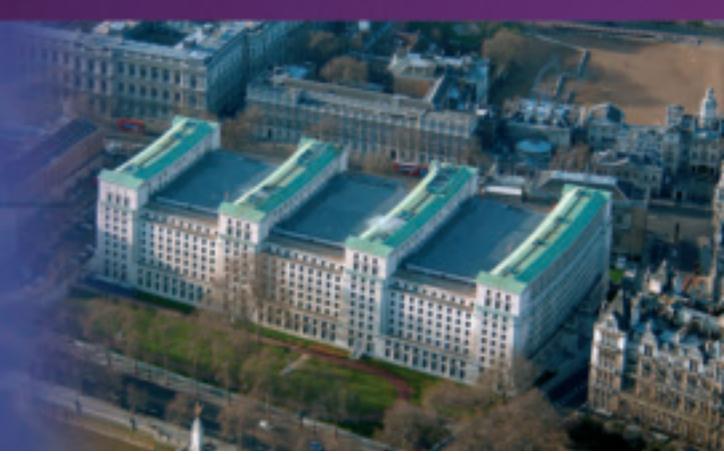




Ministry of Defence Annual Report and Accounts



2004 - 2005



Presented pursuant to the GRA Act 2000 c.20, s.6

Ministry of Defence Annual Report and Accounts

including the Annual Performance Report and
Consolidated Departmental Resource Accounts

2004-05

(For the year ended 31 March 2005)

Laid in accordance with the Government Resources and Accounts Act 2000

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Foreword

by the Secretary of State



Right Honourable John Reid MP
Secretary of State for Defence

I have long been an admirer of the excellence, skill and professionalism of the Armed Forces and the quality of Defence people – military and civilians at all levels. It is a great privilege for me to lead the community that delivers this world class capability. I am very proud of the role our Armed Forces, supported by the civilian colleagues, play as a force for good in the world. I have seen for myself the exceptional job they do, at home and abroad, often in very difficult circumstances and to very high standards. In a year when we have recognised the service of the great generation who fought for our country in the Second World War, we also remember those who continue to serve, and especially those who gave their lives this year in the service of our country and for a better world.

This year's report shows once again the broad and diverse range of operations and tasks that we undertake. These ranged from the high profile peace stabilisation operations in Iraq and Afghanistan, to responding to crisis situations in Cote D'Ivoire, and on Tsunami relief around the Indian Ocean. At home we have also provided support to the civil authorities in Northern Ireland and helped with civil emergencies, such as the Boscastle rescues in August 2004. Iraq has been the largest commitment during the year. British troops have played an essential role, in dangerous circumstances, to reconstruct the Iraqi security forces and the country's civil society. This has made an immense contribution to improving the lives of millions of Iraqis, enhancing their security and providing them with opportunities to vote and to have better access to clean water, health care and education.

We have made considerable progress already in delivering the capabilities and reformed force structure set out in the July 2004 Command Paper '*Delivering Security in a Changing World: Future Capabilities*'. These changes will increase our ability to undertake expeditionary operations as well as investing in an advanced range of capabilities for the tasks of tomorrow.

We have achieved a great deal this year but we have much work ahead of us in Iraq, Afghanistan, the Balkans and elsewhere. We must build security for the longer term. To help with this we have an important programme of modernisation and reform covering virtually all areas of Defence. I am determined to carry this forward, investing in our people and their equipment, to ensure the continued effectiveness of the Armed Forces and success in achieving our Defence Mission. Next year will be challenging and we shall continue to ask a lot of our people. I know they will rise to the challenges and I and my colleagues will work hard to ensure that they receive the support they need and deserve.

A handwritten signature in black ink, reading "John Reid". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Preface

Our purpose, as set out in the Defence Vision published in 2003, is to defend the United Kingdom and its interests, strengthen international peace and stability and act as a force for good in the world. We achieve this by working together to produce battle-winning people and equipment that are fit for the challenge of today, ready for the tasks of tomorrow and capable of building for the future. Our strategy matches new threats and instabilities, maintains flexible force structures, seeks to reach out into the wider world, and is led by a high performing organisation, which invests in its people. This Report shows how we have worked to realise this Vision.

Fit for the challenges of today

The first chapters of the Report, in particular those on *Current Operations* and *Policy*, and the essay on *Defence Relations in Sub-Saharan Africa*, show the wide-ranging nature of our current military tasks, both overseas and in support of the civil authorities at home, and how much we ask of our people. In addition to the continuing operations in Iraq, our Armed Forces both Regular and Reserve have been involved in successful operations in Afghanistan and the Balkans. They have continued to protect our Overseas Territories, including in the South Atlantic. They have supported a range of United Nations Peacekeeping operations. They have provided practical support to conflict prevention work from Indonesia to Iraq, from Afghanistan to Africa. They have delivered humanitarian assistance in the United Kingdom, the Caribbean, Africa and the Indian Ocean. In all this they have been supported by civilian colleagues. They have continued to support the Police Service of Northern Ireland in maintaining law and order. Throughout the year about one-fifth of our regular military personnel have been deployed on operations and other military tasks at any one time.

This would not have been possible without the flexibility and creativity of our people and processes. One aspect has been the most effective use of our established Urgent Operational Requirement procedures to deliver equipment needed for operations to the front line. We have worked hard to ensure that we continue to be able to support our highest priority operational tasks despite the continuing high operational tempo. As set out in the chapter on *Equipment* and the essay on the *Quality of our Equipment*, we have continued to improve the capability of our forces, which have some of the most advanced war fighting equipment available in the world today. We have also improved logistics delivery through the introduction of innovative engineering and support principles, examples of which are given in the *Logistics* section. Satisfaction surveys show that our people, both military or civilian, remain motivated and committed (in which context it is notable that the sickness absence rate

in the Ministry of Defence is significantly better than the average across the Civil Service, and comparable to Private Sector organisations of a similar size). We have only been able to achieve this high rate of military delivery because we are a high performing organisation.

Ready for the tasks of tomorrow

We also have to be ready to respond to the tasks that might arise. The section on *Policy* shows how we work with colleagues in other Departments, and with our friends and allies overseas, to address the security challenges we may face tomorrow. This includes continuing to develop effective European defence capabilities complementary to those of NATO. The report shows how we pursue a coherent, integrated approach to the wider security risks, including from terrorism and the proliferation of nuclear, biological or chemical weapons. During the year we concluded the 2004 Spending Review negotiations, achieving a further real increase in the resources available for defence in 2005-06 to 2007-08.

The readiness of the Armed Forces continued to improve throughout the year, so that by the end of March 2005 no force elements were reporting critical weaknesses – a significant advance on our Public Service Agreement target of 90% success – despite the pressures of supporting the high continuing operational tempo. The deployability and precision of effect available to the Armed Forces has been enhanced by the delivery of Storm Shadow long range cruise missiles to the Royal Air Force, by contracting for another batch of advanced submarine-launched cruise missiles for the Royal Navy, and accepting HMS BULWARK into service. We continued to work to deliver our manning and training targets, although this was inevitably affected by the high level of operations.

Building for the future

Continuous improvement is an integral part of providing battle winning people and equipment to meet our long term defence strategy at an affordable cost. In July 2004 we published a Command Paper, *Delivering Security in a Changing World: Future Capabilities*, setting out the programme of modernisation that will deliver the flexible and adaptable Armed Forces we need to meet the operational challenges of the future. In addition we have a wide ranging programme of business change and improvement. This includes substantial upgrading and rationalisation of the Defence estate and further transformation of our logistics arrangements, as well as the DPA Forward programme to revitalise improvements in how we acquire defence equipment. The programme also includes measures to modernise personnel services, both military and civilian, in a way which

better suits the needs of the individual and the MoD. Underpinning all this is our major programme of investment in a single Defence Information Infrastructure, and our investment in science and technology. We have set ourselves very challenging goals to achieve over the next four years, but we are confident that, working together, we will succeed in delivering them.

High quality training has long been the hallmark of the Armed Forces. In addition to sustaining this quality, we are developing professional skills in defence for civilian and service personnel. At the same time we are drawing on the full, diverse pool of talent and experience from all parts of society. As one of the largest landowners and employers in the United Kingdom we work closely with other Departments to support the Government's wider domestic, social

and environmental agenda, in particular on building the skills and raising the expectations of young people, improving medical support, providing support for ex-Service personnel and promoting sustainable development.

The report shows clearly what we have done over the year to make the Defence Vision a reality. It also indicates where we have more to do to meet the ambitious targets we have set ourselves. We have achieved a great deal. Working together, drawing on our commitment to public service and military traditions, we are confident that we will continue to deliver what is needed to defend the United Kingdom and act as a force for good in the world.



Sir Kevin Tebbit KCB CMG
Permanent Under Secretary of State



General Sir Michael Walker GCB CMG CBE ADC Gen
Chief of Defence Staff

Kevin Tebbit

Michael Walker

Introduction

1. The Ministry of Defence's Annual Report and Accounts is a comprehensive overview of Defence, and how the Department has used the resources authorised by Parliament, from April 2004 to March 2005. It has two main sections. The first comprises the Department's Annual Performance Report for 2004-05, including performance against our Public Service Agreement targets. The second comprises the Departmental Resource Accounts for 2004-05. There are also several Annexes containing more general background information on the Department and its organisation.

SECTION 1: ANNUAL PERFORMANCE REPORT

2. Since April 2000 the Ministry of Defence has used a Balanced Scorecard to assist in the assessment, reporting and management of Defence performance. The scorecard for 2004-05 (Figure 1 below) encapsulates the Government's and the Defence Management Board's (DMB's) key objectives and priorities across Defence. A more detailed explanation of the Defence Balanced Scorecard can be found at Annex D. The Annual Performance Report is arranged on the same basis as the 2004-05 Defence Balanced Scorecard, with four main parts (Purpose, Resources, Enabling Processes and Future Capabilities) matching the top level structure of the scorecard, each of which contains separate chapters on the individual

Figure 1: The 2004-05 Defence Balanced Scorecard

Are we fit for today's challenges and ready for tomorrow's tasks?

Purpose

A Current Operations: Succeed in Operations and Military Tasks today.

B Future Operations: Be ready for the tasks of tomorrow.

C Policy: Provide defence policy that matches new threats and instabilities.

D Wider Government: Reach out into the wider community.

Are we making best use of our resources?

Resources

E. Finance: Maximise our outputs within allocated finance resources.

F. Manpower: Recruit and retain the people we need today.

G. Estate: Maintain an estate of the right size and quality to achieve defence objectives.

H. Reputation: Enhance our reputation amongst our own people and externally.

Defending the United Kingdom and its interests: acting as a force for good in the world

Are we a high performing organisation?

Enabling Processes

I. Personnel: Manage our people to give of their best.

J. Training: Invest in our people and forces to ensure they can succeed.

K. Logistics: Support and sustain our Armed Forces as required.

L. Equipment: Deliver equipment of the right quality, on time and within cost.

Are we building for the future?

Future Capabilities

M. Change and Development: Drive organisational and process transformation.

O. Future Manpower: Identify the people and skills we need for the future.

P. Future Equipment Plans: Develop new capabilities to meet tomorrow's defence challenges.

high level scorecard objectives (such as Current Operations, Future Operations, and so forth). The Report also contains a number of essays which provides fuller background detail on a range of issues relevant to Defence during the year.

3. The Defence Balanced Scorecard is designed deliberately to evolve to reflect the Defence Management Board's priorities and the way the Department is organised. Consequently, although the four part top level structure has remained broadly consistent for several years, there is inevitably a certain amount of change from one year to the next in the way the supporting objectives beneath them are brigaded and presented. Significant changes from the Defence Balanced Scorecard 2003-04 were:

- the addition of a fourth section on Wider Government under 'Purpose' to reflect the importance of working closely with other Government departments and the wider community both to deliver Defence objectives and in support of wider Government objectives;
- the addition of a section on personnel to 'Enabling Processes' as well as the personnel sections under the 'Resources' and 'Future Capabilities' perspectives in 2003-04, and consequent re-brigading of some of the supporting performance indicators, to reflect the importance of people in all aspects of Defence; and
- the merging of the 'Management' and 'Modernising Defence' sections from the 'Enabling Processes' and 'Building for the Future' perspectives in 2003-04 into a single 'Change and Development' section under the 'Future Capabilities' perspective in 2004-05, to reflect the single coherent focus on the goal of delivering the Department's change and efficiency objectives over the coming years if we are to release further resources to support our primary operational output.

Public Service Agreement Targets

4. At the highest level the Ministry of Defence's objectives are set out in our Public Service Agreement (PSA). The Annual Performance Report therefore starts with a summary of performance as of 31 March 2005 against the targets for 2003-06 set in the 2002 Spending Review. Supporting detail is set out throughout the report. This comprises the final assessment of performance against the 2002 Spending Review PSA targets other than that for value for money (Target 7), which is assessed to remain on course. Of the other six PSA targets three have been met, two partly met and one has yet to be assessed. Revised PSA targets for 2005-08,

which came into effect in April 2005, were agreed in the 2004 Spending Review, together with a separate efficiency target (see Annex A). A full description of these revised targets and the way in which performance against them will be measured is published on the Treasury and MoD websites www.hm-treasury.gov.uk and www.mod.uk. A reconciliation between the two sets of targets is published on the Treasury website. PSA performance is also reported quarterly to the Treasury and published on the Treasury's and MoD's websites.

SECTION 2: DEPARTMENTAL RESOURCE ACCOUNTS 2004-05

5. The Department is required to prepare resource accounts for each financial year detailing the resources acquired, held, or disposed of during the year, and the way it has used them during the year. The resource accounts are prepared on an accruals basis. They must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year. The Accounts are audited by the National Audit Office to ensure that they are true and fair and that they have been properly prepared. The Departmental Resource Accounts for 2004-05, together with the Comptroller and Auditor General's certification and report to the House of Commons, comprise Section 2 of the Annual Report and Accounts.

FURTHER INFORMATION

6. The Annexes to the Annual Report and Accounts contain more general background information, mainly on the administration of the Ministry of Defence. These include the higher management and organisation of Defence, the performance management system, the performance of the Defence Agencies, the Defence equipment programme, performance against Government standards for efficient administration (including implementation of the Freedom of Information Act from January 2005), and accountability to Parliament. Further information is published on the MoD website. Other sources of more detailed information on Defence performance and activity during the year are identified throughout the report.

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ANNUAL PERFORMANCE REPORT

2004-05



Summary of Performance against SR2002 Public Service Agreement Objectives and Targets

Aim: to deliver security for the people of the United Kingdom and the Overseas Territories by defending them, including against terrorism, and act as a force for good by strengthening international peace and security.

Table 1: Performance Against Public Service Agreement Targets for 2003-04 to 2005-06			
PSA Target	Supporting Performance Indicator (where relevant)	Assessment at 1 April 2005	Report Paragraph
Objective I: Achieve success in the military tasks that we undertake at home and abroad.			
<p>1. Achieve the objectives established by Ministers for Operations and Military Tasks in which the UK's Armed Forces are involved, including those providing support to our civil communities.</p> <p>Overall Assessment: Met</p>		<p>Met</p> <p>The Armed Forces continued to achieve a high degree of success against the policy and military objectives set for all Operations overseas in 2004-05, including in Iraq, Afghanistan and the Balkans, in response to the crisis in Cote D'Ivoire, and on Tsunami relief around the Indian Ocean.</p> <p>They contributed to six United Nations peacekeeping missions; in Cyprus, the Democratic Republic of Congo, Georgia, Liberia, Sierra Leone, and Sudan. A minimum nuclear deterrent capability was maintained throughout the year. The security of the UK's Overseas Territories, including the Sovereign Base Areas in Cyprus, the Falkland Islands, and Gibraltar, was maintained. Continuing support was provided to the civil authorities at home, including in Northern Ireland, in responding to civil emergencies, in the routine provision of Search and Rescue and of Fisheries Protection services, and in the investigation and disposal of suspected explosive devices.</p>	7-28
<p>2. Improve effectiveness of the UK contribution to conflict prevention and management as demonstrated by a reduction in the number of people whose lives are affected by violent conflict and a reduction in potential sources of future conflict, where the UK can make a significant contribution.</p> <p>JOINT TARGET WITH DFID AND FCO.</p> <p>Overall Assessment: Not yet assessed</p>		<p>Data on performance against the PSA target is not yet available.</p> <p>Defence continued to contribute in 2004-05 to the Government's conflict prevention work under the Defence Diplomacy Programme and through the Joint Africa and Global Conflict Prevention Pools by providing support to a number of conflict prevention initiatives across Africa, the Middle East, Central America and Asia including widespread support to Security Sector Reform, provision of training to the Iraqi Security Forces and new Afghan National Army and provision of international training in Europe and Africa in military peace support operations.</p>	57-61

Performance Against Public Service Agreement Targets for 2003-04 to 2005-06			
PSA Target	Supporting Performance Indicator (where relevant)	Assessment at 1 April 2005	Report Paragraph
Objective II: Be ready to respond to the tasks that might arise.			
<p>3. By 2006 ensure that a minimum of 90% of high-readiness forces are at their required states of readiness with no critical weakness.</p> <p>Overall Assessment: Met</p>	<p>(Reporting against this target covers all forces, not just those at high readiness.)</p>	<p>Met Despite the continuing pressure of operations the proportion of Force Elements with no critical weaknesses reported by their military commanders increased from 93% in the last quarter of 2003-04 to 100% in the last quarter of 2004-05.</p>	35-47
<p>4. Recruit, retain and motivate the personnel needed to meet the manning requirement of the Armed Forces, so that by the end of 2004, the Royal Navy and RAF achieve, and thereafter maintain, manning balance, and that by the end of 2005, the Army achieves, and thereafter maintains, manning balance.</p> <p>Overall Assessment: Partly Met</p>	<p>Achieve manning balance.</p> <p>(Manning balance is defined as between -2% and +1% of the requirement, and is measured against the target prevailing at the time. Since the total manning requirement of whole Service manning is dynamic, this target will itself fluctuate over the PSA period.)</p>	<p>Partly Met As at 1 April 2005: RN/RM trained strength of 36,320, or 95.1% of overall requirement (compared to 96.8% on 1 April 2004); Army trained strength of 102,440 or 98.3% of overall requirement (compared to 97.0% on 1 April 2004); RAF trained strength of 49,210, or 101% of overall requirement (compared to 98.5% on 1 April 2004);</p>	112-114
	<p>Achieve single Service guidelines for deployed separated service.</p> <p>Royal Navy/Royal Marines: No more than 660 days separated service over rolling 3 year period.</p> <p>Army: No more than 415 days separated service over rolling 30 months period and no more than 6 months on operations in every 30 months.</p> <p>Royal Air Force: no more than 2.5% of personnel to exceed 140 days separated service over a rolling 12 month period and no more than 4 months on operations in every 20 months.</p>	<p>Partly Met</p> <p>RN: Breaches of Harmony in the RN are judged to be isolated.</p> <p>Army: Some breaches of Harmony in the Army have been unavoidable owing to the level of operational tempo. Breaches of recommended tour intervals have been unavoidable for some Force Elements due to the current level of operational tempo, with Infantry averaging 21 months (18 months in 2003-04) and Royal Artillery 19 months (18 months in 2003-04).</p> <p>RAF: 3.9% of personnel more than 140 days detached duty over 12 months.</p>	176-179
	<p>Improve the living conditions of Service personnel and their families.</p>	<p>Met 5,816 new-build Single Living Accommodation bed spaces delivered and 2,610 Service family houses upgraded in 2004-05</p>	149-153

