of assets under construction managed by Arm's Length Bodies, as the Department has included a prior period adjustment following its review of the balances due to the qualified audit opinion in 2024-25.
- I previously reported a key audit matter in respect of the approval and disclosure of losses and special payments. Whilst I have continued to assess this as an area of significant risk, the level of resource and effort allocated to this risk was reduced in 2025-26 based on my assessment of the design and implementation of controls relating to losses and special payments. As a result of the reduction in the effect of this matter on my overall audit strategy I no longer consider this to be a key audit matter.

Valuation of Departmental assets under construction managed by Arm's Length Bodies

Description of risk

The Department relies on Arm's Length Bodies (ALB) and third parties to build and maintain assets on their behalf. Consequently, these ALBs and third parties often have responsibility for Departmental assets in the course of construction.

In the prior year the Department was unable to provide sufficient and appropriate audit evidence to support the valuation, existence and classification of £6.13 billion of assets under construction (other) resulting in a qualification of the 2024-25 audit opinion.

In 2025-26 the Department has reconciled the project data held by the Atomic Weapons Establishment (AWE) who maintain and operate the assets on behalf of the Department to the Department's records. A detailed review of the £6.13 billion reported as assets under construction at 31 March 2025 has been carried out to ensure the costs and projects are appropriately accounted for in line with IAS 16.

The Department's review has resulted in the restatement of the carrying value at 31 March 2025 and 1 April 2024, the details of which are disclosed in Note 21. The Department's review has also resulted in a £408 million loss disclosed in the Parliamentary Accountability report.

Significant audit effort was involved in understanding the approach the Department took to the review to ensure that it was fit for purpose, reviewing the conclusions reached by the Department and the consequential prior period adjustment. It is therefore included as a Key Audit Matter.

	My response to addressing the risk in this area included: Assessing the design and implementation of controls relevant to the existence, valuation and classification of assets under construction. Testing a sample of projects from the £6.13 billion balance, confirming that the restated 31 March 2024 and 31 March 2025 asset under construction balances were appropriately supported and treated in line with IAS 16.
How the scope of my audit responded to the risk	Challenging the Department on the data, method and assumptions used by management in calculating any impairments. Reviewing the completeness of the loss disclosed in the Parliamentary Accountability report. Reviewing the prior period adjustment Note 21, to confirm that the disclosures are in line with IAS 8. Reviewing in year additions to ensure the Department's judgements on the restated projects were consistently applied. **Key observations** In the course of completing this work, I did not identify any material misstatements.

Valuation of nuclear 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 Consolidated Statements of Financial Position, valued at £11.96 billion at 31 March 2026 (£12.80 billion at 31 March 2025).

The valuation of the provisions relies on cost estimates, assumptions in respect of the timing of those costs and future inflation and discount rates. The forecast cashflows to fulfil the current obligations are expected to occur over a period over 100 years. 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 and timeline, as well as influence how the facilities and equipment are used and subsequently decommissioned. Therefore, this has been considered a key audit matter as the cost estimates used in the calculations are susceptible to estimation uncertainty and judgement, particularly in determining appropriate assumptions. The valuations are prepared using a series of models which are susceptible to methodological errors when adjustments are implemented, which could lead to material misstatement in the financial statements. Key judgements, estimation uncertainties and sensitivities are disclosed in note 11.3 -11.25.

How the scope of my audit responded to this matter	My response to addressing the risk in this area included: Assessing the design and implementation of controls relevant to the cost estimates, judgments applied in the valuation of the provision and the development and maintenance of the models. For a sample of the individual models – obtaining evidence to support and challenge the assumptions related to the value and timing of anticipated cashflows, confirming that appropriate inflation rates and discount rates have been used and confirming 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 Notes to 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. **Key observations** In the course of completing this work, I did not identify any material misstatements.

Completeness of Provisions & Contingent Liabilities

Description of risk

In the previous year the Department posted material adjustments to correct errors in the assumptions and completeness of input data relating to provisions for legal claims associated with personal injury and compensation and relocation costs associated with Afghanistan Resettlement schemes at 31 March 2024 and 31 March 2025, resulting in an Excess Vote and qualification of the regularity opinion in 2024-25.

In respect of the Afghanistan schemes, the Department failed to identify the events and resultant obligations that existed at year end, meaning that the financial reporting implications had not been considered, and no provision was initially recognised in 2024-25. Identifying and assessing all present obligations as to whether a provision should be recognised or contingent liability disclosed involves significant management judgement and effort. In calculating the value of these and similar provisions, there is significant estimation uncertainty and judgement in respect of determining the population of potential claimants, and the potential for a material understatement of the provision if potential future claims are not appropriately included and measured where a present obligation existed at year end.

Significant audit effort was involved in addressing the completeness risk and is included as a Key Audit Matter. Where the Department judges the recognition criteria are met, these provisions are included in Note 11 as legal or other provisions, and the related key judgements and estimation uncertainties are disclosed in Note 1.

How the scope of my audit responded to the risk

My response to addressing the risk in this area included:

Assessing the design and implementation of controls relating to the identification and accounting for provisions and contingent liabilities.

Undertaking completeness procedures to assess whether management have identified all material events requiring a provision or representing contingent liabilities. These include enquiry of management and wider stakeholders in addition to reviewing public reporting, relevant internal management information and board minutes.

Reviewing brought-forward provisions to confirm whether significant balances have been utilised, reclassified or released in full in-year and assessing whether this is appropriate.

With the assistance of external legal specialists, challenging MoD's assessment as to whether legal claims should be classified as a provisions or contingent liabilities.

Evaluating the accounting for provisions relating to legal claims associated with personal injury and compensation and relocation costs associated with Afghanistan Resettlement schemes at 31 March 2026.

Key observations

As a result of my audit the department reclassified a contingent liability as a provision and made a material adjustment to the value of provisions included in the financial statements. I did not identify any unadjusted material misstatements in the completeness of provisions and contingent liabilities recognised and disclosed in the financial statements.

Carrying value of Ajax

Description of risk

The Department is responsible for the procurement and management of Defence assets to support the UK Armed Forces. In accordance with relevant accounting standards, management must ensure that the carrying value of assets does not exceed their recoverable amount. This requires an assessment at each reporting date to identify any indicators of impairment.

The Ajax programme Army's new armoured fighting vehicle programme and has a carrying value of £4.5bn at 31 March 2026 (£4.5bn at 31 March 2025). During the year, concerns emerged about the programme's expected performance following a military exercise in which personnel reported illness, resulting in a pause on use of Ajax for training and military exercises.

These events represent potential indicators of impairment, as they may suggest a decline in the value of the assets greater than would ordinarily be expected. Determining whether an impairment is required involves significant management judgement, including consideration of both corroborative and contradictory evidence.

Significant audit effort was required in relation to the impairment risk associated with the Ajax programme. The programme has been subject to ongoing performance concerns in prior periods, including issues regarding noise and vibration. It has also attracted increased public and media scrutiny. Accordingly, additional audit procedures were performed to assess the appropriateness of management's judgement and to conclude on whether the impairment assessment was reasonable and complete.

Management's policies regarding impairment assessments are set out in Notes 1.36–1.40 and 1.135.

How the scope of my audit responded to the risk	My response to addressing the risk in this area included: Assessing the design and implementation of controls relating to the identification and accounting for impairments. Reviewing management's assessment over the indicators of impairment present on the Ajax platform. Considering other internal and external information sources in evaluating the judgements made by management. Providing challenge over the reasonableness of judgements applied, and the evidence used to support the conclusions reached. **Key observations** In the course of completing this work, I did not identify any material misstatements.

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	£1.68 billion	£1.40 billion
Basis for determining materiality	Approximately 1% of opening Group net assets of £168 billion (1% of opening net assets of £159 billion in 2024-25)	Approximately 0.9% of opening parent net assets of £160 billion (1% of opening net assets of £158 billion in 2024-25)
Rationale for the benchmark applied	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 opening net assets due to the large nuclear decommissioning provisions which are intrinsically linked to the Department's nuclear assets. We set materiality at planning based on opening net assets with an adjustment to reflect the expected prior period adjustment related to AWE AUC. Our benchmark was unchanged as we continue to deem this an appropriate measure of user interest. The rationale for the benchmark applied to the parent is consistent with that of the Departmental Group.	

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 2025-26 audit (2024-25: 75%). In determining performance materiality, we have also considered the 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 £1,000,000, 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 have decreased net expenditure by £169.2m and decreased net assets by £160.1m.

Audit scope

The scope of my Group audit was determined by obtaining an understanding of the Department and its Group's 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) and 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. This model remained in place for 2025-26.

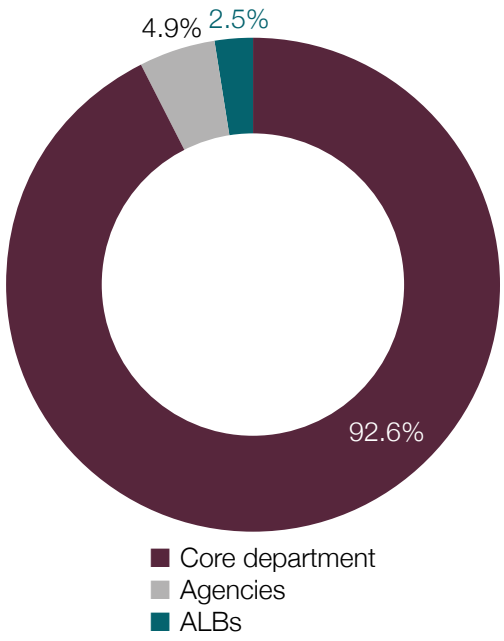
The core Department prepares its financial statements through the consolidation of workbooks prepared by the TLBs, therefore in my audit approach I have considered the core Department to be a Group under ISA600. Within the core Department I have identified each TLB as a component, with Defence Equipment & Support (DE&S), Defence Infrastructure Organisation (DIO) and Defence Nuclear Organisation (DNO) being the components which contribute the most significant balances to the Group financial statements, along with cash and payroll which operate across the core Department. I performed a Group risk assessment to identify balances within components which presented a risk to the Group financial statements and included those component balances for detailed risk assessment to determine proportionate audit responses.

This work was undertaken by one Group audit team carrying out work on all components.

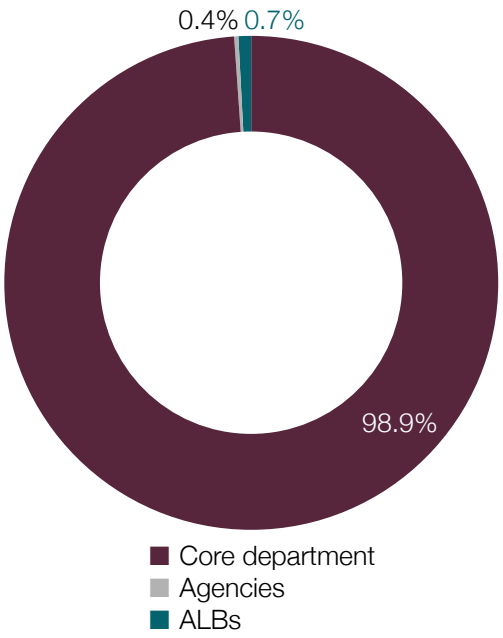
The Departmental Group is comprised of the core Department & Agencies and arm's length bodies (ALBs). Component balances at ALBs were included in my Group risk assessment in the same way as for components of the core Department, and this led to the scoping and detailed testing of the defined benefit pension scheme at AWE plc.

This work covered substantially all of the Group's assets and net expenditure, 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.

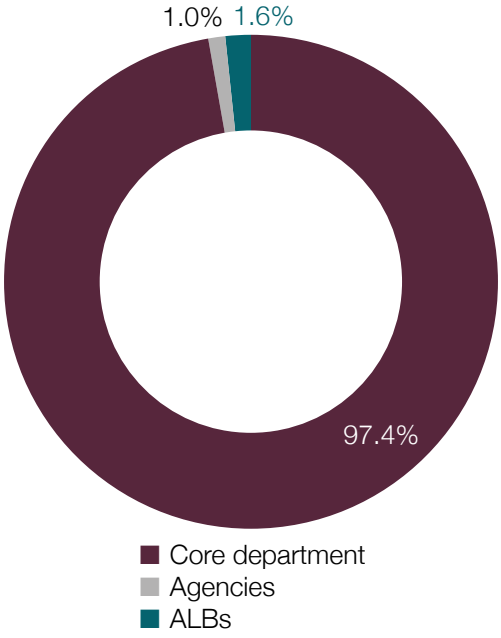
Gross expenditure of parts of the Ministry of Defence group (for the year ended 31 March 2026)



Gross assets of parts of the Ministry of Defence group (as at 31 March 2026)



Gross liabilities of parts of the Ministry of Defence group (as at 31 March 2026)



Other Information

The other information comprises the 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 issued 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 issued 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;
- preparing financial statements which give a true and fair view and are in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000;
- preparing the annual report, which includes the Remuneration and Staff Report, in accordance with HM Treasury directions issued 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 and external specialists, including IT audit, property and legal experts 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 2025, Supply and Appropriation (Anticipation and Adjustments) Act 2026, health and safety legislation and relevant employment and pension law and tax legislation.

I considered and performed specific risk assessment procedures 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 Defence Board and internal audit reports;
- I reviewed Office for Nuclear Regulation notifications in case of any regulatory action;
- I addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements on estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; 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 communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members including internal IT audit specialists and relevant component audit teams 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: https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditors-responsibilities-for-the-audit/. 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 sufficient appropriate audit evidence 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

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

14 July 2026

Financial Statements

Royal Marines manning a Ground Based Air Defence (GBAD),
British Forces Cyprus.

Financial Statements

Consolidated Statements of Comprehensive Net Expenditure (SoCNE)

for the year ended 31 March 2026

This Statement summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

		2025-26		Restated 2024-25[2]	
		Core Department & Agencies	**Departmental Group[1]**	Core Department & Agencies	Departmental Group[1]
	Note	**£M**	**£M**	£M	£M
Income from provision of supplies and services	2.1	(1,103.7)	(1,103.2)	(1,100.3)	(1,100.3)
Other income	2.1	(1,038.6)	(1,243.7)	(548.1)	(873.0)
Operating income		**(2,142.3)**	**(2,346.9)**	(1,648.4)	(1,973.3)
Staff costs	3.1	18,127.6	18,935.9	17,029.9	17,753.0
Purchase of goods and services	3.2	23,263.7	22,614.1	22,340.3	22,027.0
Depreciation, amortisation, impairment, write-(ons) / offs and disposals	3.3	9,529.6	9,554.5	9,747.7	9,769.3
Provision expense	3.4	4,731.0	4,731.0	910.9	910.9
War pensions / benefits		632.4	632.4	653.4	653.4
Other expenditure	3.5	2,729.4	2,763.4	1,817.3	1,722.9
Operating expenditure		**59,013.7**	**59,231.3**	52,499.5	52,836.5
Net operating expenditure		**56,871.4**	**56,884.4**	50,851.1	50,863.2
Finance income	2.2	(830.6)	(830.6)	(355.3)	(355.3)
Finance expense	3.6	1,402.1	1,404.2	1,245.4	1,246.8
Net expenditure for the year		**57,442.9**	**57,458.0**	51,741.2	51,754.7
Other Comprehensive Expenditure Net (gain) or loss on:					
revaluation of property, plant and equipment	SoCiTE	(2,426.0)	(2,405.3)	(4,800.1)	(4,804.4)
revaluation of intangible assets	SoCiTE	(15.5)	(15.5)	341.7	341.5
revaluation of assets held for sale	SoCiTE	5.9	5.9	33.5	33.5
revaluation of right-of-use assets	SoCiTE	(3.2)	(4.0)	1,595.9	1,593.4
revaluation of service concession arrangements	SoCiTE	–	–	26.2	26.2
revaluation of pensions	SoCiTE	(26.1)	(84.9)	1.4	(111.8)
revaluation of capitalised decommissioning liabilities	SoCiTE	(851.6)	(851.6)	3,332.8	3,332.8
assets written-off or written-on or transferred in	SoCiTE	0.1	(30.0)	(1.2)	(18.8)
Comprehensive net expenditure for the year		**54,126.5**	**54,072.6**	52,271.4	52,147.1

1. The Departmental Group includes the income and expenditure of Arm's Length Bodies; further details are at Annex F.
2. Restated for the Prior Period Adjustments set out at Note 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 2026

This Statement presents the financial position of the Department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

		31 March 2026		Restated 2024-25[2]		Restated as at 1 April 2024[2]	
		Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	Note	**£M**	**£M**	£M	£M	£M	£M
Non-current assets							
Intangible assets	4	38,665.6	38,667.5	36,605.3	36,606.1	35,849.9	35,850.6
Property, plant and equipment	5	160,982.4	161,611.9	153,175.8	153,829.1	133,746.4	134,395.9
Right-of-use assets	15	2,064.3	2,138.4	2,009.1	2,073.7	10,809.9	10,855.0
Retirement benefit scheme assets	12	–	30.6	–	17.4	–	17.4
Financial assets	6	688.4	688.4	431.5	431.5	251.0	251.0
Receivables due after more than one year	8	894.0	1,030.0	749.7	868.4	943.5	1,019.7
Total non-current assets		**203,294.7**	**204,166.8**	192,971.4	193,826.2	181,600.7	182,389.6
Current assets							
Non-current assets held for sale		4.8	4.8	3.9	3.9	6.1	6.1
Inventories	7	5,588.5	5,589.6	5,124.6	5,125.5	4,639.5	4,641.1
Receivables due within one year	8	4,551.4	4,575.4	3,763.2	3,923.8	3,494.3	3,610.0
Financial assets	6	21.3	78.6	19.2	76.1	72.9	127.6
Cash at bank and in hand	9	1,715.8	1,995.7	1,910.8	2,203.5	1,995.2	2,249.1
Total current assets		**11,881.8**	**12,244.1**	10,821.7	11,332.8	10,208.0	10,633.9
Total assets		**215,176.5**	**216,410.9**	203,793.1	205,159.0	191,808.7	193,023.5
Current liabilities							
Payables due within one year[1]	10	(17,047.5)	(17,287.5)	(16,095.0)	(16,514.8)	(15,460.9)	(15,752.3)
Provisions due within one year	11	(981.5)	(993.7)	(1,302.6)	(1,307.9)	(915.7)	(916.0)
Financial liabilities	6	(233.8)	(233.8)	(231.7)	(231.7)	(162.5)	(162.5)
Total current liabilities		**(18,262.8)**	**(18,515.0)**	(17,629.3)	(18,054.4)	(16,539.1)	(16,830.8)

	Note	31 March 2026 Core Department & Agencies £M	31 March 2026 Departmental Group £M	Restated 2024-25[2] Core Department & Agencies £M	Restated 2024-25[2] Departmental Group £M	Restated as at 1 April 2024[2] Core Department & Agencies £M	Restated as at 1 April 2024[2] Departmental Group £M
Total assets less current liabilities		**196,913.7**	**197,895.9**	186,163.8	187,104.6	175,269.6	176,192.7
Non-current liabilities							
Provisions due after one year	11	(18,739.6)	(18,739.6)	(15,436.5)	(15,436.5)	(11,952.5)	(11,957.8)
Retirement benefit scheme liabilities	12	(382.8)	(451.3)	(396.7)	(510.8)	(391.2)	(618.5)
Payables due after more than one year[1]	10	(4,531.5)	(4,628.8)	(4,742.1)	(4,806.3)	(9,137.2)	(9,189.5)
Total non-current liabilities		**(23,653.9)**	**(23,819.7)**	(20,575.3)	(20,753.6)	(21,480.9)	(21,765.8)
Total assets less total liabilities		**173,259.8**	**174,076.2**	165,588.5	166,351.0	153,788.7	154,426.9
Taxpayers' equity and other reserves							
General fund	SoCiTE	138,671.4	138,671.4	132,514.2	132,514.2	118,359.0	118,359.0
Revaluation reserve	SoCiTE	34,588.4	34,588.4	33,074.3	33,074.3	35,429.7	35,429.7
Arm's Length Bodies' reserves		–	816.4	–	762.5	–	638.2
Total equity		**173,259.8**	**174,076.2**	165,588.5	166,351.0	153,788.7	154,426.9

1. IFRS16 lease liabilities are included in 'Payables due within one year' and 'Payables due after more than one year'.
2. Restated for the Prior Period Adjustments set out at Note 21

Notes 1 to 21 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Jeremy Pocklington CB

Accounting Officer
9 July 2026

Consolidated Statements of Cash Flows (SoCF)

for the year ended 31 March 2026

This Statement shows the changes in cash and cash equivalents of the Department during the reporting period. The statement shows how the Department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the Department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the Department's future public service delivery.