Performance Against Public Service Agreement Targets for 2003-04 to 2005-06			
PSA Target	Supporting Performance Indicator (where relevant)	Assessment at 1 April 2005	Report Paragraph
<p>5. Strengthen European security through an enlarged and modernised NATO, an effective EU military crisis management capacity and enhanced European defence capabilities. JOINT TARGET WITH FCO.</p> <p>Overall Assessment: Met</p>	(Reporting against this target covers all forces, not just those at high readiness.)	<p>Met NATO Response Force achieved Initial Operating Capability. Expanded NATO commitment to Afghanistan, including deployment of NATO Response force in support of Presidential elections. Establishment of NATO training mission for Iraq. EUFOR mission to Bosnia launched under UK command. European Defence Agency established. Agreement of EU rapid response battlegroup concept complementary to NATO Response Force. EU civil / military planning cell established.</p>	48-56
Objective III: Build for the future.			
<p>6. Develop and deliver to time and cost targets military capability for the future, including battle-winning technology, equipment and systems, matched to the changing strategic environment.</p> <p>Overall Assessment: Partly Met</p>	On average, in-year slippage of equipment in-service dates of fewer than 10 days for new major projects, to be attained during 2003-04 and maintained throughout the PSA period.	<p>Not met 1.6 months average slippage for new major projects in 2004-05 2.2 months average slippage for new major projects in 2003-04</p>	224
	On average, in-year slippage of equipment in-service dates of fewer than 4 weeks for existing major projects, to be attained during 2003-04 and maintained throughout the PSA period.	<p>Not met 3.0 months average slippage for existing major projects in 2004-05 2.8 months average slippage for existing major projects in 2003-04</p>	224
	97% of customers' key requirements attained during 2003-04 and maintained throughout the PSA period.	<p>Met 99% of customers' key requirements met in 2004-05 98.8% of customers' key requirements met in 2003-04</p>	224
	On average, no real terms increase in major project costs, to be attained during 2003-04 and maintained throughout the PSA period.	<p>Partly Met 3.2% average reduction in major project costs in 2004-05. 2.7% average increase in major project costs in 2003-04.</p>	224
Value for Money			
<p>7. Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability. Year-on-year output efficiency gains of 2.5% will be made each year from 2002-03 to 2005-06, including through a 20% output efficiency gain in the DLO.</p> <p>Overall Assessment: On Course</p>	Reduce the per capita cost of successfully training a military recruit by an average of 6% by April 2006.	<p>Not met Owing to organisational changes it is no longer possible to measure per capita cost of successfully training a military recruit on the basis used in the PSA target. It is unlikely that this target would have been achieved.</p>	193
	Achieve 0% average annual cost growth (or better) against the Major Equipment Procurement Projects.	<p>Slippage 4.6% average decrease in costs measured against estimated cost at beginning of year, but cost increases in earlier years.</p>	224

Performance Against Public Service Agreement Targets for 2003-04 to 2005-06			
PSA Target	Supporting Performance Indicator (where relevant)	Assessment at 1 April 2005	Report Paragraph
	Reduce by 14% (relative to planned expenditure in 2002-03) the output costs of the Defence Logistics Organisation by April 2006, while maintaining support to the Front Line.	Ahead DLO costs reduced by 4.2% ¹ in 2004-05. As at 31 March 2005 11.1% ¹ cumulative savings achieved against target of 10% cumulative savings towards 14% reduction in output costs by April 2006	209
	Reduce MoD Head Office and other management costs by 13% by April 2006.	On Course MoD Main Building modernised and reoccupied by September 2004, to cost and ahead of time. As at 31 March 2005 12% cumulative reduction in Head Office and other management costs.	243
	Identify for disposal land and buildings with a Net Book Value of over £300M by April 2006.	Ahead Assets with Net Book Value of £165M transferred to Defence Estates for disposal in 2004-05, bringing cumulative total at 31 March 2005 to £395M.	156

¹ Subject to validation

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RESOURCES



FINANCE

Objective: To contain Departmental resource consumption within the resources voted by Parliament, while delivering PSA targets.

Public Service Agreement Target (SR2002 MoD Target 7)

Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability. Year-on-year output efficiency gains of 2.5% will be made each year from 2002-03 to 2005-06, including through a 20%¹ output efficiency gain in the Defence Logistics Organisation:

- Reduce the per capita cost of successfully training a military recruit by an average of 6% by April 2006;
- Achieve 0% average annual cost growth (or better) against the Major Equipment Procurement Projects;
- Reduce by 14% (relative to April 2002) the output costs of the Defence Logistics Organisation, while maintaining support to the Front Line;
- Reduce MoD Head Office and other management costs by 13%;
- Identify for disposal land and buildings with a Net Book Value of over £300M.

Performance Measure and Assessment

In-year financial management:

- **Net resource consumption of £30,593M for provision of defence capability against resources voted by Parliament of £31,548M;**
- **Net additional Resource and Capital expenditure of £1,112M on operations;**
- **Expenditure against war pensions and allowances of £1,110M, against resources voted by Parliament of £1,161M;**
- **Outturn of £30,860M against Resource Departmental Expenditure Limit of £31,320M;**
- **Outturn of £6,351M against Capital Departmental Expenditure Limit of £6,438M.**

Achieve 8% cumulative overall efficiency improvement compared to 2001/2002:

- **3.2%² overall improvement during 2004-05, and 8.2%² cumulative overall improvement compared to 2001/2002 (target 8%);**
- **Following organisational changes it is no longer possible to measure the per capita training cost on the basis used in the PSA target;**
- **4.6% in-year reduction on Major Equipment Projects (target 0% cost growth);**
- **11.1%² cumulative reduction in Logistics costs (target of 10.0%);**
- **12.0% cumulative reduction in Head Office costs (target of 12.0%);**
- **Cumulative value of £395M land and buildings identified for disposal (target £258M).**
- **Individual sub-targets are reported on in detail under Training, Equipment, Logistics, Change and Development, and Estate sections.**

DEFENCE BUDGET AND SPENDING

102. The Ministry of Defence again achieved an unqualified opinion from the Comptroller and Auditor General that the Departmental Resource Accounts in Section 2 of this report give a true and fair view of the state of affairs of the Department and of its net resource outturn, recognised gains and losses and cashflows for the year.

103. Planned expenditure for the year was set out in the *Ministry of Defence: The Government's Expenditure Plans 2004-05 to 2005-06*, and in the Main Estimates and the Winter and Spring Supplementary Estimates voted by Parliament. Provisional outturn for the year was set out in the *Public Expenditure Outturn White Paper 2004-05* published in July 2005. Table 3 compares final performance against the final estimates approved by Parliament. Total Defence expenditure in 2004-05 was contained within voted provision, with an overall Net Resource³ underspend of £1,019M. As set out

in the explanation of variation between Estimate and Outturn in the Departmental Resource Accounts on page 141, the main elements of this were a provision of £500M for Typhoon development costs requested in Estimate that was not in the event required in year, £208M from changes in the calculation of nuclear provisions, £66M for capital spares that were recovered for future use, and expenditure on war pensions of £52M less than originally forecast and provided for in estimates. The remaining variance arose principally from the impact of revaluations of land and buildings over the course of the year being less than anticipated.

104. The Department is voted additional resources (RfR 2) to cover the net additional costs of operations. No formal budget is set. Expenditure including on capital items is set out in Table 4 below. Overall expenditure in 2004-05 was £1,112M, including £910M for operations in Iraq, £87M for operations in the Balkans (Bosnia and Kosovo), and £67M for operations in Afghanistan⁵.

	Final Voted Provision	Departmental Resource Accounts	Variation
Request for Resources 1 (Provision of Defence Capability)	31,548	30,593	-955
Request for Resources 2 (net additional cost of operations)	950	938	-12
Request for Resources 3 (war pensions and allowances)	1,161	1,110	-52
Net Resources	33,659	32,641	-1,019
Net Cash Requirement	29,811	29,524	-287

	Outturn
Resources (RfR2)	938
Capital	174

³Including both cash and non cash items and unallocated provisions.

⁴Includes Resource Departmental Expenditure Limit and Annually Managed Expenditure, less Resource Appropriation-in-Aid (e.g. profit/loss on disposal of capital items and stock).

⁵Details set out in Note 27 to the Departmental Resource Accounts 2004-05.

105. Details of the MoD's expenditure for 2004-05 broken down against our three primary Public Service Agreement objectives are summarised in Table 5 and set out in detail in Schedule 5 (on page 146) and Note 26 (on pages 183-187) to the Departmental Resource Accounts.

106. In addition to the Net Resource controls set out above, against which Departmental expenditure is presented in the Departmental Resource Accounts and audited by the National Audit Office, the Department works within two Departmental Expenditure Limits (DEL) covering both the majority of the Department's

operating costs (excluding some non-cash costs specifically relating to nuclear provisions) and capital expenditure. In 2004-05 MoD expenditure was contained within the DELs for both its capital and its resource expenditure, with an underspend of £460M against Resource DEL and £87M against Capital DEL. The Resource DEL underspend mainly reflects the resources for a provision for Typhoon development included in estimates but not in the event required in year. The small Capital DEL underspend resulted mainly from lower than expected expenditure on capital spares. Detailed outturns by Top Level Budget Holder are set out in Table 6.

Table 5: Resources By Departmental Objectives 2004-05 (£M)⁶

	Net
Objective 1: Achieving success in the tasks we undertake	3,390
Objective 2: Being ready to respond to the tasks that might arise	24,934
Objective 3: Building for the future	2,977
(Total RfRs 1 & 2)	31,301
Paying war pensions and allowances (RfR3)	1,110
Total	32,410

Table 6: Outturn against Departmental Expenditure Limits (DEL) 2004-05 (£M)

	DEL	Outturn
Resource DEL⁷	31,320	30,860
Allocated to TLBs:		
Commander-in-Chief Fleet	3,543	3,569
General Officer Commanding (Northern Ireland)	643	626
Commander-in-Chief Land Command	5,414	5,341
Commander-in-Chief Strike Command	3,675	3,503
Chief of Joint Operations	463	493
Chief of Defence Logistics	7,596	7,452
2nd Sea Lord/Commander-in-Chief Naval Home Command	717	763
Adjutant General	1,733	1,778
Commander-in-Chief Personnel and Training Command	1,002	1,125
Central	3,023	3,137
Defence Procurement Agency	3,016	2,568
Corporate Science and Technology	495	506
Capital DEL⁸	6,438	6,351
Allocated to TLBs:		
Commander-in-Chief Fleet	29	17
General Officer Commanding (Northern Ireland)	27	28
Commander-in-Chief Land Command	133	153
Commander-in-Chief Strike Command	29	27
Chief of Joint Operations	28	24
Chief of Defence Logistics	1,205	1,121
2nd Sea Lord/Commander-in-Chief Naval Home Command	38	23
Adjutant General	27	26
Commander-in-Chief Personnel and Training Command	23	24
Central	258	322
Defence Procurement Agency	4,641	4,586
Corporate Science and Technology	0	0

⁶Excludes £231M for excess Appropriation-in-Aid and Consolidated Fund Extra Receipts included in total outturn of £32,641M in Table 3 (see Note 7 to the Defence Resource Accounts 2004-05 on page 160).

⁷Includes all operating costs in RfR1 less items accounted for as Annually Managed Expenditure, such as changes in nuclear provisions. Excludes expenditure on Conflict Prevention activities (See Table 4).

⁸Includes all expenditure on fixed assets, less the income from the sale of such assets. Excludes expenditure on Conflict Prevention activities (See Table 4)



A meeting to review production of the Accounts

LOSSES AND WRITE-OFFS

107. Details of the losses included in the accounts in 2004-05 are set out in Note 29 to the Departmental Resource Accounts (pages 190-195). Excluding payments made by the War Pensions Agency they amount just over £400M, a reduction of about 13% compared to 2003-04. 80% of this represents final closure of cases where advance notification has been given in previous years, and the overall level is driven by write-offs or write-down on only a few very large projects. Over half of the total reflects final closure of the accounts on the Defence Stores Management Solution and related projects (£144.5M), and renegotiation of the contract for Nimrod MRA4 Maritime Reconnaissance Aircraft with BAES (£74.9M). Both these cases have already been reported on in considerable detail. The majority of the remainder reflects the accounting consequences of the change in procurement strategy for the BOWMAN communications system (£51.0M), the cancellation of a project for construction of a remote ammunition facility at Devonport Naval Base once it became clear that this activity could be managed safely by existing facilities (£25.0M) and the termination of a project aimed at providing information systems to support Attack Helicopters when it became clear that the approach originally proposed could not meet the requirement (£19.0M).

108. The Departmental Resource Accounts also identify a number of further potential losses that have not yet been brought to completion and have therefore been identified for formal incorporation in a future year's accounts. It should be borne in mind that these are estimates; the final loss declared may therefore be either larger or smaller. The MoD's advance notifications have reduced in value by some 12% since last year, reflecting the final closure of a number of historic cases (see previous paragraph) and a limited number of new cases having arisen. Almost 85% by value of the advance notifications relates to cases identified before 1 April 2004. It is

dominated by two cases. There is an essentially historic write-off of £314M arising from the UK's withdrawal from the multinational Long Range TRIGAT anti-armour missile programme in 1995, and the Medium Range TRIGAT programme in 2000. As reported last year, under the terms of the Memorandum of Understanding governing these projects we cannot formally close these transactions in the MoD's accounts until all work is completed by all of the original partners, and all intergovernmental transactions are finalised. It also includes a potential £205M write-down of the value of Chinook Mark 3 helicopters, a project that has been scrutinised in detail by the National Audit Office and the Public Accounts Committee. Pending final agreement of the way forward on this project, when it will be possible to determine the final scale of write-off required, the Department has deliberately taken a very prudent accounting approach as to the residual value of these aircraft that maximises the scale of the potential write-off. Between them TRIGAT and Chinook Mark 3 together with the potential payments to BAES and Swan Hunter in respect of the LPD(A) project reported to Parliament during the year, comprise over 75% of the advance notifications.

EFFICIENCY PROGRAMME

109. In the 2002 Spending Review the Department committed to achieving year-on-year output efficiency gains of 2.5% from 2002-03 to 2005-06, to be achieved by making improvements in the efficiency and effectiveness of the key processes for delivering military capability. This is measured by the weighted average of performance against a set of process-related supporting targets, the weighting being determined by the relative resources covered by each supporting target. Overall results are set out in Table 7. Following significant organisational change it is no longer possible to measure the per capita cost of successfully training a military recruit on the basis used in the PSA target. This has therefore been discontinued and this element has been assessed as making no contribution to achievement of the PSA Target. Despite this we have achieved cumulative efficiency gains of 8.2%⁹ against a cumulative target of 8%, and that we are on course to meet the overall target by the end of 2005-06. Further detail on the individual sub targets can be found in the respective sections of the report on Training (paragraph 193), Equipment (paragraph 223), Logistics (paragraph 209), and Estate (paragraph 156). Performance will continue to be tracked during 2005-06 and the final outcome will be reported in the *Annual Report and Accounts 2005-06*. The MoD is now focusing on delivering the efficiencies agreed in Spending Review 2004 in response to the 2004 *Independent Review of Public Sector Efficiency* by Sir Peter Gershon (see paragraph 110).

⁹Subject to validation.

Table 7: SR02 Efficiency Improvements

Target	Weighting	Cumulative Trajectory			
		2002-03	2003-04	2004-05	2005-06
Reduce by an average of 6% the per capita cost of training a successful military recruit to the agreed standard.	9	2%	4%	5%	6%
Achievement		1.7%	4.2%	Discontinued	Discontinued
Achieve 0% average annual cost growth (or better) against the equipment procurement projects included in the Major Projects Report, while meeting customer requirements.	6	0%	0%	0%	0%
Actual in-year cost growth		5.7%	3.1%	-4.6%	
Reduce by 20% the output costs of the Defence Logistics Organisation, while maintaining support to the Front Line	68	2%	6%	10%	14%
Achievement		3.1%	6.6% ²	11.1% ¹	
Reduce MoD Head Office and other management costs by 13%	5	5%	9%	12%	13%
Achievement		6.3%	10.6%	12%	
Identify for disposal land and buildings with a net book value of over £300M	12	£84M	£134M	£258M	£300M
Achievement		£135M	£230M	£395M	
Overall Target	100	2%	5%	8%	10%
Overall Achievement		2.3%	5.0% ²	8.2% ¹	

Notes:

1. Logistics performance subject to validation by Defence Internal Audit.
2. The 2003-04 achievement against the Logistics target, and the overall achievement have been amended from that reported in the *Annual Report and Accounts 2003-2004* to reflect subsequent checking and validation.

2004 SPENDING REVIEW

110. The Government is committed to funding the Armed Forces as they modernise and adapt to meet evolving threats and promote international stability in the changing global security environment. Building on the additional investment provided by the Government since 2000, the 2004 Spending Review (SR2004) announced in July 2004 increased planned spending on defence by an average of 1.4% per year in real terms over the three years to 2007-08, with total planned defence spending £3.7 billion higher in 2007-08 than in 2004-05. In cash terms, the equivalent increase is £3.5 billion, an average real growth of 1.5% per year. Further modernisation of defence will be supported through the continued provision of the Defence Modernisation Fund, amounting to £1 billion over the three years to 2007-08, which represented an increase in both its size and scope. The MoD's SR2004 Public Service Agreement (PSA) for 2005-06 to 2007-08 is set out in Annex A. Building on its existing change programme, the MoD also undertook to realise total annual efficiency gains of at least £2.8 billion by 2007-08, of which three-quarters will be cash releasing, to be re-invested in defence capability and further modernisation initiatives. Further

detail about the Department's change programme is set out in paragraphs 234-256. Further information on the outcome of the 2004 Spending Review is set out in *2004 Spending Review: Stability, security and opportunity for all: investing for Britain's long-term future: New Public Spending Plans 2005-2008* (Cm 6237) published on www.hm-treasury.gov.uk and in the technical notes supporting the MoD's SR2004 Public Service Agreement and Efficiency programme, published on www.mod.uk.

FURTHER SOURCES OF INFORMATION

111. Detailed information on the Department's financial performance is contained in the Departmental Resource Accounts in Section 2 of the *Annual Report and Accounts 2004-05*. Further information is also available from the following sources:

- quarterly SR2002 Public Service Agreement reports to HM Treasury at www.mod.uk;
- *2004 Spending Review: Stability, security and opportunity for all: investing for Britain's long-term future: New Public Spending Plans 2005-2008* (Cm 6237) at www.hm-treasury.gov.uk;



- *Releasing resources to the front line: Independent Review of Public Sector Efficiency*;
- SR2004 Public Service Agreement and technical note at www.mod.uk;
- SR2004 Efficiency technical note at www.mod.uk;
- *Ministry of Defence: The Government's Expenditure Plans 2004-05 to 2005-06 (Cm 6212)* at www.mod.uk;
- *Central Government Supply Estimates 2004-05: Main Estimates (HC466)*;
- *Central Government Supply Estimates 2004-05: Main Estimates 2004-05 Supplementary Budgetary Information (Cm 1633)*;
- *Central Government Supply Estimates 2004-05: Winter Supplementary Estimates (HC 1234)* available at www.hm-treasury.gov.uk;
- *Central Government Supply Estimates 2004-05: Spring Supplementary Estimates (HC 325)* available at www.hm-treasury.gov.uk;
- *Public Expenditure Outturn White Paper 2004-05 (Cm 6639)* available at www.hm-treasury.gov.uk;
- NAO Report '*Ministry of Defence – Battlefield Helicopters*' (HC 486 2003-2004) available at www.nao.org.uk;
- Public Accounts Committee Report '*Ministry of Defence – Battlefield Helicopters*' (HC 386);
- *Veterans Agency Annual Report and Accounts 2004/2005* available at www.veteransagency.mod.uk.

ESSAY – MoD as a Business Owner

The MoD has ownership interests in six commercial businesses:

- five of its Executive Agencies¹ (ABRO, DARA, Dstl, Met Office and UKHO) operate as Trading Funds, charging cash for the services they provide to MoD and other customers, and publishing full profit/loss accounts.
- MoD also owns a 56% shareholding in QinetiQ, a company formed in 2001 from a former Trading Fund Agency.

Over the last two years, as part of a wider initiative across Whitehall to drive up the Government's performance as a shareholder, we have strengthened our business ownership role. A dedicated team within MoD Head Office works closely with the Shareholder Executive (located in the DTI), to ensure that the plans and objectives of each business are properly scrutinised, and that their executive teams receive the support they need to deliver business success. This role is distinct from MoD's position as the major customer of each organisation, and the two functions are managed separately. A summary of the purpose of, and current issues affecting, each business is given in Annex E.

Trading Funds

In strengthening our Trading Fund Ownership role, our chief focus is on:

- setting clearer high-level objectives and annual targets for each organisation, identifying explicitly any trade-offs which may need to be made between MoD's position as both Owner and principal customer;
- placing stronger emphasis on improving shareholder value, mainly by encouraging each Trading Fund² to generate profitable income from non-Government sources;
- holding executive teams more effectively to account, and applying closer and more expert scrutiny to the business plans, whilst maintaining a constructive and supportive relationship;
- introducing stronger governance arrangements, drawing on best-practice in the commercial sector (see below).

Strong governance is central to sustained business success. During 2004-05 we made good progress in this area. New commercial-style 'Trading Fund Boards' were introduced, reporting directly to Ministers and supporting them in their roles as formal Owners. These Boards are chaired by individuals with proven records of success in the commercial sector, and comprise a mixture of executive and non-executive members. Members of the MoD Head Office also attend meetings. Modelled closely on company boards in the private sector, the role of Trading Fund Boards is to scrutinise the performance and plans of the business, and provide challenge and support to the executive team. The new Boards are already proving very effective both in raising the level and quality of external scrutiny, and in building closer relationships and understanding between Trading Funds and MoD Head Office.

Building on this successful initiative, we are now working with the new Boards with a view to ensuring that Trading Fund objectives are clearly articulated, and that robust strategies, business plans and management arrangements are in place to drive up performance. It is intended to codify the objectives, governance arrangements, and other key information about the Trading Fund/MoD relationship in refreshed Framework Documents for ABRO, Dstl, the Met Office and UKHO.

QinetiQ

In 2003, MoD sold some 34% of its shareholding in QinetiQ to The Carlyle Group (a private equity investor). While we still have the majority equity shareholding and a Special Share, The Carlyle Group has 51% of the voting shares and thus effective control of the Company. We have, however, taken up our right to appoint Directors to the QinetiQ Board, which meets on a monthly basis. We therefore have clear visibility of, and a strong basis from which to influence, QinetiQ's strategic direction and high-level business planning.

¹ABRO (formerly the Army Base Repair Organisation), the Defence Aviation Repair Agency (DARA), the Defence Science and Technology Laboratories (Dstl), the Met Office, and the UK Hydrographic Office (UKHO).

²Excepting Dstl which can only do work for non-Governmental sources with the prior agreement of MoD/Government customers.



MANPOWER

Objective: Recruit and retain the people we need.

Public Service Agreement Target (SR2002 MoD Target 4)

Recruit, train, motivate and retain the personnel needed to meet the manning requirement of the Armed Forces, so that by the end of 2004 the Royal Navy and the RAF achieve, and thereafter maintain, manning balance, and that by the end of 2005, the Army achieves, and thereafter maintains, manning balance¹.

Performance Measures and Assessment

Trained strength of Forces between +1% and -2% of the overall requirement by 31 December 2004 (RN and RAF) and by 31 December 2005 (Army):

- **As at 1 April 2005**
 - RN/RM trained strength of 36,320 or 95.1% of overall requirement (compared to 96.8% on 1 April 2004);
 - Army trained strength of 102,440 or 98.3% of overall requirement (compared to 97.0% on 1 April 2004);
 - RAF trained strength of 49,210 or 101% of overall requirement (compared to 98.5% on 1 April 2004);
- **As at 1 April 2005**
 - RN/RM Reserve strength of 25,790 of which 22,180 Regular and 3,610 Volunteer;
 - Army Reserve strength of 171,440 of which 134,190 Regular and 37,260 Volunteer;
 - RAF Reserve strength of 36,630 of which 35,160 Regular and 1,480 Volunteer.

Critical shortage groups:

- **Areas of critical shortage remained in all three Services;**
- **Further reduction in overall shortfall in medical personnel from 23% to 20%.**

Achieve stable Premature Voluntary Release (PVR) rates for each Service:

- **Slight increase in PVR rates across all three Services, but Army and RAF continue to remain within stable long term goal rate.**

Reduce number of Service Personnel medically downgraded and level of civilian absence:

- **1% increase to 11.7% in proportion of Service Personnel medically downgraded;**
- **Defence mental health services reconfigured;**
- **Defence civilian sickness absence for non-industrial staff reduced further to 7.3 days per staff year, against a target of 7.5 days. (Civil Service 10.0 days overall, Private Sector 6.9 – 7.8 days).**

Civilian Workforce:

- **108,470 Full Time Equivalent civilian staff employed on 1 April 2005 (109,050 at 1 April 2004) including 15,660 Locally Employed Civilians outside the UK.**

Civilian Progression:

- **Generally good progress in management development and promotion.**

Diversity:

- **Overall Service ethnic minority strength (including Commonwealth recruits) increased to 5.2% at 1 April 2005 (4.9% at 1 April 2004) against target of 6% by 2006. UK ethnic minority intake:**
 - RN 2.3% (target 3%, 2003-04 intake 2.1%);
 - Army 3.7% (target 3.4%, 2003-04 intake 2.8%);
 - RAF 1.7% (target 3.1%, 2003-04 intake 1.8%).
- **As at 1 April 2005, women comprised 9.0% of UK Regular Forces, and 10.5% of the total 2004-05 intake;**
- **Proportion of women and disabled personnel increased at all levels of MoD civil service. Proportion of ethnic minorities stable or slightly reduced. Civilian diversity targets exceeded for disabled personnel in MoD Senior Civil Service and women in Band B, and just missed for women in Band D. Significantly below target for women and ethnic minority personnel in Senior Civil Service, ethnic minority and disabled personnel in Band B and Band D.**

¹Manning balance is defined as between -2% and +1% of the requirement, and is measured against the target prevailing at the time.

SERVICE MANPOWER

Manning Levels

112. As at 1 April 2005 the total trained strength of the Royal Navy and Royal Marines was 36,320, representing a shortfall of some 1,870 personnel (-4.9%) against the trained strength requirement of 38,190. Improvements in training wastage have been maintained, and over the last 9 months, the net monthly outflow from the service has reduced to 70. Shortages in some manpower categories remain a concern, including Nuclear Watchkeepers, Marine Engineering Artificers, Warfare Leading Hands, Air Engineering Mechanics and Submarine Medical Assistants.

Table 8: Strength and Requirements of Full Time UK Regular Forces, Full Time Reserve Service & Gurkhas

	Royal Navy/Royal Marines			2005	Army			Royal Air Force		
	2005	2004	2003		2005	2004	2003	2005	2004	2003
Trained Requirement	38,190	38,720	38,510	104,170	106,730	106,980	48,730	49,890	49,640	
Trained Strength	36,320	37,470	37,600	102,440	103,560 P	102,010 P	49,210	49,120	48,900	
Variation	-1,870	-1,250	-910	-1,730	-3,170 P	-4,960 P	+480	-770	-750	
Untrained Strength	4,520	4,500	4,960	10,970	13,650	14,880	3,020	4,650	4,700	
Total UK Regular Forces	40,840	41,970	42,560	113,410	117,210 P	116,890 P	52,230	53,770	53,600	

Notes:

1. Figures are rounded to the nearest ten and may not sum precisely to the totals shown. Figures at 1 April and include UK regular forces, trained Gurkhas, full time Reserve and Nursing Services Personnel.
2. 'P' represents that figures are provisional.

113. As at 1 April 2005 the total trained strength of the Army was 102,440, representing a shortfall of some 1,730 personnel (-1.7%) against the trained strength requirement of 104,170, continuing the improvement in recent years to achieve manning balance. Despite this success the Army is nevertheless having to work hard to maintain recruitment, particularly as market research has shown parental disapproval of the Army as a job has increased, reflecting perceptions of operations in Iraq and of Army training and care in the wake of Deepcut. There have been over twenty-five operational pinch point trades in 2004-05 including recovery mechanics, radiologists, ammunition technicians, information systems engineers, explosive & ordnance and military intelligence personnel.

114. As at 1 April 2005 the total trained strength of the Royal Air Force was 49,210, representing a slight excess of 480 personnel (1.0%) against the trained strength requirement of 48,730. This excess reflected the reduced requirement following the then Secretary of State for Defence's announcement in July 2004 that the Royal Air Force would drawdown to around 41,000 by 1 April 2008, rather than an increase in RAF personnel. The manning position in the Royal Air Force in fact remained fairly stable during 2004-05 at an average deficit of about -1.35%. The RAF therefore remained within the parameters of manning balance throughout the year. Shortages in certain key branches and trades in 2004-05, such as weapons support operator (Linguist), junior officer navigators and ground support equipment technicians remained a concern.



Table 9: Performance against Manning Targets

	1 Jul 04	1 Oct 04	1 Jan 05	1 Apr 05
RN % of Trained Strength	-4.2%	-4.9%	-5.0%	-4.9%
Army % of Trained Strength	-2.7%	-2.8%	-0.5%	-1.7%
RAF % of Trained Strength	-1.4%	-1.3%	-1.2%	+1.0%

Figure 10: Service Manning Surplus/Deficit



Table 10: Intake to UK Regular Forces from civilian life

	Royal Navy/Royal Marines			2004-05	Army		Royal Air Force		
	2004-05	2003-04	2002-03		2003-04	2002-03	2004-05	2003-04	2002-03
Officer intake	370	340	420	760	880	900	290	520	460
Other rank intake	3,320	3,780	4,800	10,940	14,310	15,710	1,880	3,640	3,990
Total intake	3,690	4,120	5,220	11,690	15,190	16,610	2,180	4,160	4,450

Notes:

Figures do not include full time Reserve personnel, Gurkhas or the Home Service battalions of the Royal Irish Regiment. Figures are rounded to the nearest ten and may not sum precisely to the totals shown.

Table 11: Outflow of UK Regular Forces

	Royal Navy/Royal Marines			2004-05	Army			Royal Air Force		
	2004-05	2003-04	2002-03		2004-05	2003-04	2002-03	2004-05	2003-04	2002-03
Officer outflow	510	470	510	1,100	950	980	700	620	580	
Other rank outflow	4,130	4,300	4,780	13,970	13,640	13,580	3,020	3,410	3,670	
Total outflow	4,630	4,770	5,300	15,070	14,600	14,550	3,730	4,040	4,250	

Notes:

Figures include outflow from the untrained strength. They do not include full time Reserve personnel, Gurkhas or the Home Service battalions of the Irish Regiment. Figures are rounded to the nearest ten and may not sum precisely to the totals shown.

Defence Medical Service

115. Recruitment and retention in the Defence Medical Services (DMS) continued to improve. As at January 2005, the shortfall of medical officers stood at 15% compared with 20% in 2004, with an overall shortfall of 20% compared with 23% in 2004. Shortfalls are concentrated in the areas of General Medical Practice, anaesthetics, general surgery and Accident and Emergency for Medical Officers and Accident and Emergency and Intensive Therapy Units for nurses. The DMS are trying to improve recruitment and retention by selective re-skilling, adapting training input and outflow to address particular shortage areas and enhancing direct entry recruitment. The direct entry "Golden Hello" scheme attracted 13 General Medical Practitioners over the past year, and a total of 29 General Medical Practitioners and 8 consultants have joined the scheme since it was set up in November 2002. DMS manpower requirements are being reviewed as part of the Deployable Military Capability Study.

Premature Voluntary Release (PVR)

116. In order to gauge the success of Armed Forces personnel retention, the MoD tracks the number of Servicemen and women voluntarily leaving the Forces before the end of their agreed term, against the goal of stable long-term PVR rates of 2% and 5% for RN Officer and ratings respectively, 4% and 6% for Army Officers and soldiers, and 2.5% and 4% for RAF Officers and other ranks. Figures for the last three years are set out in Table 12. Although the Army and RAF remained within their target long term rates, all three Services saw a slight increase in PVR rates during 2004-05. It is too early to say whether this is significant. PVR rates will continue to be carefully monitored.



Medical attention for a young Iraqi child south of Basra



Table 12: PVR Exit Rates

	Stable long term PVR goals	12 month ending 31 March 2005	12 month ending 31 March 2004	12 month ending 31 March 2003
RN Officers	2.0%	2.5%	2.5% ¹	2.6% ¹
RN Ratings	5.0%	6.4%	5.7%	5.3%
Army Officers	4.0%	3.9%	3.7%	3.4%
Army Soldiers	6.0%	5.7%	5.3%	5.5%
RAF Officers	2.5%	2.4%	2.1%	2.1%
RAF Other Ranks	4.0%	3.8%	3.7%	3.9%

Note:

1 This figure is different to that published in the Annual Report and Accounts 2003-04 due to the introduction of a new exit code which was not correctly classified.

Health of Service Personnel

117. Members of the Armed Services are medically downgraded when they are unable to undertake their duties for medical reasons. Generally this means they remain 'fit for work' and work normally, but that their deployability is limited. Over the year the proportion of the total population of the Armed Forces downgraded was 11.7%. This represented a 1% increase over the previous year. The largest increases were among Army soldiers (8.3%) and RAF other ranks (2.4%). The overall increase is partly the consequence of more accurate reporting under the revised downgrading procedures, and partly linked to the current high operational tempo, since ensuring unfit personnel do not deploy on operations drives stricter compliance with downgrading criteria than would normally apply.

118. Defence Medical Services (DMS) has continued to build on the scheme introduced in April 2003 to provide fast track access to surgery where this would be beneficial for operational reasons. Potential candidates are now first assessed for fast-tracking at Regional Rehabilitation Units (RRUs) in order to increase the proportion of referrals to surgeons that are suitable for surgery. The process was further streamlined following conclusion of a contract with Errington Associates to provide radiological imaging within 10 days of referral. DMS has also concluded contracts to expand the number of NHS Trusts who take on fast-track surgery.

119. Between 1 April 2004 and 31 March 2005 452 patients were accepted onto the fast track programme. Of these, 114 have been discharged back to duty, 285 remain under treatment and 53 will not complete the process (for reasons such as leaving the forces or being posted). The relatively high number still under treatment was expected given that the entire fast track process involves early access to assessment, diagnosis, and surgical treatment followed by post-operative rehabilitation and assessment (at RRUs). This

takes time. But by cutting down on often lengthy waits for assessment, diagnosis and surgical treatment, the fast track system is contributing to the numbers available for deployment.

120. As part of our wider strategy to improve healthcare to Service patients, Defence mental health services were reconfigured to be community focused with the emphasis on local provision. Following the closure of the Duchess of Kent Psychiatric Hospital on 1 April 2004, specialist community mental health care is now provided by enhanced Departments of Community Mental Health in a number of military establishments in the UK, Germany and Cyprus. This ensures better access to mental health support within or close to an individual's unit or home. It also enables DMS mental health staff to work within their local Service community, which is more closely aligned with their operational role. Following competition, in-patient care is now provided regionally by the private Priory group of hospitals. There were 341 admissions to Priory Hospitals during 2004-05. In June 2004 Defence Medical Services signed a contract to establish a Department of Defence Mental Health, in partnership with Kings College London, as a centre of excellence for Defence mental health research and education.