		2025-26		Restated 2024-25[2]	
	Note	**Core Department & Agencies £M**	**Departmental Group £M**	Core Department & Agencies £M	Departmental Group £M
Cash flows from operating activities					
Net operating expenditure for the year	SoCNE	56,871.4	56,884.4	50,851.1	50,863.2
Adjustments for non-cash transactions[1]		(13,831.0)	(13,874.2)	(10,614.2)	(10,628.1)
Movement in trade and other receivables	SoFP	932.5	813.2	75.1	162.5
Adjustment for movements on receivables relating to items not passing through operating costs		(517.0)	(517.0)	(2.5)	(2.3)
Movement in net inventories and financial assets held for sale		232.7	232.9	517.9	517.2
Movement in trade payables	SoFP	(741.9)	(595.2)	3,761.0	3,620.7
Adjustment for movements in payables relating to items not passing through operating costs		(1,104.6)	(1,115.0)	(4,971.6)	(4,995.5)
Realised loss / (gain) on derivatives		215.1	215.1	–	–
Use of provisions and unfunded pensions		794.7	794.7	734.7	734.7
Net cash outflow from operating activities		**42,851.9**	**42,838.9**	40,351.5	40,272.4
Cash flows from investing activities					
Purchase of property, plant and equipment	5.0	14,495.1	14,506.8	13,294.0	13,308.0
Purchase of intangible assets	4.0	2,966.2	2,967.8	3,001.8	3,002.1
Adjustment for non-cash movements relating to PPE and intangibles[3]		–	–	(388.3)	(388.3)
Proceeds on disposal of property, plant and equipment		(451.6)	(451.6)	(54.3)	(54.3)
Dividends, equity repayments and other income from investments		(12.5)	(12.5)	(34.4)	(12.5)

	Note	2025-26 Core Department & Agencies £M	2025-26 Departmental Group £M	Restated 2024-25[2] Core Department & Agencies £M	Restated 2024-25[2] Departmental Group £M
Financing income		(10.5)	(10.5)	(8.7)	(8.7)
Other investments		282.9	282.9	188.1	188.1
Net cash outflow from investing activities		**17,269.6**	**17,282.9**	15,998.2	16,034.4
Cash flows from financing activities					
Consolidated Fund (Supply) – current year	SoCiTE	(60,871.0)	(60,871.0)	(64,045.3)	(64,045.3)
Draw down from the Contingency Fund		–	–	6,494.5	6,494.5
Repaid to the Contingency Fund		–	–	(6,494.5)	(6,494.5)
Repayment of loans from the National Loans Fund		2.3	2.3	2.5	2.5
Capital element of payments in respect of leases and Service Concession Arrangements		625.0	635.4	6,417.0	6,419.7
Movement on collaborative projects		15.3	15.3	875.0	875.0
Financing expenditure		301.9	304.0	485.5	486.9
Net financing		**(59,926.5)**	**(59,914.0)**	(56,265.3)	(56,261.2)
Net increase or (decrease) in cash and cash equivalents in the period		**(195.0)**	**(207.8)**	(84.4)	(45.6)
Cash and cash equivalents at the beginning of the period	9	**1,910.8**	**2,203.5**	1,995.2	2,249.1
Cash and cash equivalents at the end of the period	9	**1,715.8**	**1,995.7**	1,910.8	2,203.5

1. The main reason for the adjustment for non-cash transactions in 2025-26 is depreciation, amortisation and impairment on non-current assets of -£6.9 billion (note 3.3) and a £0.6 billion change in provisions (note 11.1). In 2024-25 the main reasons were depreciation, amortisation and impairment on non-current assets of -£9.9 billion; and a £2.2 billion change in provisions.
2. Restated for the Prior Period Adjustments set out at Note 21.
3. Adjustment for non-cash movements relating to PPE and intangibles is reflected in the Purchase of property, plant and equipment and Purchase of intangible assets lines from 2025-26.

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 2026

This statement presents movements in the Department's reserves during the year, comprising the General Fund (representing contributions from the Consolidated Fund) and the Revaluation Reserve, which captures unrealised changes in asset values. The General Fund reflects the Department's net assets, to the extent they are not represented by other reserves or financing items.

		Core Department and Agencies			Departmental Group	
	Note	General Fund £M	Revaluation Reserve £M	Taxpayers' Equity £M	ALBs' Reserves £M	Total Reserves £M
Restated balance at 1 April 2024[1]		118,359.0	35,429.7	153,788.7	638.2	154,426.9
Parliamentary Funding – drawn down in-year	SoCF	64,045.3	–	64,045.3	–	64,045.3
Parliamentary Funding – deemed funding		429.5	–	429.5	–	429.5
Parliamentary Funding – (Supply payable)/Supply receivable	8,10	(406.6)	–	(406.6)	–	(406.6)
Payment of amounts due to the Consolidated Fund		–	–	–	–	–
Non-cash charge – auditors remuneration	3.5	3.0	–	3.0	–	3.0
Net expenditure for the year	SoCNE	(51,741.2)	–	(51,741.2)	(13.5)	(51,754.7)
Other net comprehensive expenditure Net gain or (loss) on:						
revaluation of property, plant and equipment	SoCNE	–	4,800.1	4,800.1	4.3	4,804.4
revaluation of intangible assets	SoCNE	–	(341.7)	(341.7)	0.2	(341.5)
revaluation of assets held for sale		–	(33.5)	(33.5)	–	(33.5)
revaluation of right-of-use assets	SoCNE	–	(1,595.9)	(1,595.9)	2.5	(1,593.4)
revaluation of service concession arrangements	SoCNE	–	(26.2)	(26.2)	–	(26.2)
revaluation of pensions	SoCNE	(1.4)	–	(1.4)	113.2	111.8
revaluation of capitalised decommissioning liabilities	SoCNE	–	(3,332.8)	(3,332.8)	–	(3,332.8)
assets (written-off) or written-on or transferred in	SoCNE	(8.4)	9.6	1.2	17.6	18.8
Transfers between reserves		1,835.0	(1,835.0)	–	–	–

	Note	Core Department and Agencies General Fund £M	Revaluation Reserve £M	Taxpayers' Equity £M	Departmental Group ALBs' Reserves £M	Total Reserves £M
Restated Balance as at 31 March 2025[1]		132,514.2	33,074.3	165,588.5	762.5	166,351.0
Parliamentary Funding – drawn down in-year	SoCF	60,871.0	–	60,871.0	–	60,871.0
Parliamentary Funding – deemed funding		406.6	–	406.6	–	406.6
Parliamentary Funding – (Supply payable)/Supply receivable	8,10	517.5	–	517.5	–	517.5
Non-cash charge – auditors remuneration	3.5	2.7	–	2.7	–	2.7
Net expenditure for the year	SoCNE	(57,442.9)	–	(57,442.9)	(15.1)	(57,458.0)
Other net comprehensive expenditure Net gain or (loss) on:						
revaluation of property, plant and equipment	SoCNE	–	2,426.0	2,426.0	(20.7)	2,405.3
revaluation of intangible assets	SoCNE	–	15.5	15.5	–	15.5
revaluation of assets held for sale	SoCNE	–	(5.9)	(5.9)	–	(5.9)
revaluation of right-of-use assets	SoCNE	–	3.2	3.2	0.8	4.0
revaluation of service concession arrangements	SoCNE	–	–	–	–	–
revaluation of pensions	SoCNE	26.1	–	26.1	58.8	84.9
revaluation of capitalised decommissioning liabilities	SoCNE	–	851.6	851.6	–	851.6
assets (written-off) or written-on or transferred in	SoCNE	–	(0.1)	(0.1)	30.1	30.0
Transfers between reserves		1,776.2	(1,776.2)	–	–	–
Balance at 31 March 2026		**138,671.4**	**34,588.4**	**173,259.8**	**816.4**	**174,076.2**

1. Restated for the Prior Period Adjustments set out at Note 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) 2025-26 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 was 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 property, plant and equipment assets and some financial instruments such as foreign currency forward purchase 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 assessed the financial position of the entities within its accounting boundary (as set out in Note 19). It has concluded that the going concern assumption remains appropriate for all such entities, as they will continue to deliver their statutory and operational functions and will receive ongoing Supply funding in respect of on-vote agencies, or continuing financial support for other bodies, as appropriate.

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 and finance expenditure of the ALBs are included in the Group Accounts. 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 assessed that it holds interests in joint operations. They have 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 significant changes to the 2025-26 FReM that impact these Accounts are set out below.

IFRS 17 – Insurance Contracts

1.11 IFRS 17: *Insurance Contracts* replaces IFRS 4: *Insurance Contracts* came into effect from 1 April 2025. In addition to the policy in the FReM, HM Treasury has published Application Guidance on the application of

IFRS 17 in the public sector. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of this Standard.

1.12 The Department has worked through its implementation plan to identify contracts that transfer insurance risk to the Department within the scope of IFRS 17, as applied by the FReM.

1.13 To assist in assessing insurance risks, the Department has engaged the support of qualified actuaries.

1.14 From this work, the Department has not identified any contracts that are within the scope of IFRS 17, as applied by the FReM. Hence, the introduction of IFRS 17 has not had a financial impact on these Accounts.

Valuations of Non-Investment Assets

1.15 HM Treasury has made changes to the FReM adaptations and interpretations of IAS 16: *Property Plant and Equipment* and IAS 38: *Intangibles*. These changes came into effect from 1 April 2025.

1.16 The impact of these changes on the Department are as follows:

- indexation of intangible Non-Current Assets has ceased from 1 April 2025. The intangible asset value at 1 April 2025 is considered historic (deemed) cost. Historic deemed cost is where the previous carrying amount as at the transaction date under the revaluation model is considered henceforth to be the historic cost of the asset;
- for tangible assets, the concept of assets held for their operational capacity has been introduced and the specialised/ non-specialised asset classification split has been removed, for asset valuation purposes;
- the requirement in IAS 16 to revalue an asset when its fair value differs materially from its carrying value has been withdrawn. Out of cycle valuations (i.e. outside of the Quinquennial revaluation supplemented by annual indexation in intervening years – which the Department continues to do) are not required unless there is an indication of impairment when applying IAS 36, which may require an asset to be fully revalued;
- for transition, revaluations carried out prior to 2025-26 remain valid throughout the transition period (the transition period being 1 April 2025 to the date the next revaluation is due for a given asset). During the transition period, the maximum period between revaluations must not exceed five years.

1.17 As the changes are being introduced prospectively from 1 April 2025, no transitional adjustments are necessary. Hence, there is no transitional financial impact on these Accounts, and for 2025-26 and subsequent periods, the impact is that intangible assets will not be revalued and valuations will not be necessary outside of the quinquennial valuation cycle. These changes have not had, and are not expected to have, a material impact on these Accounts.

Changes Impacting the Preparation of Future Annual Accounts

Valuations of Non-Investment Assets

1.18 The requirement to consider alternative locations when valuing an asset using Depreciated Replacement Cost (DRC) is being withdrawn. This is expected to be implemented from 2028-29. While the Department has not yet fully assessed the potential impact of this change, it is not expected to have a material impact on these Accounts.

IFRS 18 Presentation and disclosure in financial statements

1.19 IFRS 18 will replace IAS 1: *Presentation of Financial Statements* and is effective for annual reporting periods beginning on or after the 1 January 2027 in the private sector.

The impact of IFRS 18 on the Public Sector is still being assessed, and a decision has not yet been taken on an implementation date.

IFRS 19 Subsidiaries without public accountability: disclosures

1.20 IFRS 19 permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements and is effective for private sector reporting periods beginning on or after 1 January 2027. The impact of IFRS 19 on the public sector is still under consideration, and no implementation date has yet been determined.

Property, Plant and Equipment Non-Current Assets

Recognition

1.21 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 (for example, firearms) and due to their total value (i.e. £25,000 or greater), 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. Subsequent expenditure on non-current assets is capitalised when the expenditure gives rise to future economic benefits and can be measured reliably.

1.22 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.

1.23 The capitalisation threshold is not applied to individual capital spares (defined in paragraph 1.33) and assembled Guided Weapons Missiles and Bombs (GWMB). Instead, these items are grouped together and accounted for under IAS 16, as applied by the FReM.

Valuation

1.24 All tangible non-current assets are carried at either current value in existing use or fair value. This is undertaken via full revaluation or indexation. Indexation is not applied to property non-current assets added or revalued during the year, unless there is a material difference in value between the date of the valuation and 31 March 2026. Out of cycle valuations (i.e. outside of the Quinquennial revaluation supplemented by annual indexation in intervening years) are not undertaken (as they are not required by the FReM) unless there is an indication of impairment when applying IAS 36, which may then require an asset to be fully revalued. Following the announcement of planned disposals under the Department's Estate Optimisation Programme (DEOP), the land valuations of the impacted sites were reviewed. Estimated sales proceeds were adjusted for planning risk, discounted for the expected timing of disposal, and adjusted to reflect economic benefit in use until disposal. These amounts were compared with carrying values, resulting in revaluation gains or impairment losses, as appropriate.

1.25 At each reporting date, the Department assesses assets under construction for indicators of impairment, including evidence of obsolescence, changes in scope or specification, cost overruns, significant delays, or changes in intended use, and adjusts carrying values where necessary. Impairment reviews are also undertaken and documented on reclassification into use, subject to a £5 million threshold. Assets under construction are not indexed where contract costs are assessed to represent fair value, as such costs already incorporate price inflation.

1.26 For both property (including land) and non-property assets, prospective asset-class-specific indices are forecast and applied annually each May. Carrying values are updated at year-end through an accrual to reflect differences between the forecast indices applied and the revised indices available at the reporting date. Indices are derived from Office for National Statistics data, including Average Weekly Earnings, the Producer Price Index and the GDP Deflator, using a combination of actual and forecast data based on the latest information available as at 25 March 2026. Overseas property assets are additionally adjusted for year-end exchange rates and movements in host-country GDP, except for the Falkland Islands, Ascension Island and Gibraltar, where appropriate GDP deflators are not readily available – also see paragraph 1.125.

1.27 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 operational capacity (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 were valued as at November 2025 and adjustments, including for indexation, were made to closing balances where material differences were identified. QQR is further explained in Note 5 – Property, Plant and Equipment.

1.28 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.

1.29 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

1.30 All assets are depreciated on a straight-line basis other than some capital spares which use the diminishing balance depreciation method (see paragraph 1.33). 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.

1.31 On addition to the Non-Current Asset Register, assets are within the range of the useful lives outlined in paragraph 1.32 below, although over time assets may cease to be within this range following 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.

1.32 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 – 20
	Communications Equipment	3 – 30

1.33 Capital spares are predominantly items of repairable material retained for the purpose of replacing parts of an asset undergoing repair or maintenance. It also includes equipment that is expected to be returned after use for subsequent re-issue. 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.

1.34 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 1.92.

Componentisation and Subsequent Expenditure

1.35 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. Where only part of the asset is refurbished, the replaced element should be derecognised if the asset's carrying amount exceeds £500,000. For properties with a carrying value of less than £500,000 (where only part of the asset is refurbished), no replaced elements are derecognised. The QQR is used to adjust any short-term valuation differences;
- where there is a programme of subsequent expenditure to refurbish Service Family Accommodation (SFA), a £5,000 threshold applies to subsequent expenditure on SFAs (i.e. the subsequent expenditure programme must be £5,000 or above);

- material expenditure, defined as costs which are £1 million or 10% of an asset's gross carrying amount (whichever is the higher), 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

1.36 Impairment refers to the permanent reduction in value of the Department's assets below their carrying value. Impairment charges reduce the carrying amount of intangible and property, plant and equipment assets to their recoverable amount.

1.37 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. The accounting for impairments arising from the Department's Estate Optimisation Programme (DEOP) is referred to in paragraph 1.24.

1.38 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.

1.39 The Department applies the FReM interpretation to IAS 36: *Impairment of Assets,* so that any Departmental asset that 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.

1.40 The Department considers that the assets in paragraph 1.39 continue to be held to meet Departmental objectives and they are still expected to generate their intended future economic benefits.

Disposal

1.41 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.

1.42 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.

1.43 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

1.44 The Department's main leases are for land and buildings, equipment assets and vehicles. Leasing 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.

1.45 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 15 contains further details on the Department's most significant leases.

1.46 The Department accounts for its leases in accordance with IFRS 16: *Leases* (as adapted in the FReM). This includes right-of-use assets implicitly specified in a contract, for example, a shipyard used to fulfil a contract to construct ships. The Department manages the liquidity risk inherent in these contracts through the receipt of Supply finance and future income which are both approved annually by Parliament (see paragraph 1.5).

1.47 From 1 April 2023 to 31 December 2023, the Department did not apply 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. As a result of evidence gathered on the immaterial impact of leases in lower value contracts, from 1 January 2024, the Department has not applied IFRS 16 to contracts where the contract value is less than £2,000,000 unless the contract contains an obvious (i.e. explicit) lease that is a vehicle lease within the Phoenix contracts or a lease recorded on the Infrastructure Management System, where the £25,000 materiality threshold still applies.

1.48 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.

1.49 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 15.7. 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 15.3.

1.50 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.*

1.51 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.

1.52. 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).

1.53. 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. In addition, right-of-use assets generally have shorter useful lives and lower values than their respective underlying assets.

1.54 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.

1.55 The revaluation model has been applied to the Department's contract for the leasing of accommodation for Service Personnel (until the point this lease was terminated) 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 5.1 and 5.2.

1.56 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.

1.57 The depreciation charge for a right-of-use asset will usually be 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.

1.58 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.

1.59 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.

1.60 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

1.61 Research costs are charged to the SoCNE in the period in which they are incurred.

1.62 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 1.32 states the useful lives for principal tangible non-current asset categories). Amortisation commences when the asset type first enters operational service.

1.63 Other intangible assets are amortised over their estimated useful life, which ranges from over one year to 60 years.

1.64 The Department's capitalisation threshold is £25,000. After initial recognition, intangible non-current assets are not revalued, but maintained at historic cost, in accordance with the FReM.

1.65 Intangible assets under construction are recognised at historic cost. At the end of each reporting period, for intangible assets under development with a value of £5 million or greater, the Department considers whether there is any indication that assets may be impaired and, if necessary, adjusts the carrying amount.

Workforce Capitalisation

1.66 The Department capitalises the costs of its workforce into intangible and tangible Non-Current Assets where the criteria for capitalisation are met. Capitalisation applies where the relevant workforce directly contributes to the delivery of the programmes in scope of workforce capitalisation. The Department applies workforce capitalisation to its programmes with a value of over £20M. The programmes must be in a Capital Investment Phase (i.e. when costs are capitalised as either intangible or tangible non-current assets). For Equipment Programmes, this would ordinarily be programmes in the Demonstration and Manufacture phases. Infrastructure programme life cycles operate on a slightly different basis, but all in-scope programmes need to be in a capital investment phase.

1.67 The relevant workforce for capitalisation is defined as follows:

- military and civilian directly employed staff working on and directly contributing to the delivery of in-scope programmes;
- temporary staff employed on and directly contributing to the delivery of in-scope programmes;
- Equipment and Infrastructure Programmes – individuals must spend at least 25% of their time in supporting delivery of an in-scope programme to qualify for capitalisation (no adjustment is made for annual leave or other non-working time) and if an individual meets the 25% threshold, then the actual percentage of their time spent on that programme is capitalised; and
- all functions are in-scope provided the thresholds for inclusion are met.

1.68 The workforce costs capitalised are the average pay, employer's national insurance contributions and employer's pension contributions for the particular grade of the military or civilian staff.

Public Private Partnerships (PPP) Including Private Finance Initiative (PFI) Arrangements

1.69 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).

1.70 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 IFRS 16 and IAS 16 as applied by the FReM, in the same way as other assets of that type. The Department has three PPP/PFI arrangements where the liabilities for the capital/infrastructure element is index linked. For these arrangements, the liability is remeasured to reflect the revised lease payments for the capital/infrastructure element. The increase is charged to finance costs in the SoCNE.

1.71 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.

1.72 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

1.73 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.

1.74 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.

1.75 The Department has foreign currency forward purchase contracts, denominated in US dollars and Euros, which are accounted for as derivatives and measured at fair value through profit or loss.

1.76 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 6 – Financial Instruments and Investments.

1.77 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.

1.78 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 1.81).

1.79 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.

1.80 Expected credit loss provisions are also made against specific receivables.

1.81 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.

1.82 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 1.74.

Inventories

1.83 Raw Material and Consumables (RMC) inventory are recognised in accordance with IAS 2: *Inventories* as interpreted by the FReM. RMC items 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).

1.84 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.

1.85 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.

1.86 Where inventories have become surplus, unserviceable, defective or obsolete, an estimated write-down is applied to their carrying value to reduce it to net realisable value. Details of inventories balances are given in Note 7 – Inventories.

1.87 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

1.88 Cash balances are held by the Government Banking Service, commercial banks and cash in hand. This includes deposits denominated in foreign currencies held in foreign bank accounts.

1.89 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

1.90 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.

1.91 Contingent liabilities are disclosed where it is not probable that expenditure will be required to settle the obligation, see Note 17. 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.

1.92 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 and the provision is capitalised as part of the underlying asset. See Note 1.91 and Note 11 – Provisions for Liabilities and Charges for further information. 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 11 – Provisions for Liabilities and Charges for further information.

1.93 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 11 – Provisions for Liabilities and Charges.

1.94 Provisions and other liabilities were valued using appropriate mechanisms and discount rates at 31 March 2026. For nuclear provisions that utilise indices provided by Defence Analysis-Economics, no material changes to the underlying indices have been identified.

1.95 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 2026, the Department had not identified any contracts as onerous and expects to recover all value reported.

Capitalised Asset Provisions

1.96 Under IAS 16: *Property Plant and Equipment*, decommissioning provisions relating to operational assets are capitalised as part of the cost of that asset. Depreciation is charged to the SoCNE over the remaining estimated useful life of the underlying 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.

1.97 Under this method, the Department uses the movements in the provision to revalue the respective asset gross value. The Department 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.

Assets Used Solely for Decommissioning

1.98 Included in the nuclear decommissioning provisions, is the estimated cost to construct facilities that will be used solely for nuclear decommissioning activities. The costs of constructing these facilities are capitalised as non-current assets as they provide future economic benefit to the Department in undertaking decommissioning activities, thus enabling the Department to reduce its future decommissioning liabilities. This element of the capitalised provision(s) is expensed via depreciation at the same rate as the construction costs are incurred. The liability is released against construction costs, as incurred.

Foreign Currency

1.99 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.