RESERVES MANPOWER

121. It is Government policy to have more capable, usable, integrated and relevant Reserve Forces supporting their Regular counterparts on operations overseas. For the Reservist, this policy requires a mind-set which sees mobilised service as a likely consequence of his Reserve service, rather than a theoretical commitment only. This is recognised by the Reserve community. The Volunteer Reserve Forces of each service and Regular Reserves served on operations in 2004-05. They provided up to 10% of total UK Forces deployed on Operations in Iraq during 2004-05, as well as supporting operations in Afghanistan, the Balkans and the

Democratic Republic of the Congo. The number of mobilisations from January 2003 to March 2005 is equivalent to 32% of the current strength of the Volunteer Reserve Forces. The continued use of the Reserves across operations at all scales of effort has demonstrated that they are fully integrated into the force generation process, and that the intention to make them a more relevant and usable component of military capability is being fulfilled.



Member of the Reserves on reconstruction work

122. The three primary roles of the Reserves are to augment the regular forces for enduring operations, to provide additional capability for large scale operations, and to provide specialist capabilities. As a result of their greater integration and increased capability, including some specialist capabilities that are now unique to the Reserves, no medium or large scale operation can be undertaken without their support. They also provide a civil contingency reaction capability for crises in the UK and maintain links between the military and civilian communities. There are three distinct elements to the Reserve Forces:

- the Volunteer Reserve Forces, comprising the public who voluntarily undertake military training, for which they are paid, in their free time. In return they accept a liability for call out when required to supplement the Regular Armed Forces on operations;
- most members of The Regular Reserve Force have a liability for reserve service as a result of previously completed regular service. This liability is limited by total length of service and typically lasts between 3 to 6 years (dependent on Service), or until a total of 22 years of regular service and subsequent reserve liability has been completed, which ever comes first;
- Sponsored Reserves who are civilians with a liability for service through their employment contract. Examples include Heavy Equipment Transporters drivers and Ro Ro crews.

A breakdown of Reserve strengths is shown in Table 13.

Table 13: Strength of the Reserve Forces at 1 April 2005 ^[1]

	Regular Reserves			Volunteer Reserves		
	RN/RM	Army	RAF	RN/RM ^[2]	Army ^[3]	RAF ^[4]
Strength	10,530	31,420	8,440	3,610	37,260	1,480
<i>of which mobilised</i>	-	170	-	-	1,460	-
Individuals liable to recall	11,650	102,760	26,720	*	*	*
TOTAL	22,180	134,190	35,160	3,610	37,260	1,480

Notes:

^[1] Figures exclude Full-Time Reserve Service personnel

^[2] Excludes University Royal Navy Unit personnel

^[3] Includes Officer Training Corps and non-regular permanent staff

^[4] Excludes University Air Squadron personnel

- denotes zero or rounded to zero

* denotes not applicable



123. Over the course of 2004-05 the MoD undertook a number of initiatives to improve support to the Reserves and making their continued use sustainable. The Defence publication *Future Use of the Reserve Forces* outlines a commitment to provide Reservists and their employers 28 days notice to report for mobilisation wherever possible and an aspiration to limit mobilised service to 12 months in aggregate over five years unless no viable alternative exists. The MoD has also implemented a new *Defence Directive on Employer Support*, aimed at ensuring the maintenance of a supportive environment with the civilian employers of reservists and for dealing with any problems which arise. Welfare and medical support for Reservists has been reviewed and a number of recommendations covering support to Reservists at home and abroad are being implemented. We also laid before Parliament on 23 March 2005 new regulations improving the provision for financial awards to Reservists and employers when mobilised (Statutory Instrument no. 859 of 2005, available at www.legislation.hmso.gov.uk).

124. Reserve Forces structures must support the demands of future operations and each of the Services has been reviewing the role and shape of their Reserves to ensure that they continue to deliver the desired operational capability. This will require ever-closer integration between the Regular and Reserve elements of the Services. In order better to meet the demands of future operations, some Reserve sub units and individual Reservists, such as logistic, medical and other specialists, whose skills are among those more likely to be required, are now at higher states of readiness than parts of the Regular Forces. The structure of Reserve Forces will be changed so that they can provide manpower for areas under pressure such as intelligence analysts, logisticians, engineers and other key enablers. Work to refine the future structure of the Territorial Army in particular is expected to come to a conclusion over the coming year.

Civil Contingency Reaction Forces

125. Civil Contingency Reaction Forces based on the command and control structure of Territorial Army units and including volunteers from all the Volunteer Reserve Forces are now operating in support of the defence and security of the UK. They are designed to support the national emergency services in the full range of emergency events which may require the deployment of a large disciplined manpower component.

CIVILIAN MANPOWER

Civilian Contribution to Operations

126. An increasing number of UK based civilian staff, currently around 200 at any one time, deploy to operational theatres alongside their uniformed colleagues. They work with military commanders as Policy Advisers as well as providing local contractual, secretariat and financial advice to deployed forces. In addition, personnel from the Defence Science and Technology Laboratory, the Defence Fire Service and the Ministry of Defence Police have made a valuable contribution to operations over the last year.

127. As at 1 April 2005, 22,070 MoD Civil Servants worked within the three Service front line commands and at the UK's Permanent Joint Operating Bases (Cyprus, Gibraltar, the South Atlantic islands and Diego Garcia). 36,110 worked in the three service personnel and training commands and the Defence Logistics Organisation. 34,570 staff, including around 7,360 in the MoD Police and Guarding Agency, worked in the Defence Procurement Agency and research and central support functions (for example bill paying, financial management and estates) and in the Department's Whitehall Head Office. In addition, the MoD employed 15,660 Locally Engaged Civilians at bases and in operational theatres outside the UK.

128. The 2,375 personnel of the Royal Fleet Auxiliary Service regularly deploy to operational theatres alongside their uniformed colleagues, operating a range of Naval Auxiliary ships to provide support to the Front Line.

Staff Numbers

129. The Department employed 108,470² Full Time Equivalent civilian staff on 1 April 2005. This is a decrease of approximately 580 over last year's figure of 109,050 Full Time Equivalent staff. Overall, the figures for UK-based staff have actually decreased by about 850 but this was been off set by an increase of 230 Locally Engaged Civilians overseas, the bulk of whom are being temporarily employed on an aid project in Sierra Leone.

²The civilian workforce numbers quoted in this report are against the Civilian Workforce Level 0 definition that was agreed following public consultation in line with National Statistics Protocols (see www.dasa.mod.uk for more information).



Civilian and RAF personnel working together

130. As part of the 2004 Spending Review the MoD committed to reducing the number of civilian posts in administrative and support roles by 11,000 (including 1,000 Locally Engaged Civilians) by the end of March 2008 – a reduction of about 10%. The reduction is largely driven by the Department's own change and efficiency programme to make the most of the resources available for Defence including by improving the efficiency and effectiveness of the administrative and support functions that civilians are employed in. The main reductions in the size of the workforce will arise from the Defence Logistics Transformation Programme, Defence Training Rationalisation, the People Programme, and the introduction of the Defence Information Infrastructure. The reductions will be managed mainly through a combination of reduced recruitment and early release. We do not expect numbers of compulsory redundancies to be necessary, but this may be unavoidable in some isolated locations if it is not possible to offer alternative posts nearby to staff who want to stay.

131. Set against the requirement to reduce numbers across the board, there are number of programmes in place across Defence to address skills shortages in key areas. These include targeted in-service training and development for project managers, professional development schemes for contracts and finance officers and investment in post-graduate study for IS/IT experts. More generally, a network of functionally based Skills Champions covering the whole department was established during the year to provide a strategic overview of the developmental needs of staff within particular disciplines.

Civilian Recruitment

132. The Spending Review Announcement in July 2004 committed the Department to civilian manpower reductions. The recruitment figures for 2004-05 were consequently lower than in the previous two financial years and are expected to fall further in future (see Table 14). However, despite this reduction in recruitment, diversity figures have remained constant and in some cases have improved. The number of women as a percentage of the total industrial and non industrial staff recruited has shown a slight, but consistent increase (from 37.8% in 2002-03, 38.9% in 2003-04 to 40.5% in 2004-05). We intend to maintain targeted recruitment in certain specialist functions and to ensure an adequate supply of future senior managers.

133. The recruitment information shown in Table 14 has been produced on a different basis from that shown in the Departmental Performance Report in previous years and now includes figures for the recruitment of all permanent and temporary (casual) civilian personnel including Trading Fund staff. Additional recruitment information, in accordance with the Civil Service Commissioners' Recruitment Code, can be found at Annex F.

Table 14: Civilian Recruitment

	2004-05		2003-04		2002-03	
	Non Industrial	Industrial	Non Industrial	Industrial	Non Industrial	Industrial
Total Number recruited	5,480	1,700	6,530	2,710	6,180	3,170
Number and percentage of women	2,440 44.5%	470 27.5%	3,020 46.2%	580 21.3%	2,800 45.3%	740 23.2%
Number of people with declared minority ethnicity	130	20	160	20	160	~
Number of people with declared disabilities	40	20	40	10	50	20

Notes:

1. The current information shown has been produced by DASA and is compiled on a different basis from that previously used for Departmental Performance Report in order to bring it into line with other reporting on recruitment. The figures cover all permanent and casual civilian personnel including Trading Fund staff. No recruitment information is available for Royal Fleet Auxiliary or Locally Engaged Civilian personnel.

2. ~ = Strength of less than ten or percentage based on strength of less than ten.

3. All figures are on a Full Time Equivalent basis.

4. All figures have been rounded to meet Freedom of Information requirements and protect confidentiality.



Civilian Sickness Absence

134. The number of days lost through sickness absence of Non-Industrial employees continued to reduce steadily during 2004-05 to an average of 7.3 working days per staff year against a target of 7.5 days. We monitored the position for our Skill Zone staff with a view to introducing sick absence targets for all employees from March 2007. The average number of working days lost for all MoD civilian employees (including Skill Zone but excluding Locally Engaged Civilians) fell to 8.4 days in the year to 1 April 2005. The MoD compares favourably with the wider Public and Private Sectors. In 2003 (the last full year for which figures are available) 7.6 days per staff year were lost to sickness absence across the whole MoD (including Trading Funds but excluding Locally Engaged Civilians), compared to 10.0 days across the whole Civil Service and 6.9 – 7.8 days in the Private Sector. Nearly half (49.1%) of MoD Non Industrial staff had no recorded sick absence during 2003, against a Civil Service average of 36.3%. Defence was the joint best performer (with the Home Office) among Departments with over 10,000 staff.

135. Whilst this is encouraging, there is still more to do. Absence reporting for civilians was among the first of the new e-enabled HR services rolled out under the People Programme. From April 2005, the absence project will deliver real-time recording and improved management information through a straight forward reporting process, with an emphasis on the relationship between the individual and line manager. We are also carrying out a 6 month review of arrangements for occupational health services and sickness absence management with the aim of improving the way we currently manage sickness absence. The review will examine in particular how data on sickness absence is analysed, how new IT systems can help disseminate data more widely, what managers' responsibilities should be for handling cases of sickness absence, how IT can help them carry out their responsibilities and what training they will require to do so.

Civilian Progression

136. The Department sets itself a number of targets in relation to civilian progression which look at promotion to the Senior Civil Service, success rates for 'In Service Nominations' to the Civil Service Fast Stream and Management Development Programme pass-rates at the Assessment and Development Centre (A&DC) for promotion to Band B. We have made good progress against challenging targets. Despite reducing numbers and a low turnover there were 16 substantive promotions to the SCS during 2004-05 against a target of 18. Our In Service Nomination success rate for the Fast Stream was 38% against a target of 49%. 77% of

MoD Fast Stream applicants were successfully promoted through the MoD A&DC against a target of 85% (here the percentage targets relate to a few individuals and are therefore very sensitive to small changes in numbers). For the MoD's internal scheme to identify and develop internal talent (MIDIT), 57% of applicants were promoted through the A&DC against a target of 60%.

DIVERSITY

Race Equality Scheme

137. The MoD and the Services remain strongly committed to equality of opportunity and good relations between people from all ethnic groups. The Defence Race Equality Scheme, encompassing the Armed Forces, the MoD civil service and the MoD Police, was published in May 2002 covering the period 2002 to 2005. It sets out how we intend to fulfil our obligations under the Race Relations (Amendment) Act 2000. The MoD continues to make progress towards full implementation of the Scheme and a second progress report was published in December 2004. Some particular achievements are described below but much remains to be done. The scope of the Scheme is under review and it will probably be extended to 2006 pending the preparation of a new wider equality scheme to reflect race and forthcoming additional diversity legislation. Both the Race Equality Scheme and progress reports (2003 and 2004) are available on the Department's website (www.mod.uk).

Recruiting

138. Although we continue our Outreach efforts, the Department still experiences difficulties in attracting ethnic minorities. The current changes to the Department further limits opportunities to bring in new recruits. However, our record for managing and retaining ethnic minority personnel is good. A framework for the management of through-life equality and diversity training and education for defence has been developed and a guide on religion and belief for the Armed Forces and MoD civil service is being prepared. The Department continues to undertake a systematic analysis of policies and procedures as set out in the Race Equality Scheme and is in the process of developing an Equality Proofing Tool to facilitate the process. The Department's commercial policy group has now agreed with trade associations a new standard condition of contract which will be included in all contracts to reflect our undertakings under the race legislation. We have participated again in the Business in the Community's Race for Opportunity benchmarking scheme and the Armed Forces have again finished among the top five public sector organisations.

Table 15: Recruitment of UK ethnic minorities

	2005-06 Target	2004-05		2003-04	
		Achieved	Target	Achieved	Target
Navy	3.5%	2.3%	3%	2.1%	2.5%
Army	3.9%	3.7%	3.4%	2.8%	2.9%
RAF	3.6%	1.7%	3.1%	1.8%	2.6%

Note: these figures are unaudited single Service estimates of UK ethnic minority intake.

139. All three Services continued to commit significant effort and resources to engage black and other ethnic minority groups to raise awareness of the Armed Forces and make it a career of first choice. This includes a wide range of recruiting and outreach activities with particular emphasis on high ethnic minority population areas, especially Greater London. The Department aims to achieve 8% ethnic minority representation by 2013, with incremental representation goals of 5% by 2004 and 6% by 2006. By the end of 2004 overall ethnic minority representation had increased to 5.2% across all three Services (compared to 4.9% at 1 April 2004), comprising 3.3% of the Royal Navy, 8.6% of the Army and 2.4% of the RAF. Performance against in-year ethnic minorities recruitment targets is set out in Table 15. The RAF, and to a lesser degree the Navy, fell short of their recruiting goals for the year. The RAF's main difficulty stemmed from the recruiting door effectively being closed at the start of the year (overall intake targets were reduced by 50% in-year), combined with the loss of the traditionally more productive Summer ethnic minority recruiting period because jobs had already been filled.

Service Equal Opportunities and Diversity

140. Although service in the Regular Armed Forces requires personnel to accept an open-ended commitment to serve whenever and wherever they are required, we have continued to develop policies designed to improve their work-life balance where this does not compromise operational effectiveness, including providing opportunities for non-standard working, home-working and career breaks. As at 1 April 2005, women comprised 9.0% of UK Regular Forces, and 10.5% of the total 2004-05 intake. During 2004-05, the UK co-chaired the Committee for Women in NATO Forces which considered a range of gender-related issues in an international context. We have also revised and issued guidance on the provisions for Servicewomen on maternity leave.



Guardsmen on parade



141. Arrangements were announced for the appointment of Buddhist, Hindu, Muslim and Sikh chaplains to the Armed Forces. Interviews for the Chaplains' posts have now taken place. Appointments will be made as soon as possible, subject to the completion of the usual employment and security checks and any notice period which the selected applicants have to serve with existing employers. Comprehensive guidance for Commanding Officers on religion and belief matters has already been issued.

Civilian Equal Opportunities and Diversity

142. Considerable effort has also gone into improving civilian diversity and we are making progress across the board, although we are not yet meeting central civil service targets. Details are set out in Table 16. The MoD has good diversity and work-life balance policies. We achieved a Silver Award in the 2004

Opportunity Now benchmarking exercise and were in the top 100 employers in Stonewall's Corporate Equality Index 2005. Minority representation is, broadly speaking, improving. It is still lower than we would like, especially at the highest levels, but there are some encouraging indicators. Representation and pass rates of minority groups at the 2004-05 Assessment and Development Centre for promotion from Band C to Band B (the main feeder grade for entry to the Senior Civil Service) was in line with their representation at Band C. This indicates that under represented groups are progressing within the Department. We expect the trend of increasing representation at Band B and the Senior Civil Service to continue. A total of 561 candidates were seen at the 2004-05 Assessment and Development Centre. 218 were successful, including 54 of the 106 women, 5 of the 13 ethnic minority staff, and 8 of the 21 disabled staff attending.

Table 16: Percentage of Women, Ethnic Minority and Disabled Non-Industrial Civilian MoD Staff

	2006 Target	2004-05		2003-04		2002-03	
		Target	Achieved	Target	Achieved	Target	Achieved
Total Senior Civil Servants in the MoD³							
Women	15.0	15.0	9.2	13.0	8.8	11.0	8.0
Ethnic Minorities	3.2	3.2	2.2	3.0	2.2	2.9	1.7
Disabled	2.0	2.0	3.3	1.9	3.0	1.7	1.5
Band B							
Women	18.0	16.0	18.5	15.0	16.6	14.0	14.3
Ethnic Minorities	3.5	3.0	2.4	2.7	2.5	2.4	2.3
Disabled	4.0	4.0	2.4	3.6	2.0	3.2	2.1
Band D							
Women	40.0	40.0	37.6	38.0	36.1	36.0	34.3
Ethnic Minorities	4.0	4.0	2.9	3.5	2.9	3.0	2.9
Disabled	6.0	6.0	4.2	5.8	4.2	5.6	4.7

Notes:

1. Percentages of Ethnic Minority Staff calculated as percentages of staff with known ethnicity status.
2. Percentages of Disabled staff have been calculated as percentages of total staff.
3. Senior Civil Service data covers SCS and equivalent analogue grades e.g. medical consultants.

143. A number of initiatives are underway to help increase our performance against our diversity targets. We have been an active member of the Civil Service Diversity Champion's Network, sharing best practice in respect of positive action training and work-life balance. We have also produced a Unified Diversity Strategy and are establishing a Diversity Communications Strategy and Plan. This includes working with MoD's key diversity focus groups (the Ethnic Minority Steering Committee, Disability Steering Committee, and the Lesbian, Gay, Bisexual and Transgender Steering Committee) to take forward the diversity agenda, and launching two new Women's Networks. We have also commenced a study into Senior Civil Service diversity to identify and overcome barriers to achieving a more diverse Senior Civil Service.

144. A number of important childcare initiatives are also underway. We have chaired the Interdepartmental Working Group on Childcare Provision and are leading a project to produce a childcare toolkit and to assist Departments to select the most appropriate form of childcare support to meet their business needs. The toolkit is available on the Cabinet Office web site www.diversity-whatworks.gov.uk. We intend to introduce a salary sacrifice for childcare vouchers from 2006 to enable individuals to sacrifice an element of their salary in return for a non-cash benefit such as childcare vouchers.

FURTHER SOURCES OF INFORMATION

145. Additional information on Manpower is available from the following sources:

- quarterly PSA reports to HM Treasury at www.mod.uk;
- UK Defence Statistics 2005;
- *Analysis of Sickness Absence in the Civil Service 2003*;
- Room for improvement: CBI absence and labour turnover, 6 Jun 04. Published in association with AXA. Available from CBI. ISBN: 0852015992;
- Employee absence 2004: A survey of management and practice. CIPD Survey Report 2004 available at www.cipd.co.uk;
- Statutory Instrument no. 859 of 2005, available at www.legislation.hmso.gov.uk/si/si2005/20050859.htm;
- *Future Use of the Reserve Forces* available at www.mod.uk;
- *A guide to Employers of Reservists* at www.sabre.mod.uk;
- 2002 Race Equality Scheme and progress reports (2003 & 2004) at www.mod.uk.



ESTATE

Objective: Maintain an estate of the right size and quality to achieve defence objectives.

Public Service Agreement Targets (SR2002 MoD Targets 4 and 7)

Recruit, train, motivate and retain the personnel needed to meet the manning requirement of the Armed Forces:

- Improve the condition of the housing in which our people live. There will be substantial new investment in family accommodation in the UK to improve the living conditions of Service Personnel and their families to Standard 1 for condition by November 2005.

Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability:

- Identify for disposal land and buildings with a Net Book Value of over £300M (from 1 April 2002 to 31 March 2006).

Performance Measures and Assessment

Improve Single Living Accommodation to Grade 1 standard by delivering 5,947 Grade 1 bed spaces through Project SLAM and other projects:

- **5,816 new-build bed spaces delivered in 2004-05 through Project SLAM and parallel projects.**

Improve Service Family Accommodation in the UK by upgrading 2,000 family houses to Standard 1 for condition:

- **2,610 Service family houses upgraded in 2004-05. 24,000 houses at Standard 1 for condition and 18,000 at Standard 2 for condition. Over 97% of the long term core stock now at Standard 1 or 2 for condition.**

Improve Customer Satisfaction in Defence Housing:

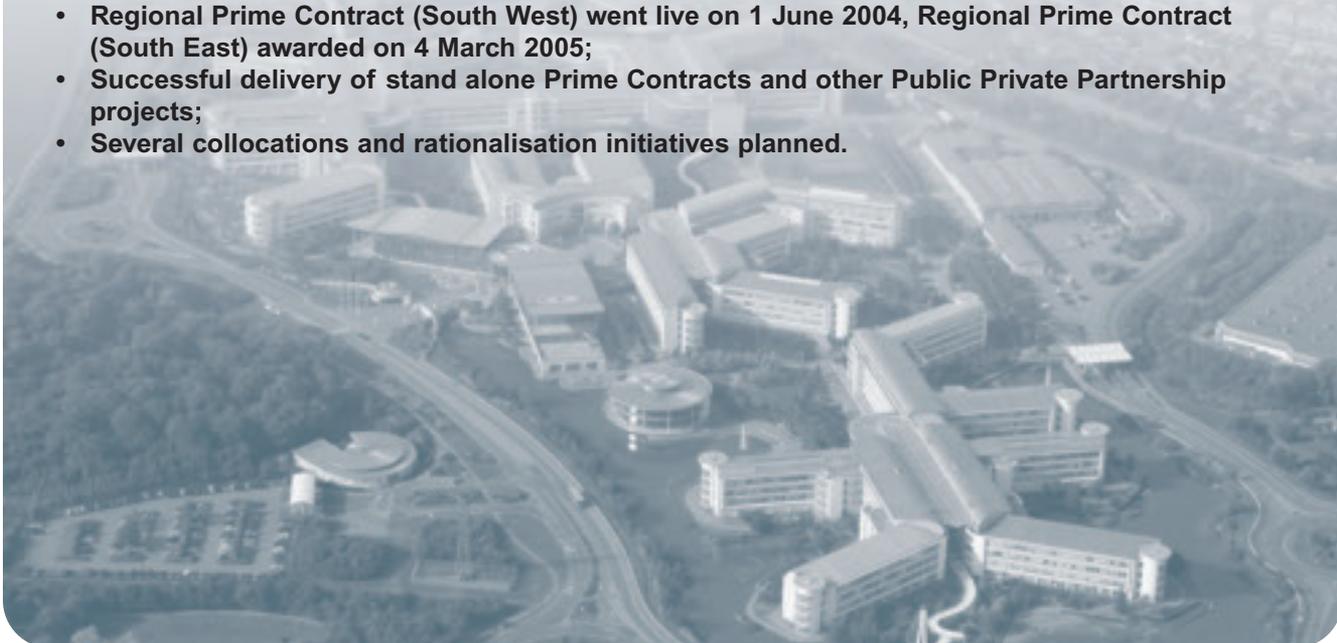
- **Dissatisfaction in quality of service provided reduced from 22% to 17%.**

Achieve gross estates disposal receipts of £126M and identify land and buildings for disposal with cumulative value of £258M by April 2005:

- **Accrued gross disposal receipts from surplus land and property of £211.6M in 2004-05 (in addition to £278M in 2002-03 and £207M in 2003-04);**
- **Assets with Net Book Value of £165M transferred to Defence Estates in 2004-05 for disposal, producing cumulative value of £395M.**

Demonstrate reduction of through-life costs and timeframes by using prime contracting methods, and by producing methodology to assess value for money efficiencies by 31 March 2005:

- **Housing management margin reduced from 12.2% to 11.2% (target 10.7%);**
- **Regional Prime Contract (South West) went live on 1 June 2004, Regional Prime Contract (South East) awarded on 4 March 2005;**
- **Successful delivery of stand alone Prime Contracts and other Public Private Partnership projects;**
- **Several collocations and rationalisation initiatives planned.**



THE DEFENCE ESTATE

146. The purpose of the Defence estate is solely to support the delivery of defence capabilities. Delivering this means that the Ministry of Defence is one of the largest landowners in the UK with a diverse estate of some 240,000 hectares¹ (1% of the UK mainland) valued at some £15.3Bn. The built estate occupies around 80,000 hectares² (comprising naval bases, barracks/camps, airfields, research and development installations, storage and supply depots, communications facilities, family quarters and town centre careers offices). The rural estate comprises some 160,000 hectares³ of training areas, small arms ranges, test and evaluation ranges and aerial bombing ranges. This includes 179 Sites of Special Scientific Interest, the largest number owned by any Government Department. In addition, MoD owns 1,611 listed buildings and scheduled monuments across both the built and rural estate.

147. The overseas estate mainly consists of garrisons in Germany, Cyprus, Falkland Islands and Gibraltar. There are also major training facilities in Canada, Cyprus, Germany, Norway, Poland and Kenya with other facilities in Ascension Islands, Belize, Brunei, Nepal, Singapore and USA. In addition the Overseas Division of Defence Estates (DE) has provided support to the Operational Military Work Areas of Iraq, Afghanistan and the Balkans in the form of forward deployed Defence Estates Advisors and a dedicated rear based support team.

148. Defence Estates is responsible for the maintenance and management of the defence estate. The way in which the estate is managed has changed radically in recent years and continues to evolve. These changes include the separation of supply (Defence Estates) and demand (users) functions and the introduction of Prime Contracting, reflecting Smart Acquisition principles. The MoD is also rationalising the Defence estate with significant disposal of land and buildings. In particular we are working to rationalise the number of service headquarters and focus on fewer sites with resulting operational benefits.

MAINTENANCE OF THE ESTATE

Single Living Accommodation

149. Project SLAM (Single Living Accommodation Modernisation) is a Functional Prime Contract to upgrade Single Living Accommodation for the Armed Services across England, Wales and, to a lesser

extent, Scotland. It follows the announcement in 2001 by the then Secretary of State for Defence of an additional £1Bn of new funding over the following ten years for raising accommodation standards for military personnel. The first five-year phase of the contract, was awarded to Debut Services Ltd (DSL) in December 2002 and construction work began in April 2003. The contract awarded to DSL will deliver some 9,000 single bed spaces, most with en-suite facilities, providing a greatly improved living environment for the Services in contrast to the multi-occupancy rooms traditionally provided on many MoD sites.

150. In 2004-05 Project SLAM delivered 1,862 bed spaces against the target of 1,640, spending £128M. HRH the Duke of Edinburgh opened the first completed project at the Royal Marines Base at Poole in May 2004. The second completed project at Dalton Barracks, Oxfordshire was opened in July 2004 by the then Under Secretary of State, followed in October by the formal opening of 'Slim Mess' at the Royal Military Academy Sandhurst by Viscount Slim. Feedback from occupants has been very positive and the popularity with users is a clear endorsement of the improved living environment provided by the project. Other completed schemes include the Royal Marine Base at Condor, Alexander Barracks, Middle Wallop and at RAF Shawbury, RAF Coningsby and RAF Waddington.

151. Running parallel to SLAM are a number of separate and existing projects to modernise single living accommodation in Scotland, Northern Ireland, Germany, Gibraltar and Cyprus. This year these projects delivered 3,954 bed spaces against a target of 4,307, including 534 bed spaces overseas, mainly in Germany. The slight shortfall is largely the consequence of over performance in 2003-04 (3,347 bed spaces delivered against a target of 2,500), which included some projects brought forward from within this year's programme.



Completed SLAM accommodation at RM Poole

¹In addition MoD has rights to some 125,000 hectares.

²In addition MoD has rights to some 5,400 hectares.

³In addition MoD has rights to some 120,000 hectares.



Service Family Accommodation

152. Defence Estates is also responsible for some 49,000 Service Family Accommodation (SFA), of which nearly 43,000 properties are considered to be long-term core stock. It is intended that the remainder will be handed back to Annington Homes Limited or disposed of in the near future. A programme is underway to improve the standard of SFA to a defined standard for condition. The Standard for Condition is a points system based on a score determined by the age, presence or condition of 102 attributes relating to Health & Safety, Sanitary, Kitchen, Energy Efficiency, Building Fabric, Electrical, Security and Bedroom Standard. Standard 1 properties achieve the top standard in all categories. Typically a Standard 2 house would be lacking in no more than one of these attributes.



Service family accommodation

153. The target for 2004-05 was to upgrade a further 500 SFA to Standard 1 for Condition, based on the original funding level. However, additional funding was identified in-year enabling delivery of 2,610 housing upgrades. Of the long-term core stock, in the region of 24,000 are currently at Standard 1 for Condition and nearly 18,000 are at Standard 2. The MoD currently have some 900 properties at Standard 3 and only 100 at Standard 4. Over 97% of core SFA stock is currently held at Standard 1 or 2 condition.

ESTATE MANAGEMENT

Estate Rationalisation

154. A key facet of MoD's estate strategy is to provide an estate of the right size and a rigorous programme is underway. This year proposals have been developed for the collocations involving the Defence Logistics Organisation, Navy, Army and RAF Headquarters, and the Defence Intelligence Staff. We also plan to collocate the Defence Medical Education and Training Agency with the Royal

College of Defence Medicine, and rationalise the Army Training and Recruitment Agency estate.

155. There is also a specific project to deliver major investment and restructuring of the MoD Estate in London, known as Project MoDEL. The Project is pursuing a new procurement strategy, Prime Contracting Plus, which will enable the contract to be entirely self-funding over its lifetime; the value of the sites that are released as a result of consolidation will be utilised to fund the construction. Following considerable interest from industry, outline bids were received in February 2005. Selection of the successful bidder is anticipated later in 2005.

Estate Disposals

156. During the year assets with a Net Book Value of £165M were transferred to Defence Estates for disposal. Receipts from Estates Disposals of £211.6M (Gross) were achieved against a target of £126M. The most notable disposal was that of Northumberland House in central London, following the reoccupation of the refurbished Main Building. Estates Disposals now stand at £697M of receipts against the Spending Review 2002 target of £500M for the period up to 2006.



Permanent Memorial to honour VC and George Cross Holders

Lyons Review

157. The Lyons Review was conducted by Sir Michael Lyons in 2003-04. It was aimed at stimulating regional economies outside the South East and concluded that Government should lead in moving jobs into the regions and in improving its asset (including estate) management. Following the Lyons Review, the Government committed to relocating 20,000 civil service (including military) posts out of the South East region by 2010. MoD committed to relocate some 3,900 posts by this date. We have already delivered over 1,200 and remain on track to deliver the rest in 2008-09.

Management of Housing

158. The merger of Defence Estates and the Defence Housing Executive was completed by 31 March 2005. The efficient management of housing is assessed using the housing management margin, which measures the overall proportion of houses that are vacant, excluding housing earmarked for disposal in the next 12 months. In 2004-05 DE disposed of 1,012 properties and reduced the housing management margin from 12.2% to 11.2% against a target of 10.7%. Some vacant housing was retained pending future estate rationalisation decisions. Subject to these decisions and Service Personnel movements, the rigorous programme to identify and dispose of property for which there is no longer-term requirement will continue.

159. Satisfaction with the quality of Service Family Accommodation and the service provided by DE improved during the year. Performance measured against responses to the 2004 Customer Attitude Survey showed that DE achieved a one percentage point reduction, from 18% to 17%, in the level of dissatisfaction with the quality of property provided as SFA. DE also achieved a 5 percentage point reduction from 22% to 17% in the level of dissatisfaction with the quality of service provided to SFA occupants.

160. During the year the NAO looked at the housing services overseas. They concluded that we are meeting the objective of having housing available, but that we need to improve our customer focus, improve professionalism and introduce a performance management system and culture. The report also highlighted the effect of housing quality and operational effectiveness, and states that "48% of occupants overseas considered housing to be the most important contributor to their quality of life." The conclusions are being studied and initiatives established to address the issues. The full report *Quality of Housing Services to Service Families Overseas* can be found on the NAO web-site. In May 2005 the NAO issued a further report, *Managing the Defence Estate*, into the Department's management of the estate. This concluded that we had made good progress in meeting the challenges of creating an estate fit for purpose.

Prime Contracts

161. Regional Prime contracting is intended to deliver 30% through life value for money efficiencies in estate management by 2009-10 (against a baseline for 2004-05). Through improvements in supply chain management and collaborative working with industry, the Prime Contracts will meet the requirements of customers, provide value for money and improve the delivery of estate services. The Regional Prime Contract for the South West went live on 1 June 2004. The Regional Prime Contract for the South East was awarded on 4 March 2005, slightly delayed by the complexity of the final negotiations. The remaining two contracts covering the Central and Eastern regions will be awarded in 2005-06.

162. The Prime Contract for Housing in England and Wales was delayed as a result of the change from an input specification (where tasks to be done are explicitly defined) to an output specification (final outcomes are detailed but not how to achieve them). This change reflects best practice, but delayed the planned award of the Housing Prime Contract until August 2005.

163. Further work was undertaken to ensure that through-life Value for Money (VFM) efficiencies from the introduction of Prime Contracting could be identified and tracked. As part of the wider Estate Performance Measurement System a VFM model has been developed in parallel with the roll out of Prime Contracting and pilots at nine MoD locations are currently underway. These pilots were successfully completed in July 2005. The first performance report against the VFM model is due in October 2005 for the Scotland Regional Prime Contract.

Project Aquatrine

164. Project Aquatrine is one of the Government's largest Private Finance Initiative (PFI) deals, worth £2.3Bn over 25 years. The project is split into three geographic regions across the estate, encompassing the MoD's sewage works, water processing plants and water mains, sewers and drains, removal of surface water and water supply for fire fighting use. The project is already delivering better value for money, whilst mitigating water management risk through the transfer of responsibilities to the service provider. Package A, the first of the three contracts covering the South and West of England and Wales, was awarded on 17 April 2003. Package B, covering Scotland, was awarded to Thames Water Nevis Ltd on 7 September 2004. Package C, covering North, East and South-East England was awarded to a consortium comprising Seven Trent and Costain on 15 December 2004. Project Aquatrine now covers the entire MoD estate in Great Britain.



SUSTAINABLE DEVELOPMENT

165. Defence Estates continued to be the lead for the Department on the estate-related aspects of the Sustainable Development agenda. Performance is reported through MoD's Sustainable Development Report 2003-04 and against the Estate Strategy performance indicators in the Stewardship Report for the Defence Estate 2004. Highlights during the year included 70.1% of Sites of Special Scientific Interest (SSSI) in England, Scotland and Wales formally assessed as meeting favorable (unfavorable recovering) condition against a target of 95% by 2010; the publication of the Energy Strategy in November 2004; and the achievement of the target set by the Department of Environment, Food and Rural Affairs through the Framework for Sustainable Development on the Government Estate. Defence Estates is on course to publish the remaining Framework Strategies (Estates Management, Procurement and Social Impacts) by the target date of December 2005. Further information on sustainable development can be found in the essay on pages 76-77.

FURTHER SOURCES OF INFORMATION

166. Additional information on Estate is available from the following sources:

- quarterly PSA reports to HM Treasury at www.mod.uk;
- UK Defence Statistics 2005;
- NAO Report *Quality of Housing Services to Service Families Overseas*, published 10 March 2005; HC 342 Session 2004-2005 available at www.nao.uk;
- NAO Report *Managing the Defence Estate*, published 25 May 2005, HC 25 Session 2005-2006 available at www.nao.uk;
- Sustainable Development Report 2003-04, available at www.mod.uk;
- MoD Sustainable Development Delivery Strategy for Non-Operational Energy. Located at www.mod.uk;
- House of Commons Environment, Food and Rural Affairs Committee Report *Sites of Special Scientific Interest: Conserving the Jewels of England's Natural Heritage*, Fourteenth Report HC 475, published 15 July 2004;
- The *2004 Stewardship Report* on the Defence Estate available at www.defence-estates.mod.uk;
- Defence Estates Annual Report and Accounts 2004-05;
- Defence Estates Framework Document;
- *Securing the Future – UK Government sustainable development strategy*, Cm 6467 available at www.sustainable-development.gov.uk/publications/uk-strategy/uk-strategy-2005.htm.