1.100 As noted in paragraph 1.89, 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

1.101 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. Dividend and investment income are included within finance and

operating income, net of related VAT, where applicable.

1.102 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.

1.103 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.

1.104 The FReM adapts IFRS 15 to expand the definition of a contract and so arrangements covered by Memoranda of Understanding (MoU) are included, even if these are not legally enforceable. MoUs are assessed on a case-by-case basis against the five-step model set out in IFRS 15. Income from sales of non-current assets is not included within the scope of IFRS 15 as, in accordance with IAS 16, such gains shall not be classed as revenue. Rental income is included 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.

1.105 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 mis-stated.

1.106 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

1.107 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

1.108 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

1.109 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.

1.110 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%.

1.111 The rules of the WPS and the value of the payments awarded are set by Parliament. The value of the payments increases each year in line with the CPI. WPS is accounted for on an accruals basis.

1.112 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

1.113 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 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.

1.114 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 outcome of this is that accrued pension benefits included for any individual affected by the Public Service Pensions Remedy have been calculated based on their inclusion in the legacy scheme for the period between 1 April 2015 and 31 March 2022. The Public Service Pensions Remedy applies to individuals that were members, or eligible to be members, of a public service pension scheme on 31 March 2012 and were members of a public service pension scheme between 1 April 2015 and 31 March 2022. The basis for the calculation reflects the legal position that impacted members have been rolled back into the relevant legacy scheme for the remedy period and that this will apply unless the member actively exercises their entitlement on retirement to decide instead to receive benefits calculated under the terms of the Alpha scheme for the period from 1 April 2015 to 31 March 2022.

1.115 All other Departmental schemes, detailed in Note 12 – Retirement Benefit Schemes, are consolidated into the financial statements as defined benefit schemes and IAS 19 has been adopted to account for them. 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.

1.116 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.

1.117 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)

1.118 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.

1.119 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

1.120 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.

1.121 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.

1.122 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.

Recognition of Non-Current Intangible and Property, Plant and Equipment Assets

1.123 The Department applies IAS 38: *Intangible Assets* and IAS 16: *Property Plant and Equipment*, as applied by the FReM, in determining whether costs should be capitalised. In particular, there is significant judgement on whether costs should be capitalised as development costs or expensed as research costs. The Department applies the recognition criteria in IAS 38 in making this judgment. For example, on factors such as whether the Department has control over the future economic benefits of the research and development expenditure.

Valuation of Non-Current Intangible and Property, Plant and Equipment Assets

1.124 Non-current property, plant and equipment assets are expressed at either current value in existing use or 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. The valuations are within a professional accepted practice of a 10%-15% valuation variance tolerance.

1.125 UK and overseas land and property assets are professionally revalued every five years through the rolling quinquennial valuation (QQR) programme in accordance with FReM requirements. In intervening years, values are updated using Modified Historical Cost Accounting (MHCA) indices. UK indices are provided by the Valuation Office Agency, and overseas indices are calculated internally using year-end exchange rates and movements in host-country GDP.

1.126 Tangible 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 team using data for key economic indicators taken from the OBR and Oxford Economics.

1.127 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.

1.128 The ONS identified an error in its methodology for producing the Producer Price Index (PPI) and the Service Producer Price Index (SPPI). Revised indices have been published, and the Department has applied these updated indices to its Non-Current Asset Values.

1.129 The Department views ONS indices as an appropriate and reliable source of data for indexation purposes but does recognise that the use of indices is a source of estimation uncertainty. The carrying values of the assets subject to this uncertainty are reported in Note 4 – Intangible Assets and Note 5 – Property, Plant and Equipment.

1.130 The indices used for both property and tangible non-property assets are considered to remain valid and to be 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 advised on whether the values provided as part of the QQR in November 2025 should be adjusted for material changes as at 31 March 2026, as stated at paragraph 1.27.

1.131 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.

1.132 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

1.133 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 11 – Provisions for Liabilities and Charges.

1.134 The Department has discounted lease liabilities using the discounted rates mandated by HM Treasury.

Impairments

1.135 In addition to considering the valuation of non-current 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 look at assets with a Net Book Values greater than £1 million, plus the additional 1% random sample of out-of-scope assets. In addition, as stated in paragraph 1.25, impairment reviews are also conducted and documented

on reclassification of assets under construction into use. Where such an indication exists, the Department makes a judgement as to the impairment required to bring the asset to its recoverable amount.

Accruals

1.136 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 10 – Trade Payables and Other Liabilities. The Department only recognises manual accruals above £10,000.

Provisions

1.137 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.

1.138 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 11 – Provisions for Liabilities and Charges.

1.139 The Department holds other provisions, including for legal claims against the Department. Management considers information from statistics generated from internal studies by suitably qualified internal experts, to support claim rates. Judgement is used to arrive at the carrying amount (see Note 11 for details), which represents management's best estimate at the end of the reporting period, based on historical claims and associated costs. The provision will be updated yearly, as new information becomes available.

2. Income

2.1 Operating income

	2025-26		2024-25	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£M	**£M**	£M	£M
Receipts – supplies and services	564.2	563.7	498.0	498.0
Receipts – NATO/UN/US Forces/Foreign Governments	446.3	446.3	544.6	544.6
Rental income – property	93.2	93.2	57.7	57.7
Sub total – Income from provision of supplies and services	1,103.7	1,103.2	1,100.3	1,100.3
Income Other – receipts personnel	311.5	311.5	290.6	290.6
Income Other – proceeds from the sale of property, plant, equipment and intangible assets	595.2	595.2	139.1	139.1
Income Other – including: donated assets, ALBs' income, commercial exploitation levies and sundry sales	131.9	337.0	118.4	443.3
Total Income	**2,142.3**	**2,346.9**	1,648.4	1,973.3

2.2 Finance income

	2025-26		2024-25	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£M	**£M**	£M	£M
Dividends and interest received	23.0	23.0	21.2	21.2
Notional interest on discounted provisions, receivables and liabilities[1,2]	675.9	675.9	145.6	145.6
Foreign currency gains	127.2	127.2	187.1	187.1
Movement on derivatives (forward purchase foreign exchange rate contracts)	4.5	4.5	1.4	1.4
Total	**830.6**	**830.6**	355.3	355.3

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 2.2 – Finance Income for decreases or at Note 3.6 – 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 increases in these interest rates in recent years 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 values shown. Further information on nuclear decommissioning is at Note 11.

3. Expenditure

3.1 Staff costs

	2025-26		2024-25	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£M	**£M**	£M	£M
Staff costs comprise[1]:				
Salaries and wages	10,932.6	11,583.8	10,378.8	10,971.5
Social security costs	1,271.5	1,355.1	994.4	1,058.7
Pension costs	5,923.5	5,997.0	5,656.7	5,722.8
Total	**18,127.6**	**18,935.9**	17,029.9	17,753.0
Paid to:				
Armed Forces	14,233.8	14,233.8	13,329.8	13,329.8
Civilian	3,893.8	4,702.1	3,700.1	4,423.2
Total	**18,127.6**	**18,935.9**	17,029.9	17,753.0

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.

3.2 Purchase of goods and services

	2025-26		Restated 2024-25[1]	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£M	**£M**	£M	£M
Equipment management:				
Equipment support	7,794.1	7,078.7	7,682.6	7,118.2
Contractor logistic and operational equipment support contracts	1,045.1	1,045.1	936.9	955.7
Plant and equipment under Service Concession Arrangements	298.2	298.2	282.0	282.0
Estate management:				
Property management	2,148.7	2,382.3	2,004.0	2,208.3
Property management under Service Concession Arrangements	739.7	739.7	761.4	761.4
Utilities	548.8	548.8	595.5	642.8
Accommodation charges	391.8	391.8	344.9	344.9
Inventory:				
Inventory consumption	1,111.2	1,111.2	1,052.0	1,061.4
Fuel consumption	362.7	362.7	394.9	394.9
Information Technology and communications:				
IT and telecommunications	2,403.6	2,403.6	2,183.5	2,238.5
IT and telecommunications under Service Concession Arrangements	40.0	40.0	33.2	33.2
Transport and Travel:				
Cost of travel, subsistence, relocation, and movement of stores and equipment	1,003.3	1,003.3	1,039.5	1,048.9
Transport under Service Concession Arrangements	0.1	0.1	0.2	0.2
Other costs:				
Research and development	2,934.3	2,766.5	2,667.9	2,560.6
Professional fees	1,564.6	1,564.6	1,540.9	1,548.8
Training, safety and welfare	877.5	877.5	820.9	827.2
Total	**23,263.7**	**22,614.1**	22,340.3	22,027.0

1. Restated for the Prior Period Adjustments set out at Note 21.

3.3 Depreciation, amortisation, impairment, write-(ons)/offs and disposals

	2025-26		Restated 2024-25[2]	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£M	**£M**	£M	£M
Depreciation of property, plant and equipment	6,869.8	6,883.4	6,380.8	6,394.3
Depreciation of right-of-use assets	343.1	352.7	429.8	436.5
Amortisation of intangible assets	1,381.6	1,382.1	1,372.1	1,372.5
Impairments - intangible assets, property, plant and equipment, right-of-use assets and assets held for sale	1,058.2	1,058.2	3,537.4	3,537.4
Impairment reversals - intangible assets, property, plant and equipment, right-of-use assets and assets held for sale	(331.0)	(331.0)	(2,090.1)	(2,090.1)
Adjustments to inventory, capital projects, and bad debts[1]	(734.1)	(734.1)	(492.7)	(492.7)
Non-cash cost of disposal of property, plant and equipment and intangible assets	196.9	196.9	159.3	159.3
Net movement in intangible, property, plant and equipment, and right-of-use assets – written-on and written-off	745.1	746.3	451.1	452.1
Total	**9,529.6**	**9,554.5**	9,747.7	9,769.3

1. Further details of inventory adjustments are at Note 7.3.
2. Restated for the Prior Period Adjustments set out at Note 21.

3.4 Provision expense

	2025-26		Restated 2024-25	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£M	**£M**	£M	£M
Increase or (decrease) in: Nuclear and non-nuclear decommissioning provisions[1]	416.0	416.0	286.8	286.8
Other provisions	4,315.0	4,315.0	624.1	624.1
Total	**4,731.0**	**4,731.0**	910.9	910.9

1. 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 11.

3.5 Other expenditure

	2025-26		2024-25	
	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	683.7	978.0	601.5	730.3
Grants-in-Aid and Grants-in-Kind (including to bodies within the accounting boundary)[1]	2,005.0	1,781.9	1,194.7	988.8
Other grants to bodies within the accounting boundary	38.0	–	18.1	–
Auditors' remuneration (for audit work only) – notional (non-cash) cost in respect of the Core Department and Agencies	2.7	2.7	3.0	3.0
Auditors' remuneration (for audit work only) – in respect of Arm's Length Bodies	–	0.8	–	0.8
Total	**2,729.4**	**2,763.4**	1,817.3	1,722.9

1. Grant-in-Kind includes support to Ukraine. Further information regarding this support is shown in the Performance Report.

3.6 Finance expense

	2025-26		2024-25	
	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	302.0	304.1	485.5	486.9
Notional interest on the unwinding of discounted provisions, receivables and payables	623.3	623.3	351.6	351.6
Movement on derivatives (forward purchase foreign exchange rate contracts and fuel swaps) and foreign currency losses	476.8	476.8	408.3	408.3
Total	**1,402.1**	**1,404.2**	1,245.4	1,246.8

4. 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 £M	Transport £M	AUC £M	Others £M	Total £M
Cost or Valuation					
Restated Balance at 1 April 2024[5]	28,702.0	7,669.4	18,283.2	2,748.2	57,402.8
Additions[1]	1.7	–	2,980.9	19.5	3,002.1
Write-ons/(offs)	(1,501.1)	(54.0)	(59.2)	(238.2)	(1,852.5)
Impairments[2]	(484.6)	(1.9)	(2.4)	(2.9)	(491.8)
Impairment reversals[2]	3.0	–	–	1.1	4.1
Revaluations[3]	(494.2)	(206.1)	(1.3)	80.1	(621.5)
Reclassifications[4]	1,265.1	(1.9)	(1,646.5)	248.9	(134.4)
Restated Balance at 31 March 2025[5]	27,491.9	7,405.5	19,554.7	2,856.7	57,308.8
Additions[1]	1.6	–	3,246.8	43.1	3,291.5
Write-ons/(offs)	(22.3)	(7.8)	(317.1)	(364.1)	(711.3)
Impairments[2]	(1.1)	(0.0)	(24.5)	(0.1)	(25.7)
Impairment reversals[2]	32.4	–	–	–	32.4
Revaluations[6]	(71.8)	2.1	(0.1)	31.3	(38.5)
Reclassifications[4]	1,746.9	43.0	(1,622.3)	313.8	481.4
Balance at 31 March 2026	**29,177.6**	**7,442.8**	**20,837.5**	**2,880.7**	**60,338.6**
Amortisation					
Restated Balance at 1 April 2024[5]	(15,006.1)	(4,706.2)	–	(1,839.9)	(21,552.2)
Charged in Year	(936.9)	(165.1)	–	(270.5)	(1,372.5)
Write-(ons)/offs	1,501.0	54.1	–	222.1	1,777.2
Impairments[2]	164.1	0.6	–	2.1	166.8
Impairment reversals[2]	(2.8)	–	–	(0.9)	(3.7)
Revaluations[3]	216.7	123.6	–	(60.3)	280.0
Reclassifications[4]	–	–	–	1.7	1.7
Restated Balance at 31 March 2025[5]	(14,064.0)	(4,693.0)	–	(1,945.7)	(20,702.7)
Charged in Year	(914.2)	(199.3)	–	(268.6)	(1,382.1)
Write-(ons)/offs	20.0	7.8	–	358.1	385.9
Impairments[2]	2.7	0.2	–	–	2.9
Impairment reversals[2]	(20.5)	–	–	–	(20.5)
Revaluations[6]	53.5	7.0	–	(6.5)	54.0
Reclassifications[4]	0.3	–	–	(8.9)	(8.6)
Balance at 31 March 2026	**(14,922.2)**	**(4,877.3)**	**–**	**(1,871.6)**	**(21,671.1)**

	Single Use Military Equipment £M	Transport £M	AUC £M	Others £M	Total £M
Net Book Value					
Restated Balance at 1 April 2024[5]	13,695.9	2,963.2	18,283.2	908.3	35,850.6
Restated Balance at 31 March 2025[5]	13,427.9	2,712.5	19,554.7	911.0	36,606.1
Balance at 31 March 2026	**14,255.4**	**2,565.5**	**20,837.5**	**1,009.1**	**38,667.5**
Of the total					
Core Department and Agencies	14,255.4	2,565.5	20,837.5	1,007.2	38,665.6
Arm's Length Bodies	–	–	–	1.9	1.9
Total	**14,255.4**	**2,565.5**	**20,837.5**	**1,009.1**	**38,667.5**

1. Additions include accruals of £1,385.3 million (2024-25: £1,295.3 million). Information on Frascati compliant R&D expenditure can be found on the website: MOD departmental resources: 2024 – GOV.UK
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. Prior to 2025-26, revaluations were undertaken by indexation. AUC was not indexed as price inflation was embedded within contracts. The Department conducts AUC reviews, annually, and on the reclassification of AUC to assets in use.
4. Reclassifications include assets classified from property, plant and equipment of £444.6 million (2024-25: to property, plant and equipment of £142.9 million).
5. Restated for the Prior Period Adjustments set out at Note 21.
6. From 2025-26 indexation ceased as described in Note 1 Statement of Accounting Policies.

4.1 Movement in the revaluation reserve relating to intangible assets

	2025-26	Restated 2024-25[1]
	£M	£M
Balance at 1 April	2,789.5	3,368.1
Revaluation	15.5	(341.5)
Transfers/reclassifications	(0.1)	–
Realised reserve transferred to the General Fund	(216.6)	(237.1)
Balance at 31 March	**2,588.3**	2,789.5

1. Restated for the Prior Period Adjustments set out at Note 21.

4.2 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 2025 £M	Remaining Useful Life (to the nearest year)
Typhoon	4,407.3	15 years
Lightning II	1,573.7	43 years
Merlin Helicopter	1,071.2	14 years
Typhoon Radar Mk2	1,062.7	Under Construction
Type 45 destroyer	1,010.1	14 years
SPEAR 3 air-to-surface missile	934.6	Under Construction
AJAX armoured vehicles	848.0	29 years
Type 26 global combat ship	833.8	Under Construction
Airbus A400M Atlas	779.3	25 years
Protector -remotely piloted aircraft	622.0	Under Construction
Lynx Wildcat helicopter	582.4	19 years
SPEARFISH	560.5	26 years
Lightning Common Costs Multi-Lateral Obligation	544.5	Under Construction

Development costs and other intangible assets associated with the following platforms and equipment:[1]	**Net Book Value 31 March 2026 £M**	**Remaining Useful Life (to the nearest year)**
Typhoon	3,910.0	14 years
Lightning II	2,162.4	43 years
Typhoon Radar Mk2	1,264.7	Under Construction
Merlin Helicopter	1,014.0	14 years
SPEAR 3 air-to-surface missile	1,009.7	Under Construction
Type 45 Destroyer	871.7	13 years
T26 global combat ship	833.9	Under Construction
AJAX armoured vehicles	823.7	28 years
SPEARFISH	767.0	28 years
Airbus A400M Atlas	723.9	25 years
Protector-remotely piloted aircraft	613.5	15 years
Challenger 3	526.7	Under Construction
Lynx Wildcat Helicopter	515.6	19 years

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.

5. Consolidated Departmental Group – Property, Plant and Equipment

	Land Dwellings £M	Land Other Buildings £M	Dwellings £M	Restated Other Buildings £M	Restated Single Use Military Equipment (SUME) £M	Restated Plant and Machinery £M	Transport £M	IT and Communic-ations Equipment £M	Restated AUC (SUME) £M	Restated AUC (Other) £M	Restated Total £M
Cost or Valuation											
Restated balance at 1 April 2024[6]	1,031.0	7,649.3	14,391.4	45,861.1	97,106.8	5,395.4	19,113.1	5,132.2	29,460.9	12,014.1	237,155.3
Additions[1]	–	0.5	118.6	18.3	645.3	60.2	9.6	53.8	7,148.2	5,485.2	13,539.7
Write-ons/(offs)	(26.7)	8.0	(179.6)	(543.6)	(3,492.1)	(186.1)	(766.2)	(270.6)	(316.1)	(419.6)	(6,192.6)
Impairments[2]	(11.7)	(80.2)	(489.9)	(1,619.3)	(1,209.3)	(109.4)	(425.5)	(19.1)	(122.4)	(10.1)	(4,096.9)
Impairment reversals[2]	61.3	118.6	830.4	1,044.0	220.8	1.1	2.6	8.3	–	–	2,287.1
Reclassifications[3]	2,473.4	(33.3)	10,949.0	1,668.2	4,096.3	229.8	130.9	382.5	(4,053.3)	(3,293.5)	12,550.0
Revaluations[4]	75.5	(24.2)	1,392.0	4,342.2	4,459.4	100.0	(413.2)	149.0	(41.2)	(2.8)	10,036.7
Restated balance at 31 March 2025[6]	3,602.8	7,638.7	27,011.9	50,770.9	101,827.2	5,491.0	17,651.3	5,436.1	32,076.1	13,773.3	265,279.3
Additions[1]	–	13.3	91.7	35.6	605.2	114.7	4.0	46.0	7,276.5	6,068.4	14,255.4
Write-ons/(offs)	(9.2)	1.0	(154.1)	(259.2)	(914.7)	(143.1)	(283.7)	(448.4)	(174.3)	(459.5)	(2,845.2)
Impairments[2]	(55.3)	(23.0)	(180.0)	(451.1)	(339.9)	(2.4)	(196.0)	(26.3)	–	(163.3)	(1,437.3)
Impairment reversals[2]	27.3	19.0	26.9	345.4	61.0	3.2	0.9	–	19.7	–	503.4
Reclassifications[3]	76.6	7.0	405.3	1,326.1	3,050.7	41.0	108.1	398.3	(3,641.7)	(3,134.8)	(1,363.4)
Revaluations[4]	77.5	(15.3)	1,111.1	4,922.8	1,296.4	306.5	122.5	65.2	3.8	0.3	7,890.8
Balance at 31 March 2026	**3,719.7**	**7,640.7**	**28,312.8**	**56,690.5**	**105,585.9**	**5,810.9**	**17,407.1**	**5,470.9**	**35,560.1**	**16,084.4**	**282,283.0**
Depreciation											
Restated balance at 1 April 2024[6]	(216.5)	(2.7)	(7,142.4)	(27,993.0)	(50,605.8)	(2,767.3)	(10,229.9)	(3,801.8)	–	–	(102,759.4)
Charged in Year	(7.3)	(0.3)	(336.9)	(1,072.3)	(3,605.0)	(264.9)	(781.3)	(326.3)	–	–	(6,394.3)
Write-(ons)/offs	3.2	–	126.5	676.4	3,805.8	190.2	733.9	262.1	–	–	5,798.1
Impairments[2]	0.3	–	18.6	94.4	547.2	71.0	254.6	7.7	–	–	993.8
Impairment reversals[2]	(4.4)	–	(173.0)	51.3	(64.0)	(0.7)	(1.2)	(5.4)	–	–	(197.4)
Reclassifications[3]	(221.9)	–	(3,871.2)	249.4	24.6	4.0	162.0	(5.6)	–	–	(3,658.7)
Revaluations[4]	181.1	–	(834.4)	(3,348.6)	(1,259.6)	(51.1)	211.3	(131.0)	–	–	(5,232.3)

	Land Dwellings £M	Land Other Buildings £M	Dwellings £M	Restated Other Buildings £M	Restated Single Use Military Equipment (SUME) £M	Restated Plant and Machinery £M	Transport £M	IT and Communic-ations Equipment £M	Restated AUC (SUME) £M	Restated AUC (Other) £M	Restated Total £M
Restated balance at 31 March 2025[6]	(265.5)	(3.0)	(12,212.8)	(31,342.4)	(51,156.8)	(2,818.8)	(9,650.6)	(4,000.3)	–	–	(111,450.2)
Charged in Year	(3.0)	(0.4)	(584.4)	(1,075.7)	(3,776.6)	(266.9)	(755.3)	(421.1)	–	–	(6,883.4)
Write-(ons)/offs	1.4	–	146.9	331.1	1,125.2	138.5	262.3	419.1	–	–	2,424.5
Impairments[2]	3.6	–	6.1	39.6	160.7	1.1	174.0	18.4	–	–	403.5
Impairment reversals[2]	(2.2)	–	(6.9)	(150.6)	(21.3)	(2.4)	(0.9)	–	–	–	(184.3)
Reclassifications[3]	0.1	–	21.8	95.0	124.1	(12.1)	261.5	13.9	–	–	504.3
Revaluations[4]	(83.9)	–	(678.6)	(3,672.0)	(821.5)	(176.0)	(35.2)	(18.3)	–	–	(5,485.5)
Balance at 31 March 2026	**(349.5)**	**(3.4)**	**(13,307.9)**	**(35,775.0)**	**(54,366.2)**	**(3,136.6)**	**(9,744.2)**	**(3,988.3)**	**–**	**–**	**(120,671.1)**
Net Book Value											
Restated balance at 1 April 2024[6]	814.5	7,646.6	7,249.0	17,868.1	46,501.0	2,628.1	8,883.2	1,330.4	29,460.9	12,014.1	134,395.9
Restated balance at 31 March 2025[6]	3,337.3	7,635.7	14,799.1	19,428.5	50,670.4	2,672.2	8,000.7	1,435.8	32,076.1	13,773.3	153,829.1
Balance at 31 March 2026[5]	**3,370.2**	**7,637.3**	**15,004.9**	**20,915.5**	**51,219.7**	**2,674.3**	**7,662.9**	**1,482.6**	**35,560.1**	**16,084.4**	**161,611.9**

1. Additions include accruals of £4,278 million (2024-25: £4,435 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 2025-26 these movements include reclassifications: to inventory of £169.6 million, to intangible assets of £444.6 million, to assets held for sale of £41.4 million and to right-of-use assets of £0 million. In 2024-25 these movements included reclassifications: from Right-of-Use assets for accommodation for service personnel which were formerly leased (see Note 15.1 for further details) of £9,017.5 million, to inventory of £61.3 million, from intangible assets of £142.9 million, to assets held for sale of £90.5 million and to right-of-use assets of £31.3 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. To ensure accurate values for AUC, MOD conducts reviews annually on its AUC and on their reclassification to assets in use.
5. Property, plant and equipment as at 31 March 2026 include capitalised provisions, which relate to nuclear decommissioning provisions (net cost) of £4,061 million (31 March 2025: £3,335 million).
6. Restated for the Prior Period Adjustments set out at Note 21.