ESSAY – Sustainable Development in Defence

In March 2005 the Government launched its new Sustainable Development Strategy *Securing the Future*. Alongside four agreed priorities – sustainable consumption and production, climate change, natural resource protection and sustainable communities - is a commitment that Government will lead by example. The document sets the policy context for Government and, in particular, highlights the active role that Departments should play in facilitating an improved quality of life for current and future generations.

The Ministry of Defence (MoD) makes substantial contributions in support of the Government's strategy on sustainable development and yet the business of defence is rarely connected with the aims of this broad-based agenda. The Department is committed to developing a more integrated approach on sustainable development issues and to communicating its progress on a regular basis to all interested stakeholders.

An Integrated Vision

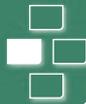
The Defence Vision is to 'deliver security ... and to act as a force for good by strengthening international peace and stability', and this resonates closely with sustainable development aspirations. The Department's policy emphasis is on conflict prevention and the MoD's operational activities include providing post-conflict recovery measures. By working in collaboration with the Foreign and Commonwealth Office and the Department for International Development, the MoD serves to support the establishment of stable and safe environments around the world. It is only from this context of stability and democracy that sustainable development goals can be pursued on a global basis.

A Sustainable Estate

Preserving the Department's operational readiness demands a well-maintained estate that is fit for purpose. The MoD has a long standing commitment, articulated in its Estate Strategy, that the estate is developed and managed in a manner which is sensitive to the community and the natural environment. In reality this means developing integrated planning solutions that use acknowledged best practice techniques, such as the MoD's Sustainability Appraisal Handbook, as well as engaging across the organisation with a range of stakeholders at local, regional and national levels. This consultative approach provides direct support to the Government's wider social agenda to create sustainable communities. As a major construction client, the Department is also working hard to promote and deliver sustainable construction in support of Government objectives, including those on climate change. By working with our industry partners and developing defence-specific assessment methodologies, the MoD aims to be at the forefront of delivering against the Government's Achieving Excellence initiative for construction.

Adopting a long term, holistic view

In *Securing the Future* the Prime Minister described sustainable development as 'an agenda for the long term'. Delivering defence is predicated on careful planning that, where possible, seeks to 'future proof' the decisions that the Department makes today. For example, the MoD's recruitment strategies must continue to sustain the capability of our Armed Forces, and the procurement programme must provide technologically advanced equipment to uphold the new force structures necessary for a changing world. The Department's approach is to employ a whole life perspective that seeks to achieve a balanced, representative workforce (by applying the principles of corporate social responsibility), endowed with equipment for which the environmental and social impacts of its development, use and disposal have been minimised (by using Project Oriented Environmental Management Systems).



Reporting Progress

Much of this work is captured and reported in the Department's first Sustainable Development Report 2003/4, which highlights the MoD's performance against 16 key themes within 5 categories:

- 1.Sustainable Development and Environmental Management in Defence (environmental management, appraisal and assessment);
- 2.Environmental Protection in Defence (Biodiversity, Climate Change, Heritage, Land Remediation, Waste, Water) ;
- 3.Defence as an Employer (Diversity, Health, Safety and Well-Being, Investors in People, Work-life balance);
- 4.Defence in the Community (Community Involvement and Volunteering);
- 5.Defence and the Economy (Equipment and Construction Procurement).

The report also demonstrates how the Department is progressing against the targets set by the Framework for Sustainable Development on the Government Estate, part of the Sustainable Development in Government initiative, lead by the Department of Environment, Food and Rural Affairs. The report can be viewed in full at www.mod.uk.

REPUTATION

Objective: Enhance our reputation with the UK public and internally within MoD and the Armed Forces.

Performance Measure and Assessment

5% increase in positive responses in aspects of Defence where the level of positive responses is less than 70%:

- Overall average of 57.7% positive replies to external opinion survey, an increase of 0.5% on the position at December 2003;
- The perception of defence within our workforce is broadly similar to that of the public as a whole. Support for defence objectives remains extremely high.





PERCEPTIONS OF DEFENCE

167. Defence is a complex and sometimes controversial business. The MoD therefore invests considerable effort in communicating accurately and effectively the day-to-day work of the Department and the Services in order to ensure that Parliament, the media and the public have an accurate perception of what we are doing and why. The successful achievement of Defence objectives depends on the support of both the UK public, on whose behalf we work, and of the people inside the MoD and Armed Forces. It is therefore essential to the MoD and the individual Services to know what both the external and internal audience think of Defence. The Department also therefore carries out periodic public opinion surveys and surveys of staff, using an independent market opinion company, to test the reputation of the MoD and the Armed Forces.

COMMUNICATING THE WORK OF THE DEPARTMENT

168. We communicate the work of Defence through a number of different channels. As a Government Department the MoD invests considerable time and effort in informing Parliament of our business and responding to Parliamentary questions (see Annex B). MoD Press Officers engage in day-to-day liaison with the media. They respond to questions from journalists as stories develop and provide the media with the factual background required. In addition to Parliamentary and media business, the MoD uses a number of other means to explain its work and to provide information to the public. The MoD website (www.mod.uk) is updated regularly to cover new issues as they emerge. The online photographic library (www.defenceimagedatabase.mod.uk) is particularly popular and in the first three months of 2005 received over 29M "hits". Nearly 60 Defence National Statistics releases were made in 2004-05 on the DASA website (www.dasa.mod.uk).

169. On 1st January 2005, the Code of Practice on Access to Government Information was superseded by the Freedom of Information Act 2000. This placed the requirement to respond to requests for information on a statutory footing. Under the terms of the Act, a substantive reply normally has to be provided within 20 working days, and information must be disclosed unless an absolute exemption applies or there is an overriding public interest in refusal. In the three months to 31st March 2005, 1,843 requests had been made to MoD. Of these, 81% were answered within 20 working days, and 67% resulted in full disclosure of the information requested. Further information on the implementation of the FOI Act can be found in Annex F.

170. Each year we conduct a wide array of activities to which the public is invited. The Defence Touring Exhibition visits events, such as air shows and county shows during the Summer months and in the past has attracted in excess of 100,000 visitors. The five regional Defence Schools Presentation Teams aim to visit 750 secondary schools across the country each year, with some 150,000 children taking part. The Royal Navy, Army and RAF have Presentation Teams that undertake an annual UK tour to explain their roles and responsibilities to invited audiences and the Services also participate in events which give the public the chance to view their skills and professionalism at first hand. Examples in 2004-05 included the RAF's involvement in the International Air Tattoo at Fairford and the international celebrations to commemorate the 60th Anniversary of D-Day.

REPUTATION AMONG UK PUBLIC

171. Like any large organisation, the MoD carries out occasional opinion surveys to test the reputation of the MoD and the Armed Forces. These surveys are conducted both within the Department and with members of the British public. The aim of these surveys is to identify where any action may be taken by us to enable people to be better informed on defence issues. Analysis of the public opinion surveys reveals there is a high level of public support for the work and professionalism of the Armed Forces (see Table 17). In a recent poll undertaken by Ipsos, 81% of people said that the UK needs strong Armed Forces, while 70% thought that the Armed Forces have the highest professional standards. On the other hand, only 26% of people thought that we spend taxpayers' money wisely, but this represents an improvement over the last survey conducted in December 2003.

INTERNAL COMMUNICATION

172. We believe that our own people are vital ambassadors for what we do, and we are committed to keeping all of our staff, military and civilian, in touch with the latest developments in Defence. It is vital that everybody involved in the Defence enterprise understands the work of the Department and the part they play in it. We provide our people with information which is honest, straightforward, clearly expressed, timely and which matches our external messages, and have a number of systems for keeping people up to date both with major announcements by Ministers and with changes which are of more local interest.

Table 17: External Opinion Survey Results (Percentage of Positive replies)

Statement	March 2005	December 2003	Change
UK needs strong armed forces	81%	84%	-3%
Confidence in the ability of the UK Armed Forces to defend the UK	82%	85%	-3%
UK Armed Forces make the world a safer place	71%	77%	-6%
Confidence in the ability of UK Armed Forces to defend overseas territories	74%	81%	-7%
UK Armed Forces have the highest professional standards	70%	70%	0%
The UK Armed Forces look after their people	63%	60%	+3%
Confidence in the ability of UK Armed Forces to protect UK overseas economic interests	61%	60%	+1%
MoD is as open as it can be about its activities	37%	46%	-9%
UK Armed Forces are well equipped	53%	38%	+15%
MoD and UK Armed Forces promote their best people regardless of race, gender, religion or sexual orientation	56%	49%	+7%
UK Armed Forces make a positive contribution to wider communities	47%	42%	+5%
MoD should support British Industry's efforts to export military equipment	43%	38%	+5%
MoD and UK Armed Forces carry out their activities with due regard to the environment	36%	34%	+2%
MoD spends taxpayers' money wisely	26%	23%	+3%
Overall positive responses:	57.7%	56.9%	+0.8%

Note: Survey undertaken in March 2005 of 1,871 adults aged 15+ across sampling points in Great Britain

173. The main way to disseminate important information is the command (or line-management) chain; the routine cascade from the top management to staff. The command chain is supported by a number of other communication channels:

- Corporately, we have an in-house defence news and information service which provides electronic briefing notes, updates to our corporate website and intranet and our own monthly defence newspaper ("focus");
- The single Services have their own websites, intranets and service publications (Navy News, Soldier, RAF News), along with separate channels for internal briefing;
- Other constituent parts of the Department (Agencies, Top Level Budget areas and smaller, down to individual units and special-interest groups) have their own internal channels for disseminating messages;
- Our major internal programmes have their own bespoke communication plans, using the above channels to get their messages across to our staff along with conferences, mail shots, posters road shows and other media.

REPUTATION AMONG SERVICE AND CIVILIAN PERSONNEL

174. We also review how we are perceived by our own people, and we are developing improved methods to find out and track what they think and why. The information we have suggests that the perception of defence within our workforce is broadly similar to that of the public as a whole. Support for overarching defence objectives remains extremely high among Service personnel and MoD Civil Servants.

FURTHER SOURCES OF INFORMATION

175. Additional information on Reputation is available from the following sources:

- detailed Opinion Surveys published on www.foi.mod.uk;
- *The Pattern of Military Low Flying across the United Kingdom 2004/2005* available at www.mod.uk.



ESSAY – Defence Training and the Wider Economy

Defence is one of the UK's largest employers. In 2004-05 some 17,500 people joined and 23,000 left the Armed Services, reflecting changing manpower requirements. The average length of Service of those leaving the Armed Forces is about 12 years. In the long term the Services provide a significant pool of qualified and well motivated personnel, including managers and technicians at all levels. Service personnel are increasingly well equipped to find employment in both the public and private sectors on leaving the Forces, benefiting not only the individuals concerned, but also the wider economy and the nation as a whole.

Nationally Recognised, Portable Qualifications

The Armed Forces need to recruit and train personnel from a breadth of vocational and academic backgrounds to fill more than 300 specialist career paths. As well as training to meet operational needs, there are many opportunities for personnel to gain nationally recognised civilian qualifications through the accreditation of Service education, training and experience, as well as through other lifelong learning opportunities. These range from basic skills to postgraduate level qualifications. The initiatives contribute to the recruiting, career development and retention components of personnel strategies and to the wider agenda of "Government playing its part".

Basic Skills in Literacy, Language and Numeracy

Approaches to Basic Skills have varied between the Forces, reflecting the differing needs and the legacy training and education systems of each Service. Basic skills are needed to support training and employability, as well as being of clear benefit to individuals. Addressing the Basic Skills needs of Service personnel is a high priority, and the MoD is working hard towards developing timely assessment and support for new entrants and addressing the needs of its present workforce. Examples of initiatives include the ability to conduct initial assessments in recruiting offices; provision of in-house tutor support partnerships with colleges and other training providers and the establishment of a network of learning centres with ICT-based assessment, support and testing facilities and access to the learndirect suite of programmes.

Qualifications – Achievement

Training takes place in over 140 training establishments, in the workplace, and in operational environments. We work to maximise opportunities to gain civilian qualifications at all levels. For instance, over 5,000 Heavy Goods Vehicle (HGV) licences were awarded by the Department in 2004-05, about 27% of the annual average number of HGV licences awarded in the UK. The MoD also had more registrations for Apprenticeship programmes in 2004-05 than any other central Government department. Significant numbers were in key areas such as communications and engineering, but they had a very wide range overall, also including such areas as supply, retail and customer care, hospitality, horse care and health care. Over 4,700 Apprenticeships and over 1,800 Advanced Apprenticeships were completed across the Services. The Forces are also at the cutting edge of Foundation Degree developments which provide routes to progression to Honours Degree level for a cohort of staff who previously did not have such readily accessible opportunities. Current programmes include areas such as aeronautical and electrical engineering, applied computing and business and management.

Each Service provides individuals with opportunities and support for personal development. For example, the 125 Army Learning Centres provide a range of learndirect courses for the Wider Defence Community. As of December 2004, 30,000 learners had completed 65,000 courses in IT, Business and Management, or Skills for Life.

The Defence Academy, with over 3000 students provides education at undergraduate and postgraduate levels for Armed Forces' officers and civil servants. Qualifications include the Diploma in Management from the Chartered Management Institute, Master of Defence Administration and M Phil/PhD and MSc/MA degrees in a variety of subjects from Cranfield University.

The Future

We are committed to playing our part in upskilling the national workforce and, on a broader front and as a major employer, to help shape and influence national qualifications and skills policy. To achieve this we are enhancing our relationships with major external stakeholders. This includes working closely with the DfES, the Qualifications Curriculum Authority, the Cabinet Office, the Adult Learning Inspectorate, the Sector Skills Development Agency, key Sector Skills Councils and the Learning and Skills Council. This will benefit individual Service personnel, Defence as a whole, and the wider economy.

Case Studies

Darren Holland joined the Royal Navy in 1997 with four GCSEs. He undertook his apprenticeship with the Royal Navy where he gained skills and experience in a demanding engineering environment. He then served on operational ships to consolidate his engineering training. In 2002-03 he attended the Naval Engineering College, HMS SULTAN and undertook professional training for Leading Marine Engineering Mechanic. For the past two years he has used this experience on board HMS MONMOUTH. After going for an interview with "Abus Crain's" as a Service Engineer, the employer was so impressed with his qualifications and experience that they offered him employment as an Engineer Service Coordinator. They particularly liked his NVQ 3 in Electrical Engineering which he gained earlier this year.

Sergeant Mark Benson joined the Royal Signals in October 1995 and during his career has worked his way to become a well-qualified telecomms specialist. He has now secured employment as a project manager with Tubedale, a communications company based in Liverpool. They particularly liked the broad technical experience that he has developed throughout his service. The future employer was also drawn to Sergeant Benson's proven planning and coordination skills, managerial experience and the qualifications he has gained whilst serving with the Royal Signals. During his service, Sergeant Benson was the first of his Corps to be awarded a Modern Apprenticeship in Telecommunications, gaining an NVQ Level 3 in March 1999. He went on to pass successfully a BTEC National Diploma in Telecommunications Engineering in July 2002 and then obtained a BTEC National Diploma in Foundation in CCTV and CCTV Installation in April 2003.



An apprentice during training

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ENABLING PROCESS



PERSONNEL

Objective: Manage our people to give of their best.

Public Service Agreement Target (SR2002 MoD Target 4)

Recruit, train, motivate and retain the personnel needed to meet the manning requirement of the Armed Forces, so that by the end of 2004 the Royal Navy and the RAF achieve, and thereafter maintain, manning balance, and that by the end of 2005, the Army achieves, and thereafter maintains, manning balance:

- Achieve Single Service Guidelines for deployed Separated Service.

Performance Measures and Assessment

Achieve Harmony Guidelines for Royal Navy:

Separated Service – no more than 660 days Separated Service over a rolling 3 year period. Tour

Intervals – fleet units to spend a maximum of 60% time deployed and 40% alongside in a 3 year cycle:

- **Mechanism under development for reporting Separated Service. Breaches of Harmony in the Royal Navy are judged to be isolated.**

Achieve Harmony Guidelines for Army:

Separated Service – no more than 415 days separated service over rolling 30 month period, and no more than 6 months on operations in every 30 months:

- **Mechanism under development for reporting individual Separated Service;**

Tour Intervals – 24 Month average interval between unit tours:

- **Average tour interval has improved since last year. Breaches of recommended tour intervals have been unavoidable for some Force Elements due to the current level of operational tempo, with Infantry averaging 21 months (18 months in 2003-04) and Royal Artillery 19 months (18 months in 2003-04).**

Achieve Harmony Guidelines for Royal Air Force:

Separated Service – no more than 2.5% of personnel to exceed 140 days separated service over a rolling 12 month period:

- **3.9% of personnel more than 140 days detached duty over 12 months (5.4% in 2003-04).**

Tour Intervals – no more than 4 months on operations in every 20 months:

- **Mechanism under development for reporting of Tour Intervals. Guidelines not achieved by some Force Elements and specialist Cadres.**

Improved Career Satisfaction: Increase levels of positive response in Service and Civilian attitude surveys:

- Royal Navy:
 - **59% of RN personnel surveyed were reported to be satisfied or very satisfied with Service life in 2004-05;**
- Army:
 - **58% of Army Officers and 42% of Soldiers surveyed were reported to be satisfied or very satisfied with Service life in 2004-05;**
- Royal Air Force:
 - **61% of RAF Officers and 48% of other ranks surveyed were reported to be satisfied or very satisfied with Service life in 2004-05;**
- Civilians:
 - **64% aggregate positive response to Civilian attitude survey (70.6% in 2003-04); 73% satisfied with MoD as an employer.**

Investors in People

- **At 31 March 2005, 99% of all military and civilian staff working in IIP recognised Organisations.**



HARMONY GUIDELINES

176. All three Services have agreed 'Harmony Guidelines' to allow members of the Armed Forces to have sufficient time to recuperate from operations; for unit, formation and personal training and development; and to spend time at home with their families. Tour Intervals capture the frequency that formed units (an Infantry Battalion for example) are deployed and time spent at home recuperating. Whilst Tour Intervals may be achieved this does not always capture how often individual Service men and women are away from home and therefore, we also measure individual Separated Service. Over the past year we have ensured that the basic parameters against which Tour Intervals for formed units and Separated Service for individuals are measured and aligned, so that we can compare like with like. We expect all three services to be able to report against the aligned Tour Intervals and Separated Service guidelines from next year onwards.

177. Last year saw a continuously demanding operational tempo and high levels of commitment. Whilst average Army tour intervals have improved since last year certain trades and some specialist cadres associated within Operational Units, continue to breach the guideline of a 24 month interval between tours. The units experiencing particular problems include the Infantry and Royal Artillery, with tour intervals of 21 and 19 months respectively. There are specialist cadres experiencing significantly worse tour intervals and certain elements of the Army have tour intervals of less than one year. However, the Army's position is now stabilising and an improvement is forecast over the coming years. Tour interval guidelines of no more than 4 months on operations in every 20 months have not been achieved by some Force Elements and specialist cadres within the RAF.

178. Both the Royal Navy and the Army continue to develop appropriate reporting mechanisms for individual Separated Service. The RN judges wide-spread breaches of harmony to be extremely unlikely, but accepts that certain individuals may breach the guidelines. 3.9% of the RAF breached the recommended 140 days of detached duty in a 12 month period (a clear improvement on the 5.4% reported last year) as a result of training commitments and the manpower drawdown.

179. A tri-service working group was formed in February 2004 to look at each 'Operational Pinch Point' trade, where the pressures are particularly high. Work continues to identify ways to reduce breaches of the harmony guidelines in these areas.



A warm welcome home

CAREER SATISFACTION

Service Personnel

180. Surveys are undertaken into the attitude of Service personnel and the satisfaction of their families. The Royal Navy Personnel Attitude Survey reported the same top issues for both satisfaction and dissatisfaction that were shown in the last survey. Again, RN personnel were most satisfied with security of employment (86%) and least satisfied with their ability to plan their own life long term (50%). Below these issues, satisfaction was derived from amount of responsibility (78%) and accuracy of assessment of appraisal report (73%), whilst there was dissatisfaction from Quality of Equipment (47%) and amount of fun in Service (46%). The Royal Marine survey provided similar responses apart from expressing dissatisfaction with the current X-factor rate of pay of 13% (64%). 59% of RN personnel surveyed were reported to be satisfied or very satisfied with Service life.

181. Surveys are undertaken twice a year into the attitudes of serving Army officers and soldiers. The most recent identified the top two retention positive factors for officers as job security (77%) and excitement (70%): this represents a change to the previous findings where job satisfaction and challenge were cited as the most important. For soldiers, job security (69%) and pension entitlements (54%) were the most positive retention factors, with job security and job satisfaction at the top in the previous report. Currently, the most cited negative retention factor for both officers and soldiers is the impact of Army lifestyle on personal domestic life (62% and 47% respectively). The second highest negative retention factor for both is the effect of

operational commitment and overstretch (52% of officers and 37% of soldiers). This is broadly in line with the last survey. We anticipate that the implementation of the Future Army Structure will help address these negative retention factors. 58% of Army Officers and 42% of Soldiers surveyed were reported to be satisfied or very satisfied with Service life.

182. The top item of satisfaction for Royal Air Force personnel is 'enjoyment of life in the Service' (86%). Others areas of satisfaction include 'enjoyment of present jobs' and the 'opportunities to gain qualifications', 'own line management' and to 'extend skills and knowledge' (all 59%). In some areas junior ranks had prevailing dissatisfaction/negative attitudes whilst the reverse was true for senior ranks; these included 'opinions of promotion' and 'assessment procedures' and the 'extent to which personnel are informed about RAF strategic issues'. Major sources of dissatisfaction and concern were: the 'effects of overstretch' (85%) and 'gapping' (71%); the 'effects of civilianisation and contractorisation' (77%); not 'feeling valued by the RAF' (51%); perceived 'lack of help to families when serving personnel are absent' (39%) and the 'effects of Service life on family life' (36%). These issues broadly relate to the results from the last two years, and will be closely monitored. 61% of Officers and 48% of other ranks in the RAF surveyed were reported to be satisfied or very satisfied with Service life.

Civilian Personnel

183. The continuous Civilian Staff Attitude Survey is now in its third year. Overall, results continued to be encouraging. Staff overwhelmingly understood how their role contributes to the achievement of the MoD's overall objectives. Moreover, they believed that good use was made of their skills in their work and that they could get access to the right kind of training when they needed it. A significant majority felt that they could express ideas and have them taken seriously and that they were fairly treated at work, indicating good relationships with their line managers. Considering everything, almost three quarters of civilians were satisfied with MoD as an employer.

184. Results relating to performance pay were less encouraging. 71% of staff do not agree that MoD's current performance pay arrangements reward better performance. This reflected unease at the bonus system introduced in 2003. However, the results also indicated that nearly three quarters of staff accepted the premise that those who made a greater contribution should receive a greater financial reward and over half supported the proposed change to a more flexible performance pay system. The issue, therefore, is the current approach to performance pay rather than performance pay as a concept. This will be reviewed in the context of the 2006 pay negotiations.

Table 18: Extent of Civilian Career Satisfaction, as expressed in Attitude Surveys.

Questions	Positive Responses (except where indicated)		
	2004-05	2003-04	2002-03
Considering everything, how satisfied are you with the MoD as an employer?	73%	73%	69%
Are you aware of the MoD's aims and objectives?	80%	82%	77%
How would you rate your understanding of how your job contributes to the MoD's aims and objectives?	90%	90%	88%
I have access to the kind of training that I need to carry out my job properly.	85%	78%	77%
My job makes good use of my skills and abilities.	71%	70%	68%
I can express my ideas and views and have them taken seriously by Managers.	70%	67%	62%
Do you regard the MoD as an equal opportunities employer?	89%	88%	84%
Individuals who make a greater relative contribution towards achieving business outputs should receive a greater financial reward.	74%	Not Applicable	Not Applicable
The MoD's current performance pay arrangements reward better performance. (Percentage disagree or strongly disagree).	71%	66%	61%
The move to introduce a more flexible percentage split for the reward of performance is the right thing to do.	56%	Not Applicable	Not Applicable
Overall aggregated positive response rates for each year.	64%	70%	69%



INVESTORS IN PEOPLE (IIP)

185. At 31 March 2005, 99% of all MoD staff, military and civilian, were working in organisations recognised as Investors in People. We are now working towards corporate IIP recognition. We continue to play a leading role in the development of Investors in People across the Civil Service and helped with the development of a new national IIP Standard and Profile, which was launched in November 2004. The new Standard very clearly positions Investors in People as a business improvement tool which links management capability, the involvement of people in the organisation and their continuing development to the achievement of enhanced business performance. As such, it aligns closely with the aims of the Service Personnel Plan and the Civilian Workforce Plan (see chapter on Future Manpower on pages 115-118).

FURTHER SOURCES OF INFORMATION

186. Additional information on Personnel is available from the following sources:

- quarterly PSA reports to HM Treasury at www.mod.uk;
- UK Defence Statistics 2005;
- Continuous Attitude Surveys at www.foi.mod.uk;
- Public Opinion Surveys at www.foi.mod.uk.

ESSAY – The Duty of Care and Welfare in Initial Training

Between 1995 and 2002 four young soldiers died whilst undertaking initial training at the Princess Royal Barracks at Deepcut in Surrey. In March 2004, Surrey Police published its fifth and final investigative report on Deepcut, which highlighted the vulnerability of young soldiers in training, commented on the approach to the care and welfare of trainees and put the case for a broader enquiry into the care regime and the introduction of a continuous independent oversight mechanism.

The report acknowledged the positive approach taken by the Army and the MoD since 2002, but was critical of the perceived failure to implement lessons learned and recommended that a broader investigation be held into the standards of care in the Army training organisation. Subsequently, Minister for the Armed Forces announced the appointment of the Adult Learning Inspectorate (ALI) to provide independent inspection and oversight of MoD training on an annual basis commencing with a survey of the care and welfare provision. Additionally, Minister for the Armed Forces appointed Nicholas Blake QC to review the circumstances surrounding the deaths of four soldiers at Princess Royal Barracks, Deepcut.

The Surrey Police Report prompted the House of Commons Defence Select Committee (HCDC) to undertake its own inquiry into Duty of Care. The findings were published in March 2005. Evidence to the committee included comment on the work undertaken by MoD to date. The HCDC took account of progress against the three internal audits undertaken by the Director of Operational Capability (DOC) and evidence from the ALI. In March 04 the ALI published its report: 'Safer Training: Managing risks to the Welfare of Recruits in the British Armed Services'.

Moving Forward

The reports of the Surrey Police, HCDC, DOC and ALI acknowledge the progress made in modernising initial training, whilst noting the need for further improvements. The vision is for initial training to be conducted in an environment that fosters recruits' development as individuals within a regime where responsibility for their welfare is accepted at all levels; where there is greater focus on analysis, management and mitigation of risks to recruits; and where training is structured to promote learning from experience, the sharing of good practice and continuous improvement.

The roles of the Commanding Officer and the Instructors are critical to the successful management and welfare of recruits. An important aspect of the improvement programme is the increased emphasis on the selection of personnel to work in the training environment and to improve the support provided to them through better training and development opportunities. To that end, a major work-strand, led by the Defence Centre for Training Support¹, is underway to scope the competency requirements for the training roles and the development needs for instructors. Overall, twenty one work-streams are being progressed to address the issues raised in the DOC, HCDC and ALI reports.

Military training is, of necessity, challenging and robust. Initial training takes teenagers from everyday life and, in a matter of a few months, needs to turn them into Service men and women with the skills to operate and survive in the harshest environment that they may find themselves; the modern, high tempo battlefield. The initial training regime will remain focused on this over-riding requirement, whilst emphasising the need to ensure that appropriate behaviour is exercised at the right time, whether in the barracks, on peace-keeping duties or on high intensity operations.

The key to ensuring that progress is sustained will be to closely monitor the work-strands, share good practice and analyse the impact of the changes. The challenge for the Department is to embed the changes and transform the initial training environment. In so doing, we will not seek to lessen the robust nature of training but rather concentrate effort into ensuring that the culture, policy and processes are aligned. The continuing partnership between the MoD and the ALI, which includes a continuing programme of evaluations, gives transparency to the Department's commitment to improve.

¹The Defence Centre for Training Support is part of the Directorate General Training and Education organisation.



TRAINING

Objective: Invest in our people and forces to ensure they can succeed.

Public Service Agreement Target (SR2002 MoD Target 7)

Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability:

- Reduce the per capita cost of successfully training a military recruit by an average of 6% by April 2006.

Performance Measures and Assessment

Reduce the per capita cost of successfully training a military recruit by an average of 6% by April 2006:

- **Due to organisational changes it is no longer possible to measure per capita cost of successfully training a military recruit on the basis used in the PSA target. It is unlikely that this target would have been achieved.**

Basic Skills – New entrants below National Level 2 to be screened and assessed:

- **All new entrants below National Level 2 screened and assessed. Common system for initial assessment planned to be implemented from April 2006.**

Basic Skills – Royal Navy/ Royal Air Force: Improvement of 50% of new entrants below National Level 2 basic skills by one level within one year of entry;

- **95% of RN Ratings undertake an apprenticeship scheme including key skills at National Levels 1 and 2.**
- **Only a small proportion of RAF entrants are below National Level 2 in numeracy and literacy. The majority of those with Basic Skills weaknesses undertake an apprenticeship which includes Key Skills.**

Basic Skills – Army: All new entrants below National Level 2 basic skills to achieve National Level 1 within 3 years of entry:

- **Plans are in place to meet targets with an initial assessment of basic skills ability now undertaken at recruiting offices and a network of tutors in place. We are on course to achieve target by March 2007.**

Information and Communications Technology Fundamental Skills (ICT FS): All new entrants and existing personnel without appropriate competence in ICT FS to be in appropriate training scheme:

- **RN (including RM) – over 95% of recruits undertook ICT FS training;**
- **RAF – over 95% of recruits undertook ICT FS training;**
- **Army – about 30% of recruits undertook ICT FS training;**
- **ICT FS training available to existing personnel.**

Achievement of funded Collective Training programme and Joint Performance within Defence Exercise Programme.

- **About 80% of Joint Performance exercises completed. Reviews of operational performance highlighted weaknesses attributable to shortfalls in training.**

Civilian Training.

- **Certificates developed in Resource Management and Human Resources;**
- **Continuing development of single coherent skills framework;**
- **Launch of People Portal to provide comprehensive information to staff on specialist advice and tools available, and opportunities to develop new skills.**

STRUCTURE OF THE SERVICE TRAINING PROCESS

187. In order to meet their complex training commitments, the Armed Forces use a combination of individual and collective (or team) training. The structure of this training is described in the essay on page 94. Performance targets and achievements are set out in the paragraphs below.

SERVICE INDIVIDUAL TRAINING

Basic Skills – Literacy and Numeracy

188. The Services continued to develop their Basic Skills training so that all service personnel achieve a minimum standard of literacy and numeracy. New recruits undergo education screening to assess their abilities against National Levels. The RN and RAF met their target of improvement of 50% of new entrants below National Level 2 basic skills by one level within one year of entry. 95% of RN Ratings undertake an apprenticeship scheme including key skills at National Levels 1 and 2. Only a small proportion of RAF entrants were below National Level 2 in numeracy and literacy and the majority of those with Basic Skills weaknesses undertake an apprenticeship which includes Key Skills. The Army aims for all new entrants below National Level 2 basic skills to achieve National Level 1 within 3 years of entry. Initial assessment of basic skills ability is undertaken at recruiting offices and a network of tutors is in place, but it is not yet possible to track performance owing to shortfalls in the capture of basic skills data and tracking of learner progress. In line with the recommendations in the Adult Learning Inspectorate (ALI) *Safer Training* Report the Armed Services are working to produce a coherent approach to the assessment and provision of Basic Skills Training. A revised MoD Basic Skills Policy is expected to be endorsed in November 2005 with a view to implementation from Spring 2006.

189. The Defence Adult Basic Skills Implementation Group was established in March 2005. This is a cross-Government group involving the Department for Education and Skills, the Cabinet Office, the Basic Skills Agency, the Armed Services and the Defence Civil Service. It will support the review, development and implementation of Basic Skills policy in order to ensure effective and efficient activities to improve the Basic Skills of personnel across MoD, including the review of specific Basic Skills performance targets across the Services and the sharing of best practice.

Basic Skills – Information and Communication Technology Fundamental Skills

190. Service personnel need training in Information and Communication Technology Fundamental Skills (ICT FS) to be effective in the modern networked battlespace. The goal is that all new entrants and existing personnel without appropriate competence in ICT FS should undertake an appropriate training scheme. In 2004-05 over 95% of RN and Royal Marine recruits, 30% of Army recruits and over 95% of RAF recruits undertook ICT FS training. Training is also available for existing personnel. The training provided is being revised to produce a better match of training to need and take into account other changes, such as the Network Enabled Capability training strategy and developments in technology and external qualifications.

Common Military Skills

191. In order to spread best practice and to ensure high quality and consistency across the Armed Services, new training policies are being developed for Common Military Skills (CMS) training subjects. These are subjects that are common to two or more of the Services and require initial and continuation training for the majority of personnel, regardless of their career specialisation. Some, such as Weapons Handling, Fitness, Chemical Biological Radiological and Nuclear Defence, the Law of Armed Conflict and First Aid are fundamental to collective training and are also required by individuals before deploying on operations. In other areas Service personnel have mandatory training to counter identified security threats, promote equality and diversity and to address problems posed by substance misuse. While CMS policies are being implemented across all Service Training, as part of the training rationalisation process, the priority has been to harmonise the CMS training delivered in Defence Training Establishments. Currently, CMS policies have been endorsed on health and safety, physical development (which includes physical education and adventurous training and sport), and security. Future policies will include stress management, core values and standards and military ethos.



Assault course training

SERVICE COLLECTIVE TRAINING

194. Operational commitments meant that not all forces were able to achieve optimum training standards. Coupled with tight budgets this led to the cancellation of some 20% of collective exercises during 2004-05 (compared with some 40% cancelled in 2003-04). Army collective training was most affected, reflecting difficulties caused by truncated training time and the pressures of the BOWMAN conversion programme.



Royal Marines set off for a 7km night ski at sunset

Specialist Training

192. The Defence Language Training Policy was issued in February 2004, leading to further development of a language incentives package for trained linguists. Following initial development it was agreed in April 2005 to start a trial of the new incentives package on three key languages over the next three years. Individual Pre-Deployment Training is being updated and standardised in line with operational theatre requirements, and a Defence-wide Media Operations Training policy is being drafted. Further Information on other Service training initiatives is provided in the Future Manpower section on page 116.

Efficiency

193. Because of the organisational changes associated with the rationalisation of specialist training described in paragraphs 259-260 under Future Manpower, it is no longer possible to measure per capita cost of successfully training a military recruit on the basis used in the 2002 Spending Review Public Service Agreement efficiency target. In assessing overall performance against this target, achievement against this element has accordingly been estimated as zero. However, pressures on input costs, in particular the implementation of recommendations made by the Director of Operational Capability (see the essay on Duty of Care in Initial Training on page 88), and reductions in the throughput of trainees following reductions in the required size of the Armed Forces, made it unlikely that this target would have been achieved.

195. Reviews of operational performance, and particularly operational lessons from Op TELIC, highlighted areas for improvement attributable to shortfalls in training in certain key areas. All-Arms Urban Warfare was a specific concern, and some aspects of Joint Operations, particularly Air-Land integration, also require attention. The value of tactical and operational level Expeditionary Exercises was also emphasised. To ensure UK forces can operate more effectively in the Combined and Joint environment essential for future operations integrated All-Arms and Joint Training is needed. A number of key initiatives have been undertaken to improve Maritime/ Air/ Land interoperability. A policy paper (Joint Collective Training and Exercise Policy) was released in May 2005 as part of a wider initiative towards better definition of the joint capability requirement. This paper helped inform the Project HOBART initiative which reported in July 2005 on present and future capability gaps in Joint Warfare Development, Collective Training and Mission Preparation. Together with the emerging requirements for the NATO Reaction Force and the EU Battle Groups this contributed to the development of the Future Joint Training Strategy to be implemented on completion of Project HOBART.