	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 Communic-ations Equipment £M	AUC (SUME) £M	AUC (Other) £M	Total £M
Asset Financing											
Owned	3,303.9	6,996.2	14,498.0	19,316.0	51,219.7	2,463.3	6,456.2	1,440.1	35,560.1	16,084.4	157,337.9
Service Concession Arrangements	66.3	641.1	506.9	1,599.5	-	211.0	1,206.7	42.5	-	-	4,274.0
Balance at 31 March 2026	**3,370.2**	**7,637.3**	**15,004.9**	**20,915.5**	**51,219.7**	**2,674.3**	**7,662.9**	**1,482.6**	**35,560.1**	**16,084.4**	**161,611.9**
Of the total											
Core Department and Agencies	3,356.0	7,564.5	14,917.6	20,737.2	51,219.7	2,415.1	7,650.1	1,481.9	35,560.1	16,080.2	160,982.4
Arm's Length Bodies	14.2	72.8	87.3	178.3	-	259.2	12.8	0.7	-	4.2	629.5
Total	**3,370.2**	**7,637.3**	**15,004.9**	**20,915.5**	**51,219.7**	**2,674.3**	**7,662.9**	**1,482.6**	**35,560.1**	**16,084.4**	**161,611.9**

5.1 Land and Buildings, except for AUC, are subject to Quinquennial Revaluation (QQR). Financial Year 2025-26 represents the third year of the current 5 year QQR cycle (QQR6) in which approximately 20% of the estate will be valued each year, including review of new/refurbished assets where a valuation is required, and not due during that year.

5.2 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.

5.3 Further information on the methods of valuation can be found at Note 1 – Accounting Policies.

5.4 Property assets held for disposal are excluded from valuation where they have been formally transferred to DIO for disposal or identified for disposal within two years of the relevant valuation date. Where disposal does not occur within this period, the Department may include the asset in the following year's valuation programme. Assets below the £50,000 threshold are also excluded, though they continue to be indexed at year-end in line with policy. Non-property assets are transferred to the Defence Equipment Sales Authority, at which point depreciation and indexation cease. Assets are classified as held for sale until disposal; where expected proceeds are low or nil, they are written off to the SoCNE.

5.5 Data from 2025-26 QQR resulted in a £60.9 million decrease in the value of Land and a £592.5 million increase in the value of Buildings at Net Book Value. Valuations received during the year were dated 1 November 2025 and were applied retrospectively from 1 April 2025; depreciation charged to the SoCNE includes the in-year catch-up depreciation from 1 April 2025.

5.6 The net charge to the SoCNE in respect of impairments arising from the movement in values against Land and Buildings assets is a £277.9 million impairment loss. This is made up of: Land, £33.3 million net impairment loss; Buildings, £244.6 million net impairment loss. The figures include all Land and Building assets professionally valued during 2025-26, including donated, service concession arrangements and leased assets.

6. Financial Instruments and Investments

6.1 The Department's cash requirements are primarily met through the Supply funding process. Consequently, financial instruments play a limited role in risk management compared to non-public sector entities, with most relating to contracts for non-financial items aligned to operational needs. As a result, exposure to credit, liquidity and market risk is low.

6.2 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.

6.3 The net gains and losses from the currency forward purchase contracts are disclosed in the SoCNE as either Finance Income or Finance Expense.

6.4 The value of all financial instrument items relating to financial assets and financial liabilities held by the Departmental Group is: financial assets £4,953.9 million (31 March 2025: £4,726.6 million); financial liabilities £14,879.7 million (31 March 2025: £14,342.0 million).

6.5 Details of investments and derivative financial instruments classified as financial assets and liabilities in the SoFP are set out below:

	31 March 2026		31 March 2025	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£M	**£M**	£M	£M
Non-current – investments				
Sheffield Forgemasters International Limited (SFIL)	591.6	591.6	379.6	379.6
Octric Semiconductors Ltd[1]	59.4	59.4	21.0	21.0
UK Hydrographic Office	13.3	13.3	13.3	13.3
NATO Innovation Fund	22.3	22.3	13.7	13.7
Ploughshare Innovations Limited	1.7	1.7	3.8	3.8
Other investments	0.1	0.1	0.1	0.1
Total	**688.4**	**688.4**	431.5	431.5
Current – investments and derivative financial assets				
Foreign currency forward purchase contracts	21.3	21.3	19.2	19.2
Fuel fixed swap contracts	–	–	–	–
Deposits and other investments held by Arm's Length Bodies	–	57.3	–	56.9
Total	**21.3**	**78.6**	19.2	76.1
Derivative financial liabilities				
Current				
Foreign currency forward purchase contracts	233.8	233.8	231.7	231.7
Total	**233.8**	**233.8**	231.7	231.7

1. Octric Semiconductors UK Limited was acquired by MOD on 27 September 2024.

6.6 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
Ploughshare Innovations Limited	Wholly owned by MOD
Defence Infrastructure Holdings Limited	Wholly owned by MOD
AWE plc	Wholly owned by MOD
Octric Semiconductors Limited	Wholly owned by MOD

6.7 Investments held by Arm's Length Bodies are a mixture of government and fixed interest securities, bonds, equities and portfolio funds.

6.8 The Special Shares listed below confer on the Secretary of State for Defence special rights which protect defence interests in the companies concerned. The Special Share rights are varied and concern issues such as ownership, influence and control and the officers of the company. Voting rights are available only in specific and limited circumstances. The Special Share rights are described in the Articles of Association of the individual companies in which the Special

Shares are held. Further information can be obtained from the companies' respective annual reports and accounts. As at 31 March 2026 the Department held a 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

6.9 As at 31 March 2026, 55,040 7.5% non-cumulative irredeemable preference shares of £1 each were held in The British Shipping Federation Limited (Registration Number 02107375). The shares were valued at 1p each, reflecting the value that would be recovered by the company should membership by the Department be ceded, as laid down in the Articles of Association.

7. Departmental Group – Inventories

7.1 The Armed Forces require a wide range of supplies and spares to support global operations and standing commitments. Most are recorded within inventory systems, including Guided Weapons, Missiles and Bombs (GWMB) and significant equipment spares (e.g. engines), some of which are reported as Single Use Military Equipment in Note 5 (Property, Plant and Equipment). Inventory systems also record Raw Materials and Consumables (Note 7.3): raw materials are used in the production of PPE assets, while consumables are non-repairable items such as ammunition, fuel and other support materials.

7.2 The approximate total gross value of all the different items is £35.2 billion, of which £28.6 billion is included in Note 5 and £6.6 billion in inventory (31 March 2025: £32.5 billion with £26.4 billion in Note 5 and £6.1 billion in inventory).

7.3 After adjusting for depreciation and other costs to reflect net realisable value (e.g. when items become surplus, unserviceable, defective, obsolescent or 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 £14.0 billion, of which £8.4 billion is included in Note 5 and £5.6 billion in the following table (31 March 2025: £13.1 billion with £8.0 billion in Note 5 and £5.1 billion in the table).

	31 March 2026	31 March 2025
	£M	£M
Munitions	1,826.8	1,693.8
Clothing & textiles	206.2	204.9
Engineering & technical	2,946.9	2,620.0
General	184.0	164.3
Medical, dental & veterinary	54.7	62.0
Oil, fuel & lubricants	369.7	379.5
Work in progress	0.2	0.1
Total Core Department and Agencies	**5,588.5**	5,124.6
Inventory held by ALBs	1.1	0.9
Total Departmental Group	**5,589.6**	5,125.5

7.4 Where the Department 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 in Note 7.3.

8. Trade Receivables and Other Assets

	31 March 2026		31 March 2025	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£M	**£M**	£M	£M
Amounts falling due within one year:				
Trade receivables	551.6	551.6	376.9	376.9
Value Added Tax	919.9	919.9	889.6	889.6
Other receivables	740.2	601.2	817.8	870.2
Prepayments[1]	1,415.2	1,578.2	1,677.8	1,786.0
Accrued income	407.0	407.0	1.1	1.1
Amounts due from the Consolidated Fund	517.5	517.5		
Subtotal	**4,551.4**	**4,575.4**	3,763.2	3,923.8
Amounts falling due after one year:				
Trade receivables	70.9	70.9	132.6	132.6
Other receivables	261.7	397.7	133.3	252.0
Prepayments and accrued income[1]	561.4	561.4	483.8	483.8
Subtotal	**894.0**	**1,030.0**	749.7	868.4
Total Receivables	**5,445.4**	**5,605.4**	4,512.9	4,792.2

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.

9. Cash and Cash Equivalents

	2025-26		2024-25	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£M	**£M**	£M	£M
Balance at 1 April	1,910.8	2,203.5	1,995.2	2,249.1
Net change in cash and cash equivalents	(195.0)	(207.8)	(84.4)	(45.6)
Balance at 31 March	**1,715.8**	**1,995.7**	1,910.8	2,203.5

9.1 The commercial banks and cash in hand figure at 31 March 2026 includes £982.5 million (31 March 2025: £997.7 million) advanced by foreign governments 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 Departmental bank accounts also contain £1,250.8 million (31 March 2025: £506.4 million) advanced receipts of which £1,199.9 million (31 March 2025: £438.9 million) represent international partners' contributions to specific projects, in support to Ukraine. The corresponding liability for these advances is shown under payables due within one year.

9.2 The Department manages funds provided by Other Nations on behalf of the International Fund for Ukraine (IFU). These are held in a separate bank account, and are excluded from the primary financial statements, as third-party monies. The balance as at 31 March 2026 was £26.5 million (31 March 2025: £231.2 million).

	31 March 2026		31 March 2025	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£M	**£M**	£M	£M
The following balances were held at:				
Government Banking Service	304.7	409.7	545.1	689.3
Commercial banks and cash in hand	1,411.1	1,586.0	1,365.7	1,514.2
Totals	**1,715.8**	**1,995.7**	1,910.8	2,203.5

9.3 Reconciliation of liabilities arising from financing activities

	Balance at 31 March 2025	**Cash changes**			**Non-cash changes**			**Balance at 31 March 2026**
		Cash Flows	**Net Cash Requirement**	**Acquisition**	**Forex movements**	**Fair value changes**	**Other changes**	
Supply	(406.6)	(60,871.0)	61,795.1	–	–	–	–	517.5
Long term borrowings (e.g. National Loans Fund)	(4.5)	2.6	–	–	–	–	(0.4)	(2.3)
Lease Liabilities	(1,923.2)	434.9	–	(445.4)	1.1	(52.8)	(25.0)	(2,010.4)
PFI Liabilities	(3,435.7)	265.2	–	7.4	–	(31.8)	(0.6)	(3,195.5)
Total liabilities from financing activities	(5,770.0)	(60,168.3)	61,795.1	(438.0)	1.1	(84.6)	(26.0)	**(4,690.7)**

10. Trade Payables and Other Liabilities

	31 March 2026		31 March 2025	
	Core Department & Agencies	**Departmental Group**	Core Department & Agencies	Departmental Group
	£M	**£M**	£M	£M
Amounts falling due within one year:				
VAT	72.6	72.6	90.6	90.6
Other taxation and social security	300.3	300.3	262.6	262.6
Trade payables	947.3	849.7	930.9	1,048.3
Other payables[1]	2,827.8	2,907.9	2,140.3	2,220.0
Accruals and deferred income	12,189.2	12,437.0	11,617.3	11,833.4
Lease liabilities	410.5	420.2	364.3	370.9
Imputed lease element of Service Concession Arrangements	297.3	297.3	279.9	279.9
National Loans Fund loans[2]	2.5	2.5	2.5	2.5
Supply payable[3]	–	–	406.6	406.6
Subtotal	**17,047.5**	**17,287.5**	16,095.0	16,514.8
Amounts falling due after one year:				
Other payables	16.5	36.9	17.1	22.5
Accruals and deferred income	17.1	18.8	8.4	9.8
Lease liabilities	1,599.9	1,675.1	1,558.8	1,616.2
Imputed lease element of Service Concession Arrangements	2,898.2	2,898.2	3,155.8	3,155.8
National Loans Fund loans[2]	(0.2)	(0.2)	2.0	2.0
Subtotal	**4,531.5**	**4,628.8**	4,742.1	4,806.3
Total Payables	**21,579.0**	**21,916.3**	20,837.1	21,321.1

1 The commercial banks and cash in hand figure at 31 March 2026 includes £982.5 million (31 March 2025: £997.7 million) advanced by foreign governments 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 Departmental bank accounts also contain £1,250.8 million (31 March 2025: £506.4 million) advanced receipts of which £1,199.9 million (31 March 2025: £438.9 million) represent international partners' contributions in support to Ukraine. The corresponding liability for these advances is shown under payables due within one year.

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.

11. Provisions for Liabilities and Charges

11.1 Departmental Group – Provisions for Liabilities and Charges

	Decommissioning Nuclear £M	Decommissioning Other £M	Early Retirement £M	Legal £M	Other[1] £M	Total[2] £M
Balance at 1 April 2024	9,051.3	19.1	58.3	3,648.5	96.6	12,873.8
Increase in provisions in-year	724.4	–	2.4	696.0	54.0	1,476.8
Provisions written back and reclassifications	(233.8)	(1.6)	(7.7)	(4.3)	(14.7)	(262.1)
Provisions utilised in-year	(220.9)	–	(4.5)	(487.8)	(5.7)	(718.9)
Unwinding of, and changes in, discount rates	193.8	0.8	0.4	(97.9)	(3.0)	94.1
Provisions capitalised in-year	3,283.8	(7.1)	–	–	4.0	3,280.7
Balance at 31 March 2025	12,798.6	11.2	48.9	3,754.5	131.2	16,744.4
Increase in provisions in-year[3]	788.3	2.5	14.9	4,459.5	57.2	5,322.4
Provisions written back and reclassifications	(569.7)	(1.3)	–	(249.5)	(27.4)	(847.9)
Provisions utilised in-year	(275.4)	(0.4)	(6.9)	(502.3)	(11.9)	(796.9)
Unwinding of, and changes in, discount rates	(484.4)	0.1	0.2	76.8	(3.7)	(411.0)
Provisions capitalised in-year	(295.3)	15.1	–	–	2.5	(277.7)
Balance at 31 March 2026	**11,962.1**	**27.2**	**57.1**	**7,539.0**	**147.9**	**19,733.3**

1. Other includes £74.8 million (2024-25: £66.7 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 3.4) and finance income/cost (see Note 3.6 and Note 2.2) or, for some changes in capitalised decommissioning liabilities, through Other Comprehensive Expenditure.
3. The amount includes a provision for a civilian staff Voluntary Exit Scheme.

11.2 Analysis of Expected Timing of Discounted Cash Flows

	Decommissioning				
	Nuclear	Other	Early Retirement	Legal and Other	Total
	£M	£M	£M	£M	£M
Due within 1 year	436.8	1.7	4.5	864.9	1,307.9
Due over 1 year and less than 5 years	2,241.3	3.4	15.8	2,450.3	4,710.8
Due over 5 years	10,120.5	6.1	28.6	570.5	10,725.7
Balance at 31 March 2025	12,798.6	11.2	48.9	3,885.7	16,744.4
Due within 1 year	369.6	0.9	9.6	613.6	993.7
Due over 1 year and less than 5 years	1,867.4	5.7	24.4	3,853.6	5,751.1
Due over 5 years	9,725.1	20.6	23.1	3,219.7	12,988.5
Balance at 31 March 2026	**11,962.1**	**27.2**	**57.1**	**7,686.9**	**19,733.3**

Nuclear Decommissioning

Critical accounting judgements and key sources of estimation uncertainty

11.3 Provisions are held for costs the MOD expects to incur in future years in discharging its obligations for the decommissioning and remediation of assets, material and land relating to the Defence Nuclear Programme expenditure. Costs are expected to arise from the treatment, storage and disposal of nuclear liability materials, irradiated fuel and radioactive waste, as well as the dismantling of submarines, warheads, sites and facilities, and restoration of land.

11.4 In accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*, provisions are recognised when MOD becomes obligated to undertake future decommissioning activity. For example, costs associated with the safe decommissioning of a submarine are recognised when its nuclear reactor is activated, by which point such costs cannot be avoided. The decommissioning provisions therefore include the cost of dismantling both out-of-service and operational submarines, and the liability will increase as new submarines are activated.

11.5 Decommissioning and restoration activities are expected to take place over a very long timeframe, with a programme of work currently scheduled over the next 112 years. The value of the provision disclosed in the financial statements is a single point number which reflects MOD's best estimate of the future costs it expects to incur in performing these activities, using current strategies for disposal over several decades.

11.6 Each element of the provision (quantity of material, method and time to treat) is uncertain, as is the cost of developing the necessary facilities. As such the forecast becomes less certain further into the future, and required standards of disposal or available technology may change. It is important to understand the basis of this estimate and the inherent uncertainty around it, and that the value disclosed is a best estimate within a credible range of potential outcomes.

11.7 The estimated profile of spend on nuclear decommissioning activities is set out in Table A below:

Timeframe and valuation basis

Table A: Expected Timeline for Nuclear Decommissioning and Restoration Activity as at 31 March 2026.

	Present Value (adjusted for discounting and inflation) £M	Nominal Value (no adjustment for discounting and inflation) £M
1 – 5 years	2,246	2,328
6 – 20 years	6,022	8,446
21 – 40 years	2,515	6,037
41 – 60 years	514	1,846
61 years +	665	6,815
Total	11,962	25,472

11.8 Table A above provides both the present value of forecast decommissioning costs, which is the value reported in the financial statements under IAS 37, and the unadjusted nominal value. The distinction between these two datasets is the application of economic assumptions, inflation and discounting, intended to translate future cash flows into a current value at the reporting date.

11.9 To derive a present value, future decommissioning costs are first adjusted to factor the impact of inflation on pricing arrangements with suppliers. Where there is an existing contract in place, the inflation rate per the contract is applied until its expiry, at which point the Consumer Price Index (CPI) rate is applied, as instructed by HM Treasury. Where there is no existing contract in place for the decommissioning activities, this CPI rate is applied.

11.10 Discount rates are then applied to the forecast costs to reflect the time value of money, i.e. money is worth more now than the same amount of money will be in the future because of its potential to generate a return in the intervening period. The purpose of discounting is therefore to establish an amount of money required in today's terms to settle future liabilities, reflecting both the risk and timing of those future liabilities.

11.11 HM Treasury publish discount rates annually which have been applied to the provisions. Given the long-term nature of decommissioning activities, discounting has a significant impact on the overall valuation of provisions, and movements in the discount rate have resulted in material revaluations in recent years.

11.12 The economic assumptions applied by HM Treasury in forming the discount rates results in costs in the very long-term becoming significantly smaller when expressed as a present value, as demonstrated in Table A with £6.8 billion of costs occurring beyond 61 years becoming £0.7 billion once discounting (and inflation) is applied.

11.13 The nuclear decommissioning provisions balance is inherently uncertain, formed of forecast costings for complex activities where several of these have not been conducted before, and where there are multiple potential technical options. Over half of the forecast activity is expected to take place 6 to 112 years into the future. The timescales over which costs are being forecast increases the level of inherent uncertainty in the provision valuation.

11.14 The decommissioning provisions held assume that MOD's higher activity waste (with higher levels of radioactivity) will be stored in a Geological Disposal Facility (GDF), managed by the Nuclear Decommissioning Authority (NDA). The location of the GDF has not yet been concluded, adding uncertainty to the date waste can be consigned to it, which has a direct impact on the value and timing of provisions held by MOD. Delays to disposal routes could require the construction of additional storage facilities.

11.15 The critical judgements underpinning the estimated cost of decommissioning are detailed in the following paragraphs. These can be categorised between economic assumptions, which pertain to future inflation and discount rate movements, and programmatic assumptions around the method and timing of decommissioning activity.

Economic Assumptions

11.16 Inflation and discounting have a significant impact on the valuation of nuclear decommissioning provisions, and changes within these rates have led to material movements in the stated valuation of provision liabilities in recent years.

HM Treasury issue the discount and CPI rates to be applied for valuing provisions.

11.17 Table B below shows the extent of recent movements in HM Treasury's discount rates and the impact this has had on the reported value of decommissioning provisions.

Table B: Discount rates (2022-23 to 2025-26).

	Short Term (0-5 Yrs)	Medium Term (6-10 Yrs)	Long Term (11-40 Yrs)	Very Long Term (>40 Yrs)	Impact of the change £M
2022-23	3.27%	3.20%	3.51%	3.00%	(15,701)
2023-24	4.26%	4.03%	4.72%	4.40%	(3,143.0)
2024-25	4.03%	4.07%	4.81%	4.55%	194
2025-26	3.64%	4.22%	5.32%	5.07%	(484)

11.18 The nuclear decommissioning provisions are highly sensitive to movements in the discount rate. To illustrate, a movement in the 2025-26 discount rates would impact the provisions as follows:

Table C: Discount rate sensitivity.

Sensitivity	Impact £M
+1.00%	(1,800)
+0.50%	(972)
-0.50%	1,155
-1.00%	2,548

11.19 HM Treasury has issued a rebuttable presumption that when inflating provision spend the Office of Budget Responsibility (OBR)'s CPI forecasts will be used. This presumed inflation rate is rebutted when there is an inflation rate specified in an existing contract in which case the contractual rate is applied. In such cases OBR rates are then applied after the contractual period.

Table D: CPI inflation rates (2022-23 to 2025-26).

	Year 1	Year 2	Year 3+
2022-23	7.40%	0.60%	2.00%
2023-24	3.60%	1.80%	2.00%
2024-25	2.60%	2.30%	2.00%
2025-26	2.50%	2.00%	2.00%

11.20 Future inflation rates are a significant economic assumption however they have not driven valuation movements to the same extent as the discount rate, with the longer-term rate remaining steady at 2% in recent years. To illustrate, a movement in the 2025-26 CPI inflation rates would impact the provisions as follows:

Table E: CPI inflation rate sensitivity.

Sensitivity	Impact £M
+0.50%	1,186
+0.25%	552
-0.25%	(507)
-0.50%	(976)

Programme Assumptions

11.21 Each decommissioning activity is derived from a set of programmatic assumptions. Significant assumptions are made in relation to:

- The availability and capacity of current infrastructure to undertake the decommissioning of laid-up submarines and dismantling activities. Additional infrastructure requirements beyond those factored into the current most likely estimate will increase future decommissioning costs;

- The availability of the GDF as the final disposal solution for our higher activity waste. Delays to our planned emplacement of waste will result in additional storage costs being incurred on alternative sites. Annual storage costs of £94 million (inflated and undiscounted) are forecast in the final year of waste being emplaced into the GDF. Any delays to the availability of the GDF will result in storage costs being incurred until we are able to emplace our waste in the GDF;
- The GDF safety case will inform the acceptance criteria for our inventory, the conditioning and the number of containers required;
- The volume of radioactive waste to be transported and stored which may not be known with certainty until decommissioning work commences;
- Engineering solutions and best available techniques. We are still developing new processes and techniques; for example, removing higher activity waste from our submarines, and our strategy for disposing of processing facilities at AWE plc. The conditioning and packaging of our irradiated fuel is also yet to be determined based on ongoing disposability assessments;
- Pricing schedules to be contractually agreed with industrial partners. Noting the volume of estimated spend due to incur in the medium to very long term, these future costs are yet to be codified with industrial partners through contracted pricing schedules.

11.22 The number of nuclear submarines to be decommissioned also impacts the value of the provisions held – our obligations reduce as decommissioning activity takes place and increase as the reactors for new submarines are activated. Using current economic and programme assumptions, the activation of Astute Boat 6 will increase our nuclear decommissioning provisions by £199 million (inflated and discounted).

11.23 Submarine Disposal Capability (SDC). The SDC project has been established to deliver an enduring disposal capability for the UK's current and future nuclear-powered submarines, including the Vanguard and Astute Classes, and to streamline the Department's approach to decommissioning in a sustainable and environmentally responsible manner. For provision estimation purposes, SDC-related assumptions principally cover the expected scope of defuelling, dismantling, and the management of resulting wastes and materials for those classes, recognising that legacy submarines (e.g. Swiftsure and Trafalgar Classes) are addressed through existing programmes. Irradiated fuel management and the eventual GDF disposal route for higher activity wastes are assumed within other programmes. There were no material changes to SDC-related assumptions during 2025–26.

- Key areas of uncertainty remain in the SDC programme, including the location for defuel and dismantling activities which has not yet been determined, and the dismantling solution and overall programme duration which remain subject to development.
- A site recommendation for the project is expected in 2026-27, following Outline Business Case (OBC) submission.
- The provision costings currently assume that the Vanguard Class and Astute Class Boats 1-5 will be decommissioned by the late 2050s. Should the project take longer than currently assumed, the provision would be expected to increase in value. For example, if the decommissioning activity profile takes twice as long as the initial industry engagement suggests, then there would be an expected increase in the provision value of £680m.

Movements in liability during the year ended 31 March 2026

Table F: Movements in liability arising during the year end 31 March 2026.

	Estimated Costs Present value (adjusted for discounting and inflation) £M	Estimated Costs Nominal value (underlying costings with no discounting or inflation applied) £M
01 April 2025	12,799	22,646
Movements in Discount Rate	(484)	–
Movements in Inflation	(212)	–
Programme Changes	134	3,101
Utilisation/Work Done	(275)	(275)
31 March 2026	**11,962**	**25,472**

Increase in liabilities due to changes in programme assumptions

11.24 Programmatic assumption changes generated a less significant movement to the MOD nuclear provision this year compared to 24-25, with updates across the range of nuclear decommissioning programmes generating a net £134 million increase to the provision. These updates arise from the latest cost estimates, schedules and technical assumptions supporting the provision and, while individually immaterial, collectively contribute to the overall increase.

Reduction in liabilities due to decommissioning work undertaken during the year

11.25 There has been £275 million of nuclear decommissioning and restoration spend incurred during 2025-26 across the Defence Nuclear Enterprise relating to activities including the maintenance of the warhead waste streams, nuclear test reactor site ahead of its decommissioning and the maintenance, safe storage and de-fuel of legacy decommissioned submarines prior to disposal, storage of the removed nuclear fuel, and current submarine dismantling taking place in Rosyth.

Other Decommissioning and Restoration

11.26 Other decommissioning and restoration provisions relate primarily to contaminated sites where the Department has a constructive or a legal obligation to restore the sites for normal use. The estimated payments are discounted using the Treasury discount rates listed at paragraph 11.17 Table B.

Early Retirement

11.27 Prior to December 2010, for those employees covered by the Civil Service Compensation Scheme who retired early, the Department met the additional costs of benefits beyond the normal civil service pension scheme benefits by paying the required amounts annually to the pension schemes over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate applicable to such provisions: 2.45% with effect from 31 March 2026 (2.40% from 31 March 2025). 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 2025-26 increases of £14.9 million were made to existing schemes and early retirement/redundancy costs paid during the period amounted to £6.9 million.

Legal

11.28 Legal liabilities include amounts payable under guarantees, litigation and contractual arrangements; some legal liabilities (where the probability of settlement against the Department is less certain) have been reported as contingent liabilities, either within the legal category or the sensitive category as disclosing further information at this stage could seriously prejudice the Department's position.

Other

11.29 Other provisions include provisions for costs on disposal of non-current assets and redundancy and relocation costs associated with restructuring.

12. Retirement Benefit Schemes

12.1 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 AFPS and can be found on their website[29].

12.2 The Department's share of transactions and balances within unfunded multi-employer defined benefit pension schemes (including the Civil Service Pension, NHS Pension and Teachers' Pension schemes) cannot be separately identified. These schemes are therefore accounted for as defined contribution schemes in accordance with IAS 19. Separate accounts are prepared for the schemes and details can be found on the relevant websites[30].

12.3 Other employees are members of smaller unfunded pension schemes, such as those for locally employed civilians overseas. The liabilities for these schemes are included within 'Retirement benefit scheme liabilities' under non-current liabilities on the Statement of Financial Position. The accounting boundary also includes funded pension schemes—the Commonwealth War Graves Commission Superannuation Scheme, the Council of Reserve Forces and Cadets Associations Pension Scheme, and the AWE Pension Scheme—where estimated net retirement benefit assets and liabilities are recognised within non-current assets and liabilities on the Group Statement of Financial Position.

12.4 The Department's three unfunded defined benefit pension schemes comprise the British Forces Cyprus (BFC) scheme for locally engaged firefighters, the Sovereign Base Areas (SBA) scheme for locally engaged police and civilian staff in Cyprus, and the United Kingdom Departments Gibraltar (UKDG) scheme for locally employed staff in Gibraltar.

12.5 The Government Actuary's Department (GAD) completes a full valuation of each of the three schemes 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 2023 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 following table.

29 https://www.gov.uk/government/collections/armed-forces-pension-scheme-annual-accounts
30 https://www.civilservicepensionscheme.org.uk; https://www.nhsbsa.nhs.uk/nhs-pensions; https://www.gov.uk/government/collections/teachers-pension-scheme

	British Forces Cyprus (BFC) £M	Sovereign Bases Administration Areas (SBAA) £M	United Kingdom Departments Gibraltar (UKDG) £M	Total £M
Balance at 1 April 2024	42.6	105.5	243.1	391.2
Current Service Cost	0.8	1.9	4.1	6.8
Interest Charges	2.1	5.3	12.2	19.6
Changes in assumptions	–	0.2	0.7	0.9
Benefits Paid	(1.5)	(2.8)	(13.1)	(17.4)
Exchange Rate (gain)/loss	(1.2)	(3.1)	–	(4.3)
Experience (gain)/loss	–	(0.1)	–	(0.1)
Balance at 31 March 2025	42.8	106.9	247.0	396.7
Current Service Cost	0.8	2.0	4.5	7.3
Interest Charges	2.1	5.4	12.5	20.0
Changes in assumptions	(2.8)	(7.2)	(16.2)	(26.2)
Benefits Paid	(1.9)	(3.9)	(13.4)	(19.2)
Exchange Rate (gain)/loss	1.2	3.0	–	4.2
Experience (gain)/loss	–	–	–	–
Balance at 31 March 2026	**42.2**	**106.2**	**234.4**	**382.8**

12.6 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:

	2025-26	2024-25
Discount Rate	5.60%	5.15%
Future Salary Increases	3.30%	3.40%
Future Pension Increases	2.55%	2.65%

12.7 The results of any actuarial calculation are sensitive to the assumptions which are made. The principal financial assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality, and the calculation may also be sensitive to exchange rate changes.

12.8 The table below shows the indicative effects on the total liability as at 31 March 2026 of changes to these assumptions (rounded to the nearest 0.5%).

Financial Assumption	Change in Assumptions	British Forces Cyprus (BFC)	Sovereign Bases Administration Areas (SBAA)	United Kingdom Departments Gibraltar (UKDG)	Total
		£M	£M	£M	£M
Discount Rate	-5.5% / - 6% / -6%	-2.3	-6.4	-14.1	-22.8
Long term earnings increase	1.5% / 1.5% / 1%	0.6	1.6	2.3	4.5
Pension increases	5% / 5.5% / 4%	2.1	5.8	10.5	18.4
Additional 1 year increase in life expectancy at retirement	1% / 1% / 3%	0.4	1.1	7	8.5
Appreciation of the Euro against the Pound Sterling	10%	4.2	10.6	–	14.8

12.9 The liability is 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 earnings assumptions were increased at the same time, the impact on the liability would be small. Higher pension increases have a substantial effect, because there is an impact on all categories of members. The sensitivities show the change in assumptions in isolation. In practice such assumptions rarely change in isolation and given the interdependencies between the assumptions the impacts may offset to some extent.

12.10 The numbers of members used in the calculations for each scheme were:

	Number of Members[1]		
	Active	Pensioners	Deferred Pensioners
British Forces Cyprus (BFC) (valuation date: 31 March 2022)	101	56	1
Sovereign Bases Administration Areas (SBAA) (valuation date: 31 March 2022)	261	144	3
nited Kingdom Departments Gibraltar (UKDG) (valuation date: 31 March 2023)	449	1,063	226

1. In accordance with the FReM, actuarial valuations of the schemes are carried out every 4 years. The membership data above reflects the information used at the time of these valuations.

12.11 The Group Accounts include three funded defined benefit schemes, financed by the respective employers: the Commonwealth War Graves Commission, the Council of Reserve Forces and Cadets Associations, and AWE plc. Funding is determined by scheme actuaries, and disclosures assume each employer has a right to any surplus. Retirement and death benefits are based on final pensionable pay and length of service, with payments increasing in line with inflation. The schemes comprise:

- the Council of Reserve Forces and Cadets Associations Pension Scheme, governed by its trust deed and statutory requirements;
- the Commonwealth War Graves Commission Superannuation Scheme, with assets held separately and closed to future benefit accrual from 31 March 2016; and
- the AWE Pension Scheme, administered by AWE Pension Trustees Limited and closed to future benefit accrual from 1 February 2017, except for Coulport members.

12.12 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 valuation.

	Reserve Forces and Cadets Association Pension Scheme[1]	Commonwealth War Graves Commission Superannuation Scheme[2]	AWE Pension Scheme[3]	Total
	£M	£M	£M	£M
Scheme Assets				
Balances at 1 April 2024	148.0	70.5	1,295.0	1,513.5
Interest on Scheme Assets	–	3.3	60.0	63.3
Benefits and Scheme Expenses Paid	–	(5.4)	(75.0)	(80.4)
Contribution by Employers	–	0.9	–	0.9
Other returns on assets and actuarial gain/(loss)	–	(6.5)	(42.0)	(48.5)
Asset Balances at 31 March 2025	148.0	62.8	1,238.0	1,448.8
Interest on Scheme Assets	1.8	3.5	68.0	73.3
Benefits and Scheme Expenses Paid	0.3	(4.9)	(78.0)	(82.6)
Contribution by Employers	(3.3)	0.9	–	(2.4)
Other returns on assets and actuarial gain/(loss)	(3.7)	1.3	31.0	28.6
Asset balances at 31 March 2026	143.1	63.6	1,259.0	1,465.7
Scheme Liabilities				
Balances at 1 April 2024	(130.6)	(88.8)	(1,504.0)	(1,723.4)
Current Service Cost	–	–	(4.0)	(4.0)
Interest Cost	–	(4.1)	(70.0)	(74.1)
Benefits and Scheme Expenses Paid	–	5.4	75.0	80.4
Actuarial gain/(loss)	–	7.6	168.0	175.6
Liability balances at 31 March 2025	(130.6)	(79.9)	(1,335.0)	(1,545.5)
Current Service Cost	–	–	(3.0)	(3.0)
Interest Cost	–	(4.4)	(74.0)	(78.4)
Benefits and Scheme Expenses Paid	(13.2)	4.8	78.0	69.6
Actuarial gain/(loss)	31.3	0.4	22.0	53.7
Liability balances at 31 March 2026	(112.5)	(79.1)	(1,312.0)	(1,503.6)
Net Scheme Assets/(Liabilities) at 31 March 2025	17.4	(17.1)	(97.0)	(96.7)
Net Scheme Assets/(Liabilities) at 31 March 2026	30.6	(15.5)	(53.0)	(37.9)

1. The Reserve Forces and Cadets Association Pension Scheme valuations are as at 1 August 2021 and as at 1 August 2024.
2. The Commonwealth War Graves Commission Superannuation Scheme valuations are as at 31 March 2026 and as at 31 March 2025.
3. The AWE Pension Scheme valuations are as at 31 March 2026 and as at 31 March 2025.

12.13 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. For example, the details of the assets held by the AWE pension scheme were:

Category of Investment	Value as at 31 March 2026 £M	Value as at 31 March 2025 £M
Equities	185	187
Property	107	113
Infrastructure	37	44
Hedge Funds	40	259
Bonds	392	357
Liability Driven Investments	296	230
Cash & other	202	48
Total	**1,259**	1,238

12.14 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 13 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.

12.15 The principal actuarial assumptions used in the liability calculations were:

	2024-25		
	Reserve Forces and Cadets Association Pension Scheme	Commonwealth War Graves Commission (CWGC) Superannuation Scheme	AWE Pension Scheme
Discount Rate	3.30%	5.70%	5.70%
Inflation – Retail Price Index (RPI)	3.40%	N/A	3.10%
Inflation – Consumer Price Index (CPI)	2.70%	2.80%	2.70%
Pension Increases	2.70%	2.80%	2.70%
	2025-26		
	Reserve Forces and Cadets Association (RFCA) Pension Scheme	Commonwealth War Graves Commission Superannuation Scheme	AWE Pension Scheme
Discount Rate	5.00%	6.00%	6.10%
Inflation – Retail Price Index (RPI)	3.30%	N/A	3.30%
Inflation – Consumer Price Index (CPI)	2.90%	2.95%	2.90%
Pension Increases	2.90%	2.95%	2.90%

12.16 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 7% or £86 million, and for a +/- 0.5% change in inflation the effect was estimated as 6% or £76 million change.

12.17 The numbers of members used in the calculations for each scheme were:

	Current Number of Members		
	Active	**Pensioners**	**Deferred Pensioners**
RFCA Pension Scheme (as at 1 August 2024)	915	1,274	503
CWGC Superannuation Scheme (as at 31 March 2023)	–	393	223
AWE Pension Scheme (as at 31 March 2024)	14	4,449	5,540

13. Departmental Group – Capital Commitments

13.1 In addition to the liabilities listed in the Statement of Financial Position and as part of its ongoing work, the Department enters 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 2026	31 March 2025
	£M	£M
Intangible assets	5,536.3	7,622.0
Property, plant and equipment	29,008.1	29,127.7
Total	**34,544.4**	36,749.7

14. Departmental Group – Other Financial Commitments

14.1 The Department's commitments arise from two areas: Memorandum of Understanding (MoUs) with other governments; and through contracts with suppliers. While MoUs may have cancellation rights within them, it is considered that these will not be exercised due to their nature and the strategic and political importance of these agreements. They represent collaborative arrangements with other governments for the development and manufacture of equipment and associated services. The table shows the total amount the Department would be committed to by not exercising the cancellation clauses in MoU agreements. The most significant commitment relates to a MoU for the development of the RC-135W Rivet Joint electronic surveillance aircraft at £861.3 million (2024-25: £992.7 million).

Memorandum Of Understanding:

	31 March 2026	31 March 2025
	£M	£M
Not later than 1 year	603.2	755.4
Later than 1 year but not later than 5 years	856.2	1,180.9
Later than 5 years	593.4	721.3
Total	**2,052.8**	2,657.6

14.2 Other Non-Cancellable Commitments are non-cancellable contracts with suppliers, not already included on the SoFP, which are not leases, PFIs or other service concession arrangements.