JOINT CIVILIAN – MILITARY TRAINING

Defence Academy

196. The Defence Academy is responsible for higher education and training for the three Armed Services and the Ministry of Defence Civil Service. Its main components are the Royal College of Defence Studies, the Joint Services Command and Staff College and the Defence College of Management and Technology. The latter was formed during the year from the Royal Military College of Science, the Defence Leadership and Management Centre and Defence Business Learning, and a consortium led by Cranfield University was selected as Preferred Bidder for the College's academic partner after July 2006. The Colleges delivered professional training and education at postgraduate level in partnership with Kings College London and Cranfield University. The Academy also ran the Defence Technical Undergraduate Scheme, to be expanded to five universities in 2005-06, and the Defence Sixth Form College, which opened in its new building in September 2005. The Advanced Research and Assessment Group worked to inform Academy teaching and support MoD policy development. The Academy continued to work closely with the National School of Government (previously the Civil Service College) on developing national management and leadership education and training. During the year Serco was contracted to develop and manage all Academy accommodation and facilities at Shrivenham in addition to the Joint Services Command and Staff College.

Acquisition Leadership Development Scheme

197. The Acquisition Leadership Development Scheme continued to develop. Its membership expanded by 150 to 680 civilian, military and industry staff by the end of the year, of whom 317 were alumni members. All Acquisition Leadership Development Scheme leadership courses are now provided by the Defence Academy. A membership survey conducted in December 2004 revealed a 93% level of satisfaction with the scheme.

CIVILIAN TRAINING

198. The Department has worked hard to improve the professionalism of its people, including reviewing the skills and knowledge required for Corporate Service functions and developing internal certificates in Resource Management and Human Resources to ensure that staff working in these areas have the right skills for the work, regardless of formal professional qualifications. Civil Service reform has encouraged further professionalism and much of our effort this year has concentrated on preparing the ground for implementation of the Government's Professional Skills for Government (PSG) initiative. Details will not be finalised by the Cabinet Office before the Autumn, but we know it will affect the way we look at our skills agenda, and advise our staff on priorities for their development and career options. While our detailed implementation plans are largely still work in progress, the essay on page 119 provides more detail on our developing plans to embed PSG in MoD processes.

199. Following development of a framework of business management skills, work was taken forward during the year to merge that framework, the MoD core competences and the PSG core competencies into one coherent arrangement that also embraces functional competences frameworks. Work also proceeded during the year to develop a methodology to determine the skills needed for posts, and to record the skills of individuals. The Department's skills network will be strengthened by the introduction of Skills Champions with a strategic overview of their functional and professional groups and to provide the main link with corporate stakeholders on skills issues across their area.

200. In respect of individual development, the launch of the People Portal on the Defence Intranet hosted on the new Defence Information Infrastructure (DII) enabled us for the first time centrally to support all our people with comprehensive information on the advice and tools available to them, and with opportunities to learn and develop new skills and knowledge. This advice is also available by other means for those who do not yet have access to DII. It includes a range of self-assessment tools to help staff assess their core and functional development needs and gain a better understanding of their skills and learning styles.



Civilian Training Initiatives

201. We made good progress with raising the profile of the 'Skills for Life' Agenda and are currently undertaking a corporate sample of literacy and numeracy skills to benchmark the Department. A similar strategy for ICT skills will follow. We have taken part in the pathfinder Foundation Degree for Government. A two-year pilot course of ten students started in January 2005. We will closely evaluate the results to decide the feasibility of further participation. We continue to offer advanced Craft and Technician Apprenticeships in a range of trades across Land, Sea and Air systems. Non-engineering apprenticeships and National Vocational Qualifications are also available in a range of subjects. We continue to support staff in a number of Departmental management development schemes (such as MIDIT and the Band B development scheme), in personal development schemes (such as Druidstone and New Horizons) and in pursuit of professional qualifications.

FURTHER SOURCES OF INFORMATION

202. Additional information on Training is available from the following sources:

- quarterly PSA reports to HM Treasury at www.mod.uk;
- MoD Policy Paper no. 6 *Individual Training and Education in the Armed Forces*;
- House of Commons Defence Committee Report *Duty of Care* Third Report of Session 2004-05 HC 63;
- *The Government's response to the House of Commons Defence Committee's third report of session 2004-05, on Duty of Care* Cm6620;
- *Safer Training, Managing Risks to the Welfare of Recruits in the British Armed Services* March 2005;
- Joint Collective Training and Exercise Policy dated May 2005;
- Defence Academy Annual Report 2004-05 (to be published in January 2006);
- Naval Recruiting and Training Agency *Annual Report and Accounts 2004-05*;
- Army Training and Recruiting Agency *Annual Report and Accounts 2004-05*;
- RAF Training Group Defence Agency *Annual Report and Accounts 2004-05*;
- Defence Medical Education and Training Agency *Annual Report and Accounts 2004-05*.

Essay – Structure of Service Training

In order to meet a complex training commitment, the Armed Forces use a combination of individual and collective (or team) training. Initial training focuses on providing the core single-Service competences to give recruits a sense of their own Service’s ethos as well as the confidence to function in the operational environment.

Phase 1 Training is the initial training in basic military skills and the inculcation of single-Service ethos required by all personnel. Trainees spend, on average, 12 weeks in Phase 1 Training. Whilst there are some differences in the delivery of the Phase 1 Training determined by the particular environment in which each Service operates, there are many common elements, which are key to assisting the transition from civilian to Service life.

Phase 2 Training is the initial specialist training, which gives Service personnel the necessary skills for their first employment. On completion of Phase 2, which normally follows on directly from Phase 1, Servicemen and women join the trained strength of their Service and are employed in their chosen skill area. The time spent in Phase 2 Training varies from a few weeks to over a year for highly technical training. Whilst there is no universal template for Phase 2 Training, some common threads exist across all courses. These include teaching of essential elements of academic knowledge, together with practical skills that the trainee will need to employ in his or her front-line employment. Additionally, Phase 2 Training recognises the newness of the recruits and continues to build their military skills and knowledge and to reinforce the ethos of the Service they have joined.

Phase 3 Training develops the skills of Service personnel for further employment and greater responsibility throughout their career. It increases their skill base, meets career aspirations, through both training and education, and aids professional and personal development. The training ranges from short courses dealing with specific aspects of leadership and management through to extended periods learning how to operate and maintain highly complex and specialist equipment. As with Phase 2, the time spent on Phase 3 training varies.

Collective Training is aimed at improving the ability of teams, units or formations to function as a cohesive entity to enhance operational capability. This training is usually conducted under the auspices of the Front-Line Commands and its emphasis is on developing team performance. Examples of such training are: RN Operational Sea Training conducted by the Flag Officer Sea Training and Army Combined Arms Battle Group training in Canada. More complex collective training includes joint exercises conducted on either a national or multi-national basis.

Service Individual Training and Education Process

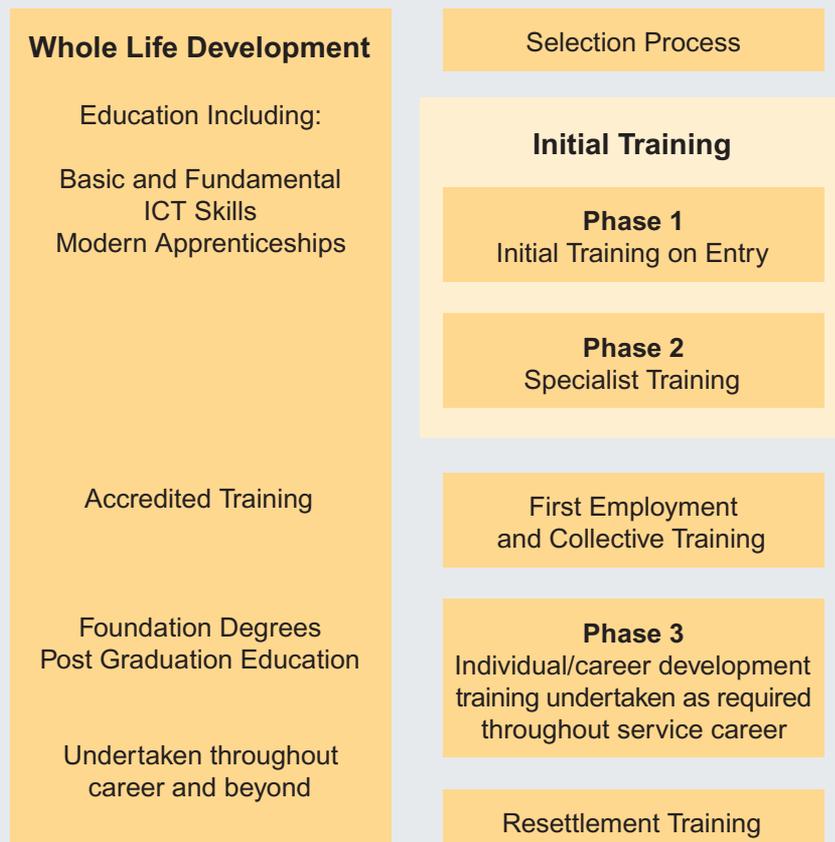


Figure 11 Service Individual Training and Education



LOGISTICS

Objective: Support and sustain our Armed Forces as required.

Public Service Agreement Target (SR2002 MoD Target 7)

Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability: Year-on-year output efficiency gains will be made each year from 2002-03 to 2005-06, including through a 20%¹ output efficiency gain (relative to April 2000) in the Defence Logistics Organisation:

- Reduce by 14% (relative to planned expenditure in 2002-03) the output costs of the Defence Logistics Organisation by April 2006, while maintaining support to the Front Line.

Performance Measures and Assessment

DLO delivery to TLBs of 98% of level of logistic support agreed in Customer Service Agreements:

- **95% of logistic support outputs delivered (93.4% 2003-04).**

Deliver Logistics efficiency savings:

- **Over £400M² of savings in DLO operating costs have been delivered during the year;**
- **DLO costs reduced by 4.2% in 2004-05 (3.5% 2003-04). As at 31 March 2005 11% cumulative savings achieved against target of 10% cumulative savings towards 14% reduction in output costs by April 2006;**
- **New DLO corporate structure implemented, saving about 700 posts;**
- **Formation of a Joint DLO/DPA Technical Enabling Service, Accounting Operations Centre and Acquisition Safety and Environment Support Group;**
- **Implementation of single DLO/DPA project review and assurance process.**

Achieve £20M cash receipts from sale of surplus equipment:

- **£21.6M cash receipts achieved.**



¹Relative to April 2000 (1999-2000 outturn). Performance thus includes efficiency achieved in 2000-01 and 2001-02.
²Subject to validation

Logistic Support

203. The Defence Logistics Organisation (DLO) exists to provide front line support to the British Armed Forces. In essence, the DLO is responsible for keeping the Services equipped and ready to act, in war or peace. This support includes preparing our forces for operations, deploying, sustaining and recovering them, and then helping them to return to the required degree of readiness. The DLO works closely with the Front Line Commands, the Defence Procurement Agency and other parts of MoD. It successfully continued throughout the year to meet the demanding operational logistic requirements of the front line while taking forward a wide ranging programme to improve further how MoD and industry provide logistic support.

IN-YEAR DELIVERY OF LOGISTIC SUPPORT

Performance against Customer Supplier Agreements

204. The level of support provided by the Defence Logistics Organisation to the Armed Forces is agreed through Customer Supplier Agreements (CSAs) between the Chief of Defence Logistics and each of the other Top Level Budget holders. CSAs define, within the resources allocated, the logistic outputs to be provided by the Chief of Defence Logistics to support the Commanders-in-Chief and other Top Level Budget Holders in their delivery of military capability at the levels specified in their own Service Delivery Agreements. In 2004-05 the DLO achieved the agreed service levels for delivery of 95% of its logistic support outputs, against a target of 98%. This represented a small improvement on 94.3% in 2003-04. This shortfall against agreed support delivery levels was driven by shortfalls in only a few areas, in particular:

- poor component reliability and time consuming maintenance schedules for Merlin Mk1 Helicopters;
- slippage in the completion of submarine upkeep and repair periods;
- difficulties in procuring spares for our ageing fleet of Royal Fleet Auxiliary ships;
- problems with equipment and software integration on survey ships; and
- shortage of spares for C130J Hercules transport aircraft.

Supporting Operations

205. The DLO maintained its focus on logistic support to operations, overcoming a wide range of challenges. Operational roulements of Force Elements, equipment enhancements and upgrades, and the deployment of the Extremely High Readiness and Very High Readiness Reserves to Operation TELIC during the Iraqi elections all placed considerable demands on our Strategic Lift capability. The Defence Transport and Movements Agency, the DLO Operations Centre and other areas of the DLO also supported a number of other deployments during the year often under extremely taut timelines. The deployment of RAF GR7 Harrier aircraft to Afghanistan was successfully achieved and subsequent efficiencies realised without degradation of operational effectiveness. The separate deployments of the Spearhead Lead Element to assist in evacuation of civilians in Cote d'Ivoire (see paragraph 19), and to Kosovo during a period of heightened tension, were also fully supported. Donations of Operational Ration Packs were lifted into Sudan. Available aircraft were used flexibly in the Caribbean to respond to Counter-Narcotics activities and post-Hurricane IVAN humanitarian support. The tsunami in South Asia produced an immediate and enormous support effort that showed the positive approach of the whole defence logistics community to support operations.



206. Despite these continuing logistic successes, we have to continue to improve to meet the goals set out in Defence Strategic Guidance. Throughout the year potential shortfalls in sustainability were highlighted (that is the ability of a force to maintain the necessary level of combat power for the time needed to achieve its objectives). These have been partly addressed for near-term operational priorities, demonstrating our commitment to delivering the logistic support our front line forces need. We are developing improved methods to set logistic sustainability requirements, together with risk management arrangements to improve our understanding of the total logistic requirement to support operations, how best to achieve this, and enable assessment of operational capability and affordability shortfalls.

207. Our ability to recuperate forces to pre-Op TELIC levels has inevitably been limited by the priority to support continuing operational requirements. We are working better to define what logistic recuperation requires in order to allow earlier and better assessment of its implications in terms of operational capability and costs, and to ensure that we continue to be able to meet the demands of providing logistic support to concurrent operations.

IMPROVING LOGISTIC EFFECTIVENESS AND EFFICIENCY

Defence Logistics Transformation

208. Delivering effective logistics support for operations is a key enabler to the conduct of modern, expeditionary warfare undertaken by the UK Armed Forces. The Defence Logistics Transformation Programme (DLTP) aims to provide better logistics support to the Armed Forces through improved military effectiveness while producing efficiency savings that can be re-invested in current and future capabilities as set out in the July 2004 Future Capabilities Command Paper. The programme was launched on 1 April 2004, bringing together all logistics change and efficiency programmes and projects including the End-to-End Logistics Review and the Defence Logistics Organisation Change Programme. The key outcomes of the DLTP include simplified, lean processes with demand for logistics driven by the operational users and the elimination of waste; improving readiness and availability of equipment; reducing repair times and equipment holdings; and improving the performance of the supply chain.

209. In 2004-05, the programme of logistics transformation delivered savings in the DLO's operating costs of over £400M². This was a considerable achievement. The DLO's output costs have now cumulatively reduced by over 11% (relative to planned expenditure in 2002-03) against a cumulative target of 10% by April 2005 towards the SR2002 Public Service Agreement target of 14% by April 2006.

210. There were many specific examples of improved logistics delivery in 2004-05. At RAF Marham the introduction of 'Lean' engineering and support principles in the Tornado Propulsion Facility in partnership with Rolls-Royce produced cost savings of £88M over 4 years, with the Pilot contract saving £9M in the first year. This reflected rationalisation from two propulsion facilities, at RAF Lossiemouth and RAF Marham, to one new 'Lean' facility, halving the RAF manpower needed, doubling output, and reducing the number of repairs returned to industry by nearly half. At the Royal Navy Air Stations of Yeovilton and Culdrose implementation of Lean principles removed the need for new buildings and reduced manpower gapping, thereby generating savings of £22.5M through improved effectiveness and stores support.



Tornado Propulsion Facility at RAF Marham

211. At ABRO, the successful transformation of the base overhaul of Warrior armoured fighting vehicles returned over 40 additional Warriors to the field Army. These lessons are now being applied to the Combat Vehicle Reconnaissance (Tracked) (CVR(T)) family of vehicles, producing a reduction in base overhauls from 135 in 2004 to 85 in 2005 and reducing the number of vehicles in the repair loop from 84 to 64. Lean techniques reduced CVR(T) turnaround time from 71 to 63 days. The net effect has been to increase the number of vehicles available to support operations.

212. The performance of the Op TELIC Supply Chain was significantly improved. By introducing new processes and measuring and reporting supply chain performance in-theatre, items that had previously taken 4-7 days to be delivered were delivered within 24 hours. This early work has led to the formulation of revised processes and delivery targets, which have been broadened right across the defence supply chain and into other operational theatres. In the Balkans a review of transportation requirements and arrangements produced savings in the order of £500k a year. The Defence Storage and Distribution Agency (DSDA) is now reducing routine delivery time in the UK and North West Europe from an average of 30 days to 7 days.

213. The Whole Fleet Management Programme is introducing a modern fleet management system across all Services. This has already reduced the Army fleet by almost 2,000 vehicles. Trials of vehicle storage in centralised Controlled Humidity Environments and of Battery Conditioning Technology, have saved over 1,500 labour days per annum in maintenance and service. The rollout of the first Joint Asset Management & Engineering System is now underway, with an initial operating capability expected by 31 October 2005.



Whole Fleet Management in action

DLO Restructuring

214. The DLO completed Phase 1 of its Restructuring programme in 2004-05. This established the DLO's new corporate structure, realising around 700 post savings and reducing the cost of corporate support substantially. It has transformed the delivery of corporate support by dismantling the previous structure of 5 individual High Level Budget areas, including the headquarters, and establishing a single

corporate approach. At the same time the Integrated Project Teams and other units delivering output to the DLO's customers were organised into clusters to provide effective and coherent management of a technology supplier or customer base. A radically different organisational structure has now been created based upon three Layers – a Delivery Layer