Other Financial Commitments:

	31 March 2026	31 March 2025
	£M	£M
Not later than 1 year	194.5	509.0
Later than 1 year but not later than 5 years	61.9	134.6
Later than 5 years	25.3	31.3
Total	**281.7**	674.9

15. Departmental Group – Leases

15.1 The Group's main leases are for land and buildings, equipment assets and vehicles.

15.2 The Department also leases 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.

15.3 Right-of-Use Assets

	Land Dwellings £M	Other Land £M	Dwellings £M	Other Buildings £M	Plant and Machinery £M	Transport £M	IT and Communic-ations Equipment £M	Total £M
Cost or valuation								
Balance at 1 April 2024	2,453.9	172.4	10,439.2	1,704.6	157.0	502.1	121.5	15,550.7
Additions – New Leases	0.1	6.4	19.9	147.6	0.6	187.0	39.6	401.2
Write-on/(offs)	15.3	–	2.5	(0.3)	–	(153.3)	–	(135.8)
Revaluations	21.6	0.2	(1,458.8)	4.7	–	0.3	–	(1,432.0)
Impairment/ impairment reversals	20.5	–	(8.9)	–	–	–	–	11.6
Derecognition – Disposals	–	(5.7)	(11.1)	(6.5)	(5.9)	(73.5)	(13.2)	(115.9)
Remeasurement – existing Leases	–	–	1,909.0	(7.5)	1.3	4.2	0.1	1,907.1
Reclassifications	(2,510.9)	–	(10,635.6)	–	–	4.8	2.3	(13,139.4)
Balance at 31 March 2025	0.5	173.3	256.2	1,842.6	153.0	471.6	150.3	3,047.5
Additions – New Leases	–	1.4	6.4	211.5	18.7	194.7	30.9	463.6
Write-on/(offs)	–	–	–	–	–	(0.2)	–	(0.2)
Revaluations	–	0.2	0.1	4.5	–	–	–	4.8
(Impairments)/ Impairment reversals	–	–	–	–	–	–	–	–
Derecognition – Disposals	–	(0.5)	(15.3)	(81.1)	(0.2)	(42.5)	(80.2)	(219.8)
Remeasurement – existing Leases	–	(14.6)	–	71.8	0.9	4.2	(9.6)	52.7
Reclassifications	–	–	0.1	1.8	0.1	0.2	–	2.2
Balance at 31 March 2026	**0.5**	**159.8**	**247.5**	**2,051.1**	**172.5**	**628.0**	**91.4**	**3,350.8**

	Land Dwellings £M	Other Land £M	Dwellings £M	Other Buildings £M	Plant and Machinery £M	Transport £M	IT and Communic-ations Equipment £M	Total £M
Depreciation								
Balance at 1 April 2024	(207.6)	(15.8)	(3,704.2)	(385.7)	(44.1)	(299.1)	(39.2)	(4,695.7)
Depreciation charged in year	(10.9)	(10.2)	(153.0)	(202.0)	(22.2)	(94.3)	(43.1)	(535.7)
Write-(on)/offs	–	–	0.1	–	–	153.4	–	153.5
Backlog Depreciation	(1.6)	–	(159.4)	(1.0)	–	0.7	–	(161.3)
Impairment/ (Impairment Reversal)	(1.8)	–	0.5	–	–	–	–	(1.3)
Derecognition – Disposals	–	5.7	10.9	6.9	5.8	66.8	10.8	106.9
Reclassifications	221.8	(0.5)	3,938.5	–	–	–	–	4,159.8
Balance at 31 March 2025	(0.1)	(20.8)	(66.6)	(581.8)	(60.5)	(172.5)	(71.5)	(973.8)
Depreciation charged in year	–	(6.7)	(28.8)	(228.5)	(23.0)	(105.0)	(44.2)	(436.2)
Write-(on)/offs	–	–	–	0.1	–	(0.1)	–	–
Backlog Depreciation	–	(0.1)	–	(0.6)	–	–	–	(0.7)
Impairments/ (Impairment reversals)	–	–	–	–	–	–	–	–
Derecognition – Disposals	–	0.5	15.1	77.9	0.3	41.9	80.2	215.9
Reclassifications	–	–	(0.1)	(17.7)	–	0.2	–	(17.6)
Balance at 31 March 2026	**(0.1)**	**(27.1)**	**(80.4)**	**(750.6)**	**(83.2)**	**(235.5)**	**(35.5)**	**(1,212.4)**

Net Book Value	Land Dwellings £M	Other Land £M	Dwellings £M	Other Buildings £M	Plant and Machinery £M	Transport £M	IT and Communic-ations Equipment £M	Total £M
Balance at 1 April 2024	2,246.3	156.6	6,735.0	1,318.9	112.9	203.0	82.3	10,855.0
Balance at 31 March 2025	0.4	152.5	189.6	1,260.8	92.5	299.1	78.8	2,073.7
Balance at 31 March 2026	**0.4**	**132.7**	**167.1**	**1,300.5**	**89.3**	**392.5**	**55.9**	**2,138.4**

15.4 Capitalised depreciation, for example, depreciation charged on the leased production and maintenance facilities, is included as part of the cost of the asset being constructed. The amount as at 31 March 2026 is £83.4 million (31 March 2025 £81.7 million).

15.5 Prior to the termination of the contract to lease accommodation for Service Personnel, the Department sub leased some properties for which the amounts where the Department is the lessor are not considered material.

15.6 Lease liabilities maturity analysis

	31 March 2026 £M	31 March 2025 £M
Land		
Not later than 1 year	8.8	11.2
Later than 1 year but not later than 5 years	31.9	42.2
Later than 5 years	85.4	297.3
Less interest element	(38.7)	(206.9)
Present value of liabilities	**87.4**	143.8
Buildings		
Not later than 1 year	266.7	265.6
Later than 1 year but not later than 5 years	847.7	740.5
Later than 5 years	682.1	508.1
Less interest element	(338.7)	(148.4)
Present value of liabilities	**1,457.8**	1,365.8
Other		
Not later than 1 year	163.4	170.7
Later than 1 year but not later than 5 years	356.7	298.1
Later than 5 years	104.0	50.0
Less interest element	(71.8)	(41.1)
Present value of liabilities	**552.3**	477.7
Total present value of liabilities		
Current lease liabilities	388.3	405.4
Non-current lease liabilities	1,709.2	1,581.9
Total of discounted lease liabilities	**2,097.5**	1,987.3

15.7 Leases – amounts recognised in the Statement of Comprehensive Net Expenditure

	2025-26 £M	2024-25 £M
Depreciation	351.7	436.5
Interest expense	52.1	235.3
Short term leases	8.2	7.3
Total	**412.0**	679.1

15.8 Leases – amounts recognised in the Statement of Cash Flows

	2025-26 £M	2024-25 £M
Interest expense	52.2	235.3
Repayment of Principal on Leases	395.3	6,192.5
Total	**447.5**	6,427.8

16. Departmental Group – Commitments under Service Concession Arrangements

16.1 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 2025-26; details of the assets financed under these arrangements are included at Note 5 – Property Plant and Equipment:

Project Description	Contract Start[1]	Contract End
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
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	Jul-25
Family Accommodation Yeovilton: Provision of family accommodation for 88 Service families at RNAS Yeovilton.	Jul-98	Jul-28
RAF Cosford/RAF Shawbury Family Accommodation: Provision of accommodation for 145 Service families at RAF Cosford and RAF Shawbury.	Mar-99	Jun-28
Army Foundation College: Provision of teaching and training facilities for the further vocational education and military training of high-quality school leavers.	Feb-00	Dec-29
Main Building Refurbishment: Redevelopment and management services for MOD Main Building.	May-00	Sep-30
Family accommodation at Wattisham: Provision of accommodation for 250 Service families.	May-01	May-28
Training: Provision of a training environment for crew members 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
Aquatrine Project A: Provision of water and wastewater services.	Apr-03	Nov-28
Naval Communications: Submarine fleet communications service.	Jun-03	Dec-30
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 wastewater services.	Sep-04	Mar-30
Aquatrine Project C: Provision of water and wastewater 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
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.

16.2 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 2025-26 were £1.1 billion (2024-25: £1.1 billion) and interest charges for 2025-26 were £0.2 billion (2024-25: £0.2 billion). Total obligations under SCA (consisting of the minimum lease payments, interest and any minimum service charges) analysed by time periods are shown in the table below:

	31 March 2026 £M	31 March 2025 £M
Details of the imputed lease charges		
Not later than one year	489.3	490.9
Later than one year and not later than five years	1,854.9	1,900.3
Later than five years	1,856.2	2,253.6
Total	**4,200.4**	4,644.8
Less interest element	(1,005.0)	(1,209.1)
Present value of obligations	**3,195.4**	3,435.7
Details of the minimum service charge		
Not later than one year	958.7	951.8
Later than one year and not later than five years	3,281.6	3,350.9
Later than five years	3,908.9	4,716.0
Total	**8,149.2**	9,018.7

16.3 The Service Concession Arrangements with obligations over £100 million are set out below. The Department does not consider that there are any significant terms of these Arrangements that may affect the amount, timing and certainty of future cash flows. These Arrangements have termination options enabling the Department to terminate them if it wanted to and the assets subject to the Service Concession Arrangement revert to the Department at the end of the lease term. There have not been any changes to these arrangements during the year.

- Future Strategic Tanker Aircraft (FSTA) – providing air to air refuelling and passenger air transport capabilities £1,346 million (2024-25: £1,351 million).
- Colchester Garrison – redevelopment, rebuilding and refurbishment to provide accommodation and associated services £365 million (2024-25: £386 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 £310 million (2024-25: £325 million).
- Main Building refurbishment £150 million (2024-25: £175 million).
- Astute Class Training (ACTs) – providing specific training on Astute Class submarine equipment and systems £154.0 million (2024-25: £166.0 million).

17. Departmental Group – Contingent Liabilities and Contingent Assets Disclosed under IAS 37

Contingent Liabilities

17.1 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.

17.2 The following quantifiable contingent liabilities have been identified and the estimates shown are based on the most likely value

Quantifiable Contingent Liabilities under IAS 37

Description and Key Uncertainties	31 March 2025[1] £M	Increase/ (Decrease) in year £M	Liabilities crystallised in year £M	Obligation expired in year £M	31 March 2026 £M
Sensitive Not disclosed due to reasons of commercial confidentiality and/or national security.	3,163.7	3,288.9		(14.9)	6,437.7
Special Risk Indemnity HM Treasury (HMT) have delegated to MOD approval for a range of Special and Generic Risks which can be used when conducting normal business**.**	0.3			(0.3)	–
Contract Terms – 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.	215.3	0.5			215.8
People – liability for redundancy Uncertainties in calculating this liability include: life expectancy, age, length of service, salary and number of dependants.	2.1			(2.1)	–
People – New Fair Deal arrangements for staff pensions: 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.	10.5			(0.5)	10.0
Legal 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.	86.4	(62.4)		(0.1)	23.9
Environmental clean-up costs Uncertainties include the effectiveness of mitigation action and the possibility of unidentified hazards and damage.	11.0				11.0
Other – Indemnity related to potential damage to items in storage or transit and to cables The likelihood and cost of any damage is uncertain.	1.1			(1.1)	–
Other – Possible claims to cover the cost of laying an alternative utility supply to sites as and when identified The likelihood and cost of any claims is uncertain.	2.1				2.1
Financial Guarantees Crown Guarantee for Pension Scheme.	–	2.5			2.5
Total quantifiable contingent liabilities	3,492.5	3,229.5	–	(19.0)	6,703.0

1. The 2024-25 Figures have been restated to disclose changes to a sensitive Contingent Liability

17.3 The Department also has the following unquantifiable liabilities that require disclosure under IAS 37. These arise for a variety of reasons including 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 always available so 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:

- Under the Defence Marine Services contract losses or claims which relate to towing are handled according to the terms of the International Ocean Towage Agreement (TOWCON). Under TOWCON the contractor is indemnified by the MOD for injury to persons on towed vessels, loss or damage caused to towed vessels, and loss or damage caused to 3rd parties by towed vessels. The likelihood, cost and scale of incidents that might lead to a claim are uncertain.
- The Department has several sites where it may be necessary to carry out decontamination work. It is not practicable or cost effective to identify all contamination at these sites. Any possible liability is therefore not quantified.
- 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.
- Indemnity to AWE plc in respect of Nuclear Installations Act 1965 nuclear risks resulting from claims for damage to property or death and personal injury to a third party.

18. Related Party Transactions

18.1 The Department is the parent of the agencies and other bodies, and sponsor of the non-departmental public bodies (shown in note 19). These bodies are regarded as related parties with which the Department has had various material transactions during the year.

18.2 In addition, the Department had a number of transactions with other government departments and other central government bodies.

18.3 Details of individuals who served as Ministers and Board Members during the year are listed in the Remuneration Report. No minister, board member, key manager or other related parties has undertaken any material transactions with the Department during the year.

19. Entities within the Departmental Boundary

19.1 The entities within the boundary during 2025-26 were as follows:

On-Vote Defence Agencies
Defence Equipment and Support
Defence Science and Technology Laboratory
Submarine Delivery Agency
Non-Departmental Public Bodies
Armed Forces Covenant Fund Trustee Limited
AWE plc
National Army Museum
Royal Air Force Museum
Royal Navy Museums[1]
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[2]
Nuclear Research Advisory Council[3]
Science Advisory Committee on the Medical Implications of Less-Lethal Weapons[4]
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
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
Territorial, auxiliary and volunteer reserve associations established under section 110 of the Reserve Forces Act 1996 c14

1. Previously National Museum of the Royal Navy. Name change from December 2025.
2. Was reclassified as an Expert Committee effective 1 April 2026.
3. Was reclassified as an Expert Committee and renamed to Nuclear Research Advisory Committee effective from 1 April 2026.
4. Closed 30 November 2025 and replaced by the Medical Implications of Less-Lethal Weapons Expert Committee responsible to the Home Office.

20. Events After the Reporting Date

20.1 The Rt Hon John Healey MP was the Secretary of State for Defence until 11 June 2026. From this date, the Rt Hon Dan Jarvis MBE MP was appointed as Secretary of State for Defence.

20.2 The Department published the Defence Investment Plan (DIP) on 30 June 2026. This Defence Investment Plan, which implements the vision set out in last year's Strategic Defence Review, represents the next stage in the government's commitment to the Armed Forces and to the nation's security. The Plan is a summary of the major investment choices the Government has made for UK Defence.

20.3 The Defence Investment Plan is considered to be a non-adjusting event after the reporting period, as the relevant decisions were made after the end of the reporting period and did not reflect conditions that existed at 31 March 2026. The Department has undertaken an initial assessment of the potential impacts of the DIP and does not currently consider these to be material on the assets, liabilities, income and expenses reported in these accounts. The DIP provides an increase of approximately £15 billion in investment over the next four years. While it includes some disinvestments and changes to platform Out of Service Dates (OSDs), the estimated reduction in the carrying value of assets is approximately £1 billion, these are not considered material when assessed in the context of the overall scale and balance of the Plan. As stated in the DIP, these do not constitute binding commitments and are subject to the Government's approvals processes, affordability considerations, and contracting procedures. Further analysis will be undertaken over the coming months through the Strategic Planning Cycle (SPC) process and ongoing engagement with stakeholders. Full details of the DIP are available to view on GOV.UK.[31]

31 https://www.gov.uk/government/publications/the-defence-investment-plan

20.4 These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

21. Prior Period Adjustments

21.1 The Department has reviewed the appropriateness of its Assets Under Construction (AUC) carrying values in respect of projects being undertaken by the Defence Nuclear Enterprise (DNE) on behalf of the Department. This has resulted in material adjustments to the AUC carrying values, which should have been made in previous financial years. The impact of these adjustments to the Consolidated Statements of Comprehensive Net Expenditure for the years ended 31 March 2025, the Consolidated Statements of Financial Position as at 31 March 2025 and 1 April 2024, the Consolidated Statements of Cash Flows and the Consolidated Statements of Changes in Taxpayers' Equity for the years ending 31 March 2025 are shown below.

21.2 The Department undertakes revaluations of the carrying values of its non-property assets in Note 4 – Intangible Assets and Note 5 – Property, Plant and Equipment, using indices. These indices are based on Office for National Statistics (ONS) indices and the ONS identified an error in its methodology for producing the Producer Price Index (PPI) and the Service Producer Price Index (SPPI). The ONS published revised indices in October 2025. As this was prior to the Department authorising the issue of its 2024-25 Accounts and as this would have had a material impact to its non-property asset valuations, the Department considers that its 2024-25 Accounts should have been amended by applying the revised indices to its non-property asset valuations. The impact of these adjustments to the Consolidated Statements of Comprehensive Net Expenditure for the year ended 31 March 2025, the Consolidated Statements of Financial Position as at 31 March 2025, the Consolidated Statements of Cash Flows and the Consolidated Statements of Changes in Taxpayers' Equity for the year ending 31 March 2025 are shown below.

21.3 Restatement of Consolidated Statements of Comprehensive Net Expenditure (SoCNE) for the year ended 31 March 2025

	Note	2024-25[1] Core Department & Agencies £M	2024-25[1] Departmental Group[1] £M	DNE AUC Core Department & Agencies £M	DNE AUC Departmental Group £M	Indexation Core Department & Agencies £M	Indexation Departmental Group £M	Restated 2024-25 Core Department & Agencies £M	Restated 2024-25 Departmental Group £M
Income from provision of supplies and services	2.1	(1,100.3)	(1,100.3)	–	–	–	–	(1,100.3)	(1,100.3)
Other income	2.1	(548.1)	(873.0)	–	–	–	–	(548.1)	(873.0)
Operating income		**(1,648.4)**	**(1,973.3)**	–	–	–	–	**(1,648.4)**	**(1,973.3)**
Staff costs	3.1	17,029.9	17,753.0	–	–	–	–	17,029.9	17,753.0
Purchase of goods and services	3.2	22,135.3	21,822.0	205.0	205.0	–	–	22,340.3	22,027.0
Depreciation, amortisation, impairment, write-(ons)/offs and disposals	3.3	9,850.8	9,872.4	26.7	26.7	(129.8)	(129.8)	9,747.7	9,769.3
Provision expense	3.4	910.9	910.9	–	–	–	–	910.9	910.9
War pensions/benefits		653.4	653.4	–	–	–	–	653.4	653.4
Other expenditure	3.5	1,817.3	1,722.9	–	–	–	–	1,817.3	1,722.9
Operating expenditure		**52,397.6**	**52,734.6**	231.7	231.7	(129.8)	(129.8)	**52,499.5**	**52,836.5**
Net operating expenditure		**50,749.2**	**50,761.3**	231.7	231.7	(129.8)	(129.8)	**50,851.1**	**50,863.2**
Finance income	2.2	(355.3)	(355.3)	–	–	–	–	(355.3)	(355.3)
Finance expense	3.6	1,245.4	1,246.8	–	–	–	–	1,245.4	1,246.8
Net expenditure for the year		**51,639.3**	**51,652.8**	231.7	231.7	(129.8)	(129.8)	**51,741.2**	**51,754.7**

	Note	2024-25[1] Core Department & Agencies £M	2024-25[1] Departmental Group[1] £M	DNE AUC Core Department & Agencies £M	DNE AUC Departmental Group £M	Indexation Core Department & Agencies £M	Indexation Departmental Group £M	Restated 2024-25 Core Department & Agencies £M	Restated 2024-25 Departmental Group £M
Other Comprehensive Expenditure									
Net (gain) or loss on:									
revaluation of property, plant and equipment	SoCiTE	(6,226.1)	(6,230.4)	1.8	1.8	1,424.2	1,424.2	(4,800.1)	(4,804.4)
revaluation of intangible assets	SoCiTE	(293.2)	(293.4)	–	–	634.9	634.9	341.7	341.5
revaluation of assets held for sale	SoCiTE	33.5	33.5	–	–	–	–	33.5	33.5
revaluation of right-of-use assets	SoCiTE	1,595.9	1,593.4	–	–	–	–	1,595.9	1,593.4
revaluation of service concession arrangements	SoCiTE	26.2	26.2	–	–	–	–	26.2	26.2
revaluation of pensions	SoCiTE	1.4	(111.8)	–	–	–	–	1.4	(111.8)
revaluation of capitalised decommissioning liabilities	SoCiTE	3,332.8	3,332.8	–	–	–	–	3,332.8	3,332.8
assets written-off or written-on or transferred in	SoCiTE	–	(17.6)	(1.2)	(1.2)	–	–	(1.2)	(18.8)
Comprehensive net expenditure for the year		**50,109.8**	**49,985.5**	232.3	232.3	1,929.3	1,929.3	**52,271.4**	**52,147.1**

1. As published in the MOD Annual Report and Accounts 2024-25.

21.4 Restatement of Statements of Financial Position (SoFP)

as at 31 March 2025

	Note	31 March 2025[1] Core Department & Agencies £M	31 March 2025[1] Departmental Group £M	DNE AUC Core Department & Agencies £M	DNE AUC Departmental Group £M	Indexation Core Department & Agencies £M	Indexation Departmental Group £M	Restated 1 April 2025 Core Department & Agencies £M	Restated 1 April 2025 Departmental Group £M
Non-current assets									
Intangible assets	4	37,129.0	37,129.8	71.0	71.0	(594.7)	(594.7)	36,605.3	36,606.1
Property, plant and equipment	5	156,718.6	157,371.9	(2,208.2)	(2,208.2)	(1,334.6)	(1,334.6)	153,175.8	153,829.1
Right-of-use assets	15	2,009.1	2,073.7	–	–	–	–	2,009.1	2,073.7
Retirement benefit scheme assets	12	–	17.4	–	–	–	–	–	17.4
Financial assets	6	431.5	431.5	–	–	–	–	431.5	431.5
Receivables due after more than one year	8	749.7	868.4	–	–	–	–	749.7	868.4
Total non-current assets		**197,037.9**	**197,892.7**	(2,137.2)	(2,137.2)	(1,929.3)	(1,929.3)	**192,971.4**	**193,826.2**
Current assets									
Non-current assets held for sale		3.9	3.9	–	–	–	–	3.9	3.9
Inventories	7	5,124.6	5,125.5	–	–	–	–	5,124.6	5,125.5
Receivables due within one year	8	3,763.2	3,923.8	–	–	–	–	3,763.2	3,923.8
Financial assets	6	19.2	76.1	–	–	–	–	19.2	76.1
Cash at bank and in hand	9	1,910.8	2,203.5	–	–	–	–	1,910.8	2,203.5
Total current assets		**10,821.7**	**11,332.8**	–	–	–	–	**10,821.7**	**11,332.8**
Total assets		**207,859.6**	**209,225.5**	(2,137.2)	(2,137.2)	(1,929.3)	(1,929.3)	**203,793.1**	**205,159.0**
Current liabilities									
Payables due within one year[1]	10	(16,095.0)	(16,514.8)	–	–	–	–	(16,095.0)	(16,514.8)
Provisions due within one year	11	(1,302.6)	(1,307.9)	–	–	–	–	(1,302.6)	(1,307.9)
Financial liabilities	6	(231.7)	(231.7)	–	–	–	–	(231.7)	(231.7)
Total current liabilities		**(17,629.3)**	**(18,054.4)**	–	–	–	–	**(17,629.3)**	**(18,054.4)**
Total assets less current liabilities		**190,230.3**	**191,171.1**	(2,137.2)	(2,137.2)	(1,929.3)	(1,929.3)	**186,163.8**	**187,104.6**

	Note	31 March 2025[1] Core Department & Agencies £M	31 March 2025[1] Departmental Group £M	DNE AUC Core Department & Agencies £M	DNE AUC Departmental Group £M	Indexation Core Department & Agencies £M	Indexation Departmental Group £M	Restated 1 April 2025 Core Department & Agencies £M	Restated 1 April 2025 Departmental Group £M
Non-current liabilities									
Provisions due after one year	11	(15,436.5)	(15,436.5)	–	–	–	–	(15,436.5)	(15,436.5)
Retirement benefit scheme liabilities	12	(396.7)	(510.8)	–	–	–	–	(396.7)	(510.8)
Payables due after more than one year[1]	10	(4,742.1)	(4,806.3)	–	–	–	–	(4,742.1)	(4,806.3)
Total non-current liabilities		**(20,575.3)**	**(20,753.6)**	–	–	–	–	**(20,575.3)**	**(20,753.6)**
Total assets less total liabilities		**169,655.0**	**170,417.5**	(2,137.2)	(2,137.2)	(1,929.3)	(1,929.3)	**165,588.5**	**166,351.0**
Taxpayers' equity and other reserves									
General fund	SoCiTE	134,730.3	134,730.3	(2,187.3)	(2,187.3)	(28.8)	(28.8)	132,514.2	132,514.2
Revaluation reserve	SoCiTE	34,924.7	34,924.7	50.1	50.1	(1,900.5)	(1,900.5)	33,074.3	33,074.3
Arm's Length Bodies' reserves		–	762.5	–	–	–	–	–	762.5
Total equity		**169,655.0**	**170,417.5**	(2,137.2)	(2,137.2)	(1,929.3)	(1,929.3)	**165,588.5**	**166,351.0**

1. As published in the MOD Annual Report and Accounts 2024-25.

21.5 Restatement of Consolidated Statements of Cash Flows (SoCF)

for the year ended 31 March 2025

	Note	2024-25[1] Core Department & Agencies £M	2024-25[1] Departmental Group £M	DNE AUC Core Department & Agencies £M	DNE AUC Departmental Group £M	Indexation Core Department & Agencies £M	Indexation Departmental Group £M	Restated 2024-25 Core Department & Agencies £M	Restated 2024-25 Departmental Group £M
Cash flows from operating activities									
Net operating expenditure for the year	SoCNE	50,749.2	50,761.3	231.7	231.7	(129.8)	(129.8)	50,851.1	50,863.2
Adjustments for non-cash transactions		(10,744.0)	(10,757.9)	–	–	129.8	129.8	(10,614.2)	(10,628.1)
Movement in trade and other receivables	SoFP	75.1	162.5	–	–	–	–	75.1	162.5
Adjustment for movements on receivables relating to items not passing through operating costs		(2.5)	(2.3)	–	–	–	–	(2.5)	(2.3)
Movement in net inventories and financial assets held for sale		517.9	517.2	–	–	–	–	517.9	517.2
Movement in trade payables	SoFP	3,761.0	3,620.7	–	–	–	–	3,761.0	3,620.7
Adjustment for movements in payables relating to items not passing through operating costs		(4,971.6)	(4,995.5)	–	–	–	–	(4,971.6)	(4,995.5)
Use of provisions and unfunded pensions		734.7	734.7	–	–	–	–	734.7	734.7
Net cash outflow from operating activities		**40,119.8**	**40,040.7**	231.7	231.7	–	–	**40,351.5**	**40,272.4**

	Note	2024-25[1] Core Department & Agencies £M	2024-25[1] Departmental Group £M	DNE AUC Core Department & Agencies £M	DNE AUC Departmental Group £M	Indexation Core Department & Agencies £M	Indexation Departmental Group £M	Restated 2024-25 Core Department & Agencies £M	Restated 2024-25 Departmental Group £M
Cash flows from investing activities									
Purchase of property, plant and equipment	5	13,525.7	13,539.7	(231.7)	(231.7)	–	–	13,294.0	13,308.0
Purchase of intangible assets	4	3,001.8	3,002.1	–	–	–	–	3,001.8	3,002.1
Adjustment for non-cash movements relating to PPE and intangibles		(388.3)	(388.3)	–	–	–	–	(388.3)	(388.3)
Proceeds on disposal of property, plant and equipment		(54.3)	(54.3)	–	–	–	–	(54.3)	(54.3)
Dividends, equity repayments and other income from investments		(34.4)	(12.5)	–	–	–	–	(34.4)	(12.5)
Financing income		(8.7)	(8.7)	–	–	–	–	(8.7)	(8.7)
Other investments		188.1	188.1	–	–	–	–	188.1	188.1
Net cash outflow from investing activities		**16,229.9**	**16,266.1**	**(231.7)**	**(231.7)**	–	–	**15,998.2**	**16,034.4**

	Note	2024-25[1] Core Department & Agencies £M	2024-25[1] Departmental Group £M	DNE AUC Core Department & Agencies £M	DNE AUC Departmental Group £M	Indexation Core Department & Agencies £M	Indexation Departmental Group £M	Restated 2024-25 Core Department & Agencies £M	Restated 2024-25 Departmental Group £M
Cash flows from financing activities									
Consolidated Fund (Supply) – current year	SoCiTE	(64,045.3)	(64,045.3)	–	–	–	–	(64,045.3)	(64,045.3)
Draw down from the Contingency Fund		6,494.5	6,494.5	–	–	–	–	6,494.5	6,494.5
Repaid to the Contingency Fund		(6,494.5)	(6,494.5)	–	–	–	–	(6,494.5)	(6,494.5)
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		6,417.0	6,419.7	–	–	–	–	6,417.0	6,419.7
Movement on collaborative projects		875.0	875.0	–	–	–	–	875.0	875.0
Financing expenditure		485.5	486.9	–	–	–	–	485.5	486.9
Net financing		**(56,265.3)**	**(56,261.2)**	–	–	–	–	**(56,265.3)**	**(56,261.2)**
Net increase or (decrease) in cash and cash equivalents in the period		(84.4)	(45.6)	–	–	–	–	(84.4)	(45.6)
Cash and cash equivalents at the beginning of the period	9	**1,995.2**	**2,249.1**	–	–	–	–	**1,995.2**	**2,249.1**
Cash and cash equivalents at the end of the period	9	**1,910.8**	**2,203.5**	–	–	–	–	**1,910.8**	**2,203.5**

1. As published in the MOD Annual Report and Accounts 2024-25.

21.6 Consolidated Statements of Changes in Taxpayers' Equity (SoCiTE)

for the year ended 31 March 2025

		Departmental Group[1]		DNE AUC		Indexation		Restated Departmental Group	
	Note	ALBs' Reserves £M	Total Reserves £M	ALBs' Reserves £M	Total Reserves £M	ALBs' Reserves £M	Total Reserves £M	ALBs' Reserves £M	Total Reserves £M
Balance at 1 April 2024		638.2	156,331.8		(1,904.9)			638.2	154,426.9
Parliamentary Funding – drawn down in-year	SoCF	–	64,045.3	–	–	–	–	–	64,045.3
Parliamentary Funding – deemed funding		–	429.5	–	–	–	–	–	429.5
Parliamentary Funding – Supply payable	10	–	(406.6)	–	–	–	–	–	(406.6)
Payment of amounts due to the Consolidated Fund		–	–	–	–	–	–	–	–
Non-cash charge – auditors remuneration	3.5	–	3.0	–	–	–	–	–	3.0
Net expenditure for the year	SoCNE	(13.5)	(51,652.8)	–	(231.7)	–	129.8	(13.5)	(51,754.7)
Other net comprehensive expenditure		–	–	–	–	–	–	–	–
Net gain or (loss) on:									
revaluation of property, plant and equipment	SoCNE	4.3	6,230.4	–	(1.8)	–	(1,424.2)	4.3	4,804.4
revaluation of intangible assets	SoCNE	0.2	293.4	–	–	–	(634.9)	0.2	(341.5)
revaluation of assets held for sale		–	(33.5)	–	–	–	–	–	(33.5)
revaluation of right-of-use assets	SoCNE	2.5	(1,593.4)	–	–	–	–	2.5	(1,593.4)
revaluation of service concession arrangements	SoCNE	–	(26.2)	–	–	–	–	–	(26.2)
revaluation of pensions	SoCNE	113.2	111.8	–	–	–	–	113.2	111.8
revaluation of capitalised decommissioning liabilities	SoCNE	–	(3,332.8)	–	–	–	–	–	(3,332.8)
assets written-off or written-on or transferred in	SoCNE	17.6	17.6	–	1.2	–	–	17.6	18.8
Transfers between reserves		–	–	–	–	–	–	–	–
Balance as at 31 March 2025		762.5	170,417.5	–	(2,137.2)	–	(1,929.3)	762.5	166,351.0

1. As published in the MOD Annual Report and Accounts 2024-25.

21.7 Restatement of Statements of Financial Position (SoFP)

as at 31 March 2024

	Note	31 March 2024[1] Core Department & Agencies £M	31 March 2024[1] Departmental Group £M	DNE AUC Core Department & Agencies £M	DNE AUC Departmental Group £M	Restated 1 April 2024 Core Department & Agencies £M	Restated 1 April 2024 Departmental Group £M
Non-current assets							
Intangible assets	4	35,786.5	35,787.2	63.4	63.4	35,849.9	35,850.6
Property, plant and equipment	5	135,714.7	136,364.2	(1,968.3)	(1,968.3)	133,746.4	134,395.9
Right-of-use assets	15	10,809.9	10,855.0	–	–	10,809.9	10,855.0
Retirement benefit scheme assets	12	–	17.4	–	–	–	17.4
Financial assets	6	251.0	251.0	–	–	251.0	251.0
Receivables due after more than one year	8	943.5	1,019.7	–	–	943.5	1,019.7
Total non-current assets		**183,505.6**	**184,294.5**	(1,904.9)	(1,904.9)	**181,600.7**	**182,389.6**
Current assets							
Non-current assets held for sale		6.1	6.1	–	–	6.1	6.1
Inventories	7	4,639.5	4,641.1	–	–	4,639.5	4,641.1
Receivables due within one year	8	3,494.3	3,610.0	–	–	3,494.3	3,610.0
Financial assets	6	72.9	127.6	–	–	72.9	127.6
Cash at bank and in hand	9	1,995.2	2,249.1	–	–	1,995.2	2,249.1
Total current assets		**10,208.0**	**10,633.9**	–	–	**10,208.0**	**10,633.9**
Total assets		**193,713.6**	**194,928.4**	(1,904.9)	(1,904.9)	**191,808.7**	**193,023.5**
Current liabilities							
Payables due within one year[1]	10	(15,460.9)	(15,752.3)	–	–	(15,460.9)	(15,752.3)
Provisions due within one year	11	(915.7)	(916.0)	–	–	(915.7)	(916.0)
Financial liabilities	6	(162.5)	(162.5)	–	–	(162.5)	(162.5)
Total current liabilities		**(16,539.1)**	**(16,830.8)**	–	–	**(16,539.1)**	**(16,830.8)**
Total assets less current liabilities		**177,174.5**	**178,097.6**	(1,904.9)	(1,904.9)	**175,269.6**	**176,192.7**

	Note	31 March 2024[1] Core Department & Agencies £M	31 March 2024[1] Departmental Group £M	DNE AUC Core Department & Agencies £M	DNE AUC Departmental Group £M	Restated 1 April 2024 Core Department & Agencies £M	Restated 1 April 2024 Departmental Group £M
Non-current liabilities							
Provisions due after one year	11	(11,952.5)	(11,957.8)	–	–	(11,952.5)	(11,957.8)
Retirement benefit scheme liabilities	12	(391.2)	(618.5)	–	–	(391.2)	(618.5)
Payables due after more than one year[1]	10	(9,137.2)	(9,189.5)	–	–	(9,137.2)	(9,189.5)
Total non-current liabilities		**(21,480.9)**	**(21,765.8)**	–	–	**(21,480.9)**	**(21,765.8)**
Total assets less total liabilities		**155,693.6**	**156,331.8**	(1,904.9)	(1,904.9)	**153,788.7**	**154,426.9**
Taxpayers' equity and other reserves							
General fund	SoCiTE	120,306.0	120,306.0	(1,947.0)	(1,947.0)	118,359.0	118,359.0
Revaluation reserve	SoCiTE	35,387.6	35,387.6	42.1	42.1	35,429.7	35,429.7
Arm's Length Bodies' reserves		–	638.2	–	–	–	638.2
Total equity		**155,693.6**	**156,331.8**	(1,904.9)	(1,904.9)	**153,788.7**	**154,426.9**

1. As published in the MOD Annual Report and Accounts 2024-25, which restated the 2023-24 balances.

Annexes

Royal Air Force 90th Anniversary of the Spitfire.

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	7,200	6,520	February 2026
	Men and Women	24,350	19,600	March 2026
	Aggregate	31,550	26,100	March 2026
Royal Marines	Officers	1,100	910	February 2026
	Men and Women	7,200	5,670	December 2025
	Aggregate	8,300	6,570	December 2025
Army Service				
Army (other than Services below)	Officers	14,430	12,720	October 2025
	Men and Women	78,220	64,490	April 2025
	Aggregate	92,650	76,990	April 2025
Gurkhas and International troops abroad	Officers	230	190	September, October, December 2025 and January, February 2026
	Men and Women	5,060	4,430	March 2026
	Aggregate	5,290	4,620	March 2026
Air Force Service				
Royal Air Force	Officers	8,800	8,320	May 2025
	Men and Women	27,000	24,700	May 2025
	Aggregate	35,800	33,020	May 2025

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	1,960	April 2025
	Men and Women	9,000	3,010	April 2025
	Aggregate	13,960	4,980	April 2025
Royal Fleet Reserve (Marine Officers and Marines)	Officers	470	210	September 2025
	Men and Women	2,610	710	April 2025
	Aggregate	3,080	920	April 2025
Royal Naval Reserve	Officers	1,500	1,180	June 2025
	Men and Women	2,300	1,180	February 2026
	Aggregate	3,800	2,330	June 2025
Royal Marine Reserve	Officers	120	110	March 2026
	Men and Women	1,250	840	September 2025
	Aggregate	1,370	940	September 2026
Royal Naval Reserve (List 7)	Officers	1,210	850	March 2026
Reserve Land Forces				
Army Regular Reserve	Officers	7,740	6,610	October 2025
	Men and Women	19,320	16,380	May 2025
	Aggregate	27,060	22,970	May 2025
Army Reserve	Officers	9,020	5,990	January 2026
	Men and Women	31,500	23,470	February 2026
	Aggregate	40,520	29,450	February 2026
Reserve Air Forces				
Royal Air Force Reserve	Officers	4,500	4,020	December 2025
	Men and Women	8,500	6,730	April 2025
	Aggregate	13,000	10,690	November 2025
Royal Auxiliary Air Force	Officers	950	820	November 2025
	Men and Women	3,500	2,320	February 2026 and March 2026
	Aggregate	4,450	3,150	March 2026

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	630	February 2026
	Men and Women	1,620	1,010	January 2026
	Aggregate	2,470	1,630	April 2025 and January 2026
Special Members of The Reserve Land Forces				
Army Regular Reserve	Officers	30	0	[2]
	Men and Women	150	0	[2]
	Aggregate	180	0	[2]
Army Reserve	Officers	20	0	[2]
	Men and Women	740	170	April 2025
	Aggregate	760	170	April 2025
Special Members of The Reserve Air Forces				
Royal Air Force Reserve	Officers	100	50	November 2025, January 2026 and February 2026
	Men and Women	150	150	February 2026
	Aggregate	250	200	February 2026

[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.

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
Annual Defence Reception	Janes US Group LLC	£26,664.64
		£26,664.64
Army Parachute Display Team	Wescom Defence	£28,800.00
	5.11 Tactical	£7,100.00
		£35,900.00
Army Servicewomen's Network (ASN) Conference 2025	Ruddy Nice Ltd	£6,000.00
		£6,000.00
Army USA Strategic Engagement Week 2026	MBDA, Inc.	£12,189.55
	Rolls-Royce	£12,189.55
		£24,379.10
ASOB Everest 26	Mission Inc Ltd	£16,666.70
	Team Forces	£5,000.00
		£21,666.70
ASWC Conference 2025	BAE Systems Plc	£20,000.00
		£20,000.00
Atlantic Rowing 25	Teams Forces Funding Ltd	£5,000.00
		£5,000.00
BBMF	Leeds Commercial Vehicle Hire	£11,960.00
		£11,960.00
RAF Diaspora Conference 2025	Indra Park Air	£7,529.71
		£7,529.71
RAF Falcons	Bremont Watch Company	£16,700.00
		£16,700.00
RAF Falcons Summit Air 2025	Summit Air	£6,000.00
		£6,000.00
RAFAT Sponsorship	BAE Systems Plc	£80,000.00
	Boeing/Jeppesen	£40,000.00
	DLM Creative	£17,000.00
	Breitling	£12,000.00
	Leeds Commercial	£10,000.00
	Colour Confidence	£10,000.00
	Oxford Vaughn	£10,000.00
	Rolls Royce	£9,999.00
	Ping	£5,500.00
	Lincoln Tea and Coffee Company	£5,500.00
	Barbour	£5,000.00
		£204,999.00

Activity	Name of Sponsor	Sponsor Contribution £ excluding VAT
RAF's Battle of Britain Reception	MBDA, Inc.	£6,856.62
		£6,856.62
Ranger Everest 2026 Expedition	Iqarus International Limited	£10,416.00
		£10,416.00
Regimental Sergeant Majors Conference 2025	MBDA UK Ltd	£8,500.00
		£8,500.00
Royal Welsh Agricultural Show	General Dynamics	£17,500.00
	LANCO	£8,000.00
		£25,500.00
Soldier of the Year Award	Elliott Brown Ltd	£6,000.00
		£6,000.00
Sponsorship of DSEI 2025	JFD Limited	£15,000.00
	BAE Systems Surface Ships Limited	£15,000.00
	TKMS Atlas UK Limited	£10,000.00
	Leonardo UK Limited	£10,000.00
	Truflo Marine Limited, T/A IMI Truflo Marine	£5,000.00
	Lockheed Martin UK Holdings Limited	£5,000.00
	MBDA UK Limited	£5,000.00
	BFBS	£5,000.00
	Thales UK Limited	£5,000.00
	Rolls-Royce Submarines Limited	£5,000.00
		£80,000.00
Typhoon Display Team	Leonardo UK	£20,000.00
	Runway25	£6,100.00
	Air Covers	£8,064.00
		£34,164.00
Trafalgar Night Reception	AMS Group, Inc.	£15,236.93
		£15,236.93
Chemical Weapons Demilitarisation Conference (CWD 2025)	Kobe Steel	£5,000.00
	Dynasafe	£5,000.00
	Markes International	£5,000.00
	Core CBRN	£5,000.00
		£20,000.00
Grand Total		**£593,472.70**

The above table shows all sponsorship for defence core activities in accordance with MOD policy as stated in JSP 462.

Annex C: Core Tables

Organisation (All) Total Departmental Spending, 2021-22 to 2026-27 (to 28-29 for Capital DEL)

£000	2021-22 OUTTURN	2022-23 OUTTURN	2023-24 OUTTURN	2024-25 OUTTURN	2025-26 OUTTURN	2026-27 PLANS	2027-28 PLANS	2028-29 PLANS
Resource DEL								
Provision of Defence Capability Service Personnel Costs	10,390,528	10,623,288	10,956,573	11,998,846	12,764,254	13,934,103	–	–
Provision of Defence Capability Civilian Personnel Costs	1,612,148	1,642,062	1,770,414	1,792,960	1,893,674	2,119,085	–	–
Provision of Defence Capability Infrastructure costs	5,063,419	4,816,706	5,036,397	5,209,027	5,695,924	6,049,999	–	–
Provision of Defence Capability Inventory Consumption	1,360,704	1,607,774	1,502,929	1,423,502	1,213,407	1,119,999	–	–
Provision of Defence Capability Equipment Support Costs	7,537,696	7,818,594	5,720,533	6,158,691	6,367,143	6,700,000	–	–
Provision of Defence Capability Other Costs and Services	2,187,387	2,114,922	2,685,810	2,828,214	2,360,395	1,525,821	–	–
Provision of Defence Capability Receipts and other Income	(1,218,848)	(1,367,549)	(1,337,264)	(1,338,395)	(1,358,598)	(1,499,400)	–	–
Provision of Defence Capability Depreciation and Impairments Costs[2]	7,987,529	7,351,151	7,956,289	8,295,149	8,984,870	–	–	–
Provision of Defence Capability Cash Release of Provisions Costs	383,636	376,475	218,070	419,115	531,471	469,263	–	–
Provision of Defence Capability Research and Development Costs[1]	224,828	202,193	173,047	221,320	229,699	–	–	–
Provision of Defence Capability Administration Civilian Personnel Costs	636,425	663,464	595,786	614,929	638,990	579,909	–	–
Provision of Defence Capability Administration Other Costs and Services	345,877	291,964	268,828	226,168	257,670	236,660	–	–
Operations Service Personnel Staff Cost	25,630	28,412	145,305	227,626	298,864	259,000	–	–
Operations and Peacekeeping Civilian Personnel Staff Costs	3,269	1,623	15,543	20,335	18,938	16,000	–	–
Operations Infrastructure Costs	107,081	158,523	248,246	302,215	302,424	270,000	–	–
Operations Inventory Consumption	69,433	164,426	228,708	256,325	254,143	250,000	–	–
Operations Equipment Support Costs	235,490	417,130	523,814	742,743	922,222	1,060,000	–	–
Operations Other Costs and Services	(3,770)	7,563	145,551	223,408	263,540	276,001	–	–
Operations Receipts and other Income	(4,271)	(6,513)	(9,882)	(14,994)	(19,016)	(31,001)	–	–
Operations Depreciation and Impairment Costs	–	–	–	–	–	–	–	–
Operations Cash Release of Provisions Costs	–	–	–	–	–	–	–	–
Conflict Pools Resource Costs	–	–	–	–	–	–	–	–
Non-Departmental Public Bodies Costs	226,707	234,987	219,003	238,927	242,027	199,143	–	–
Defence Capability Admin Service Pers Costs	767,735	797,079	815,912	919,207	1,006,110	920,897	–	–
Defence Capability DE&S DEL Costs	1,095,298	1,216,547	1,285,372	1,264,005	1,119,093	1,243,382	–	–
War Pension Benefits Programme Costs	622,575	606,730	651,414	653,981	632,609	650,318	–	–
Integrated Security Fund	77,985	75,007	54,942	51,537	40,388	11,345	–	–
Cash Release of Provisions Admin Costs	3,025	5,232	3,641	4,463	6,890	4,755	–	–
Defence Capability Defence Nuclear Enterprise DEL Cost	–	–	2,595,731	2,833,978	2,984,730	2,992,000	–	–
Defence Capability Defence Nuclear Enterprise Admin DEL Costs	–	–	243,382	250,096	271,900	275,000	–	–
Total Resource DEL	**39,737,516**	**39,847,790**	**42,714,094**	**45,823,378**	**47,923,761**	**39,632,279**	**–**	**–**

£000	2021-22 OUTTURN	2022-23 OUTTURN	2023-24 OUTTURN	2024-25 OUTTURN	2025-26 OUTTURN	2026-27 PLANS	2027-28 PLANS	2028-29 PLANS
Resource AME								
Provision of Defence Capability Depreciation and Impairment Costs	129,504	(95,076)	461,628	1,127,288	348,956	11,915,227	–	–
Provision of Defence Capability Provisions Costs	11,737,047	(13,371,447)	(1,644,014)	4,139,062	3,694,422	4,900,000	–	–
Provision of Defence Cash Release of Provisions Costs	(386,661)	(381,707)	(458,740)	(373,752)	(514,990)	(400,000)	–	–
Movement On Fair Value of Financial Instruments	(693,246)	(7,747)	258,730	131,888	53,945	–	–	–
Total Resource AME	**10,786,644**	**(13,855,977)**	**(1,382,396)**	**5,024,486**	**3,582,333**	**16,415,227**	–	–
Total Resource Budget	**50,524,160**	**25,991,813**	**41,331,698**	**50,847,864**	**51,506,094**	**56,047,506**	–	–
Capital DEL								
Provision of Defence Capability Capital Single Use Military Equipment	8,462,664	8,487,084	4,913,700	4,997,568	4,604,300	4,327,533	–	–
Provision of Defence Capability Other Capital (Fiscal)	3,878,886	7,666,258	4,134,666	5,605,619	4,762,672	5,581,143	16,765,948	17,174,656
Provision of Defence Capability Fiscal Assets/Estate Disposal	(79,453)	(74,580)	(258,889)	(97,646)	(34,506)	(182,600)	–	–
Provision of Defence Capability New Loans and Loan Repayment	–	–	–	–	70,956	–	336,000	365,000
Provision of Defence Capability Research and Development Costs[1]	1,836,383	2,050,462	2,265,757	2,588,049	2,709,278	2,865,000	2,210,000	2,289,000
Operations Capital Single Use Military Equipment	7,229	733,643	857,775	1,024,976	861,891	520,000	–	–
Operations Research and Development Costs	–	–	–	–	–	25,000	–	–
Operations Other Capital (Fiscal)	(16,284)	1,291,888	360,927	569,117	1,054,764	995,000	2,000,000	2,250,000
Non-Departmental Public Bodies Costs	2,575	7,675	30,576	41,276	38,784	7,918	2,750	3,000
Defence Capability DE&S DEL Costs	87,994	141,601	251,310	162,597	111,460	149,577	210,000	230,000
Integrated Security Fund	–	–	–	–	–	–	–	–
Defence Capability Defence Nuclear Enterprise DEL Cost	–	–	6,594,390	7,805,664	8,886,763	11,185,550	8,478,000	9,170,000
Total Capital DEL	**14,179,994**	**20,304,031**	**19,150,212**	**22,697,220**	**23,066,362**	**25,474,121**	**30,002,698**	**31,481,656**
Capital AME								
Provision of Defence Capability Provisions Costs	–	–	–	3,899	(476)	1,000	1,000	1,000
Total Capital AME	**–**	**–**	**–**	**3,899**	**(476)**	**1,000**	**1,000**	**1,000**
Total Capital Budget	**14,179,994**	**20,304,031**	**19,150,212**	**22,701,119**	**23,065,886**	**25,475,121**	**30,003,698**	**31,482,656**
Total departmental spending[3]	**57,280,367**	**39,047,516**	**51,805,263**	**63,994,658**	**65,184,209**	**69,607,400**	**30,003,698**	**31,482,656**

[1] The R&D costs have been restated to comply with European System of Accounts (ESA 10) as per HMT directive.
[2] For 2025-26 onwards depreciation and impairments have been classified as AME as per HMT guidance.
[3] 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, 2021-22 to 2026-27

£000	2021-22 OUTTURN	2022-23 OUTTURN	2023-24 OUTTURN	2024-25 OUTTURN	2025-26 OUTTURN	2026-27 PLANS	2027-28 PLANS	2028-29 PLANS
Resource DEL								
Provision of Defence Capability Administration Civilian Personnel Costs	636,425	663,464	595,786	614,929	638,990	579,909	–	–
Provision of Defence Capability Administration Other Costs and Services	345,877	291,964	268,828	226,168	257,670	236,660	–	–
Defence Capability Admin Service Pers Costs	767,735	797,079	815,912	919,207	1,006,110	920,897	–	–
Cash Release of Provisions Admin Costs	3,025	5,232	3,641	4,463	6,890	4,755	–	–
Defence Capability Defence Nuclear Enterprise Administration DEL Cost	–	–	243,382	250,096	271,900	275,000	–	–
Total administration budget	**1,753,062**	**1,757,739**	**1,927,549**	**2,014,863**	**2,181,560**	**2,017,221**	–	–

Annex D: Greenhouse Gas Emissions

	Emission Sources	Ref.	2022-23	2023-24	2024-25	2025-26
Non-Financial Indicators tCO_2e 000s	Defence Carbon Footprint (Scopes 1, 2 and 3) (a+c+d+e+g+h+i+j)		**3,009**	**2,865**	**2,634**	**2,517**
	Estate Emissions and Business Travel UK only and Capability Energy (b+c+f+k)		**2,504**	**2,405**	**2,096**	**2,060**
	Estate Emission and Business Travel UK only (b+f+k)		**935**	**920**	**932**	**810**
	Scope 1		**2,183**	**2,056**	**1,732**	**1,783**
	Direct Emissions (UK and overseas)	a	580	552	551	513
	of which GGC (UK only)	b	531	509	507	469
	Capability Energy	c	1,569	1,485	1,164	1,250
	Fugitive Emissions	d	33	20	17	20
	Scope 2		**377**	**384**	**412**	**335**
	Emissions Electricity and Heat (UK and overseas)	e	377	384	412	335
	of which GGC (UK only)	f	348	355	383	310
	Scope 3		**450**	**424**	**490**	**399**
	Waste Generated	g	2	2	2	2
	Employee Commuting	h	40	47	51	46
	Service Family Accommodation (SFA)	i	180	148	149	142
	Duty Travel (UK and overseas)	j	228	227	288	209
	of which GGC (UK only)	k	56	56	42	32
Related Energy Consumption KWh 000s	Electricity: Non-renewable		1,776,441	1,700,564	1,822,843	1,709,891
	Electricity: Renewable		24,899	19,943	28,312	25,619
	Natural Gas		2,632,920	2,504,617	2,488,342	2,272,730
	LPG		90,750	89,504	92,565	74,390
	Other		317,668	294,800	309,830	322,120
Related Equipment Energy Consumption Litres 000s	Aviation Fuel		371,581	311,757	270,805	262,966
	Ground Fuel		34,384	25,198	30,865	30,201
	Maritime Fuel		166,788	180,263	127,159	161,739
	Other Fuel		161	144	238	228
Financial Indicators £000s	Expenditure on Estate Energy		460,027	523,473	596,928	548,102
	Expenditure on Official Business Travel		159,127	176,086	170,738	188,069
	Expenditure on Equipment Energy (fuel)		346,295	445,294	395,114	362,742

Notes

1 Greenhouse Gas Emission measurement aligns to the Greenhouse Gas Protocols.
2 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 excludes compassionate travels and resettlement.
3 Capability Energy includes emission from military aviation, maritime, green fleet, white fleet and charter fuel emissions.
4 Other fuel in equipment energy consumption includes kerosene.
5 Related Energy consumption (KWH) reflects the Defence Carbon Footprint total.
6 Renewable energy includes Biogas, Wood Pellet, Woodchip and SV power.
7 F gas data now includes estimates for data gaps identified which have not been included in previous years. Prior years have been restated.
8 Scope 3 waste data does not currently include construction and demolition waste for MPP (Major Projects and Programmes).
9 Estate energy consumption data and the associated emissions reported have been restated due to reconciliations and access to better data during 2025-26. This impacts on both scope 1 (22-23, 23-24, 24-25) and scope 2 (24-25) emissions for the UK and overseas as well as GGC (UK only).
10 Duty travel emissions have fallen despite flight distances remaining at a similar level to previous years. This is due to the DESNEZ 2025 air travel conversion factors falling significantly as a result of incorporating updated scientific findings and industry data, providing a more accurate reflection of modern, cleaner aviation operations.

Annex E: Water, Waste and Carbon Credits Data

Water Data		2022-23	2023-24	2024-25	2025-26
Non-Financial Indicators 000s m^3	Water consumption[1]	16.07	15.97	15.81	15.62
Financial Indicators £000s	Water and Wastewater supply costs (GB estate within GGC scope)	68,287	74,087	79,488	80,902

[1] Water consumption represents the scope for GGC 2025-30 which includes ~2,400 Aquatrine PFI sites in GB. Northern Ireland is excluded. The scope also excludes distribution losses and service family accommodation.

Waste Data[1]		2022-23	2023-24	2024-25	2025-26
Non-Financial Indicators tonnes 000s	Total Waste	62	61	56	56
	Landfill	–	–	1	–
	Recycled	26	21	24	26
	Reused	1	–	–	1
	Composted	–	–	1	–
	Incinerated with Energy recovery	25	23	23	21
	Incinerated without Energy recovery	–	3	–	1
	Other	4	9	–	–
	Anaerobic Digestion	5	4	5	6
ICT Waste tonnes 000s	Total Waste	–	–	0.4	0.4
	Reused	–	–	0.1	–
	Recycled	–	–	0.3	0.4
	Recovered	–	–	–	–

[1] Waste data follows the GGC 2025-2030 scope which includes all MOD UK estates waste generated. The scope excludes military end of life equipment, absolute hazardous waste, waste generated from service family accommodation, sanitary and clinical waste.

Notes
1. The GGC scope for waste reporting has changed from a few specified meters to the new EWC (European Waste Codes) for Municipal and Major Mineral, requiring a restatement of waste figures across all previous years.
2. Food waste is represented within the composted waste figures, along with a small amount of other waste.
3. ICT waste reused represents items for commercial sale; ICT waste recycled represents items broken, not containing hazardous waste.
4. MOD are unable to provide the financial values associated with waste disposal due to the wide and complex range of commercial arrangements in place for waste services.

Defence Estate related Hazardous Waste		2021-22	2022-23	2023-24	2024-25	2025-26
Non-Financial Indicators Tonnes 000s	**Total waste disposal**	**8.135**	**4.895**	**2.876**	**2.803**	**2.905**
	Landfill	1.284	0.101	0.006	0.036	0.009
	Recycled	2.008	0.405	0.155	0.294	0.405
	Reused	0.935	0	0	0.018	0.022
	Composted	0.004	0	0	0.005	0.004
	Incinerated with Energy recovery	0.25	0.077	0.081	0.186	0.333
	Incinerated without Energy recovery	0.773	0.096	0.104	0.156	0.181
	Other	2.881	4.213	2.53	2.108	1.945
	Anaerobic Digestion	0	0.003	0	0	0.006
Financial indicators £000s	Total cost hazardous waste contracts (UK)	538	517	500	661	573

Carbon Credits Data	Action	Number of UK Allowances ($tC0_2e$)	Number of EU allowances ($tC0_2e$)	Cost (inc VAT)
RAF	Purchase	9,000	5,000	1,371,624
	Surrender	9,685	4,162	–
DIO	Purchase	105,000	–	5,337,504
	Surrender	82,649	–	–

Notes
1 Carbon Credits purchased and surrendered by MOD 2025-26.
2 The RAF requirement covers the Aviation scheme. This covers Royal Household and Ministerial flights (UK ETS only), and all Military flights on Civilian registered aircraft.
3 The DIO requirement covers six different sites: RAF Brize Norton, MOD Donnington. RAF Fylingdales Power Station, HMNB Portsmouth, HMNB Faslane, and RNAD Coulport which qualify within the combustion of fuels threshold under the Greenhouse Gas Emissions Trading Scheme Order 2020.
4 Note that the Environment Agency frequently reassess how many free credits MOD are entitled to and will issue more/claim some back where appropriate.
5 Some transactions during 2025-26 were correcting issues identified with previous years.

Annex F: Arm's Length Bodies – Additional Information

Arm's Length Body	Total Operating income £M	Total Operating expenditure £M	Net expenditure for the year (including financing) £M	Permanently employed staff		Other Staff	
				Number of employees	Staff Costs £M	Number of employees	Staff Costs £M
Armed Forces Covenant Fund Trustee Limited	(11.2)	44.7	33.5	25	1.4	–	–
Royal Navy Museums	(13.5)	26.5	13.0	192	9.1	15	–
National Army Museum	(2.1)	10.4	8.3	88	4.4	1	–
Royal Air Force Museum	(14.8)	18.0	3.2	174	7.3	–	–
Single Source Regulations Office	–	6.6	6.6	40	5.1	–	–
Commonwealth War Graves Commission	(25.8)	88.5	62.7	1,277	49.8	16	0.6
Royal Hospital Chelsea	(14.5)	29.7	15.2	268	14.6	10	0.2
Territorial, auxiliary and volunteer reserve associations established under section 110 of the Reserve Forces Act 1996 c14	(24.9)	112.0	87.1	935	43.7	2	0.1
AWE plc	(130.6)	1,028.7	898.1	8,766	631.9	679	40.1
Total	**(237.4)**	**1,365.1**	**1,127.7**	**11,765**	**767.3**	**723**	**41.0**

Note: All tabled information was materially correct and accurate as at the approval date of the accompanying annual report.

Annex G: Reconciliation of contingent liabilities included in the Supply Estimate to the accounts

Quantifiable CLs				
Estimate Reference Number	Description of CL	Supply Estimate £000	Amount Disclosed in ARAc £000	Variance (Estimate-Amount disclosed in ARAc £000
2	Quantified Liabilities arising from offering guarantees, limitations of contractors' liability, indemnities or by giving letters of comfort which cannot disclosed due to reasons of commercial confidentiality and/or national security.	4,605,137	10,528,836	(5,923,699)
3	Liabilities arising from the use of Special Risk Indemnities in MOD contracts[1].	509,076	253,901	255,175
7	Indemnity for possible damage caused by contractors on Government property.	643,000	640,500	2,500
14	Third-party claims for injury/death and/or damage to property resulting from loss of a UK RJ aircraft.	200	200	–
16	Indemnities and limits of liability to contractors in respect of consequential and indirect losses.	212,255	212,255	–
18	Liability for redundancy[2].	4,100	2,400	1,700
19	New Fair Deal Arrangements for staff Pensions: staff transfers from Central Government.	10,540	10,000	540
20	Potential redundancy costs for employees at the Defence College of Technical Training.	4,742	4,742	–
22	Legal Claims.	86,305	23,691	62,614
23	Quantified Liabilities arising from offering guarantees, limitations of contractors' liability, indemnities or by giving letters of comfort, which cannot disclosed due to reasons of commercial confidentiality and/or national security.	39	64	(25)
24	Environmental clean up costs.	17,030	27,030	(10,000)
35	Indemnity related to work to relocate cables, in support of the dredging necessary for the QE Class Carriers	1,080	–	1,080
36	Liabilities arising from Foreign Military Sales activity.	3,300	3,300	–
37	Liabilities arising from insurance risk of exhibits on loan to the museums of the Royal Navy, Army and Royal Air Force.	1,080	1,080	–
38	Crown Guarantee - Pension Schemes.	150,000	152,500	(2,500)
41	Possible claims to cover the cost of laying an alternative utility supply to sites as and when identified	2,080	2,080	–
42	Vessel Traffic Services Contingent Labour	–	3,000	(3,000)

1 Variance between Estimates and ARAc relates to a revision of estimate of likely exposure based on an updated risk assessment.
2 Variance between Estimates and ARAc relates to a legal case that was withdrawn during the year.

Unquantifiable CLs				
Description of CL		Included in the Supply Estimate (Yes/No)	Disclosed in the ARAc (Yes/No)	Explanation of difference
1	Unquantified liabilities arising from offering guarantees, limitations of contractors' liability, indemnities or by giving letters of comfort which cannot disclosed due to reasons of commercial confidentiality and/or national security.	Yes	Yes	–
4	Unquantified Liabilities arising from the use of Special Risk Indemnities in MOD contracts.	Yes	Yes	–
5	Environmental and safety responsibility for a large number of shipwrecks both in UK waters and globally.	Yes	Yes	–
6	Indemnities to the Babcock Group in respect of non-nuclear risks resulting from claims for damage to property or death and personal injury to a third party.	Yes	Yes	–
8	Indemnity for residual employee disease liability arising from the disbanding of Defence Evaluation and Research Agency (DERA) as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001.	Yes	Yes	–
9	Indemnity for residual public liability arising from the disbanding of Defence Evaluation and Research Agency (DERA) as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001.	Yes	Yes	–
10	Indemnity to Rolls-Royce Power for the non-insurance of the Rolls-Royce Core Factory and the Neptune Test Reactor facility for death and personal injury to a third party.	Yes	Yes	–
11	Indemnity to SERCO under the Marine Services contract for losses and costs incurred due to the unintended detonation of explosives while being handled in performance of the contract.	Yes	Yes	–
12	Overall cap on contractor liability within the future submarine design phase contract with Devonport Royal Dockyard Limited.	Yes	Yes	–
13	Strategic Weapons System Activities Future Delivery Project – outsourced contract includes an indemnity for non-nuclear events and unintended detonation of explosives.	Yes	Yes	–
15	Under the Defence Marine Services contract losses or claims which relate to towing are handled according to the terms of the International Ocean Towage Agreement (TOWCON). Under TOWCON the contractor is indemnified by the MOD for injury to persons on towed vessels, loss or damage caused to towed vessels, and loss or caused to 3rd parties by towed vessels.	Yes	Yes	–
17	Guarantee to NAAFI that the Department will reimburse 90% of their additional costs arising from any changes in MOD's service requirements.	Yes	Yes	–
21	The Guarantee would not guarantee payment to the NAAFI Pension Scheme of NAAFI's obligations, as that would require the maintenance of NAAFI as an on-going entity. Rather, the Guarantee would operate as a "pay-as-you-go" guarantee, and guarantee the Trustees' ability to pay full benefits to members.	Yes	Yes	–
24	Environmental clean up costs.	Yes	Yes	–

Unquantifiable CLs				
Description of CL		Included in the Supply Estimate (Yes/No)	Disclosed in the ARAc (Yes/No)	Explanation of difference
25	Indemnity for environmental losses incurred by QinetiQ arising from certain defined materials at specific properties before the formation of QinetiQ on 1 July 2001.	Yes	Yes	–
26	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.	Yes	Yes	–
27	The Department has a number of sites where it may be necessary to carry out decontamination work. It is not practicable or cost effective to identify all contamination at these sites, any possible liability is therefore not quantified and possible site remediation exposure is recognised as an unquantifiable contingent liability.	Yes	Yes	–
28	Indemnities to AWE Management Ltd for nuclear risks.	Yes	Yes	–
29	Indemnities to Rolls-Royce and BAE Systems for risks associated with the handling of fissile materials.	Yes	Yes	–
30	Standard shipbuilding indemnity in respect of Astute class submarines.	Yes	Yes	–
33	Liability arising from the Colchester Garrison PFI.	Yes	Yes	–
34	Potential liability from the use of standard terms and conditions in Public Finance Initiative (PFI) schemes.	Yes	Yes	–
39	Financial Guarantee under the terms of the contract with Restore plc for the Government Records Management and Archive Service to pay the operator should any other government department fail to settle its outstanding invoices.	Yes	Yes	–
40	Financial Guarantee to Towage Companies hired to tow foreign warships in UK ports against the possibility of non-payment for any claims or debts.	Yes	Yes	–

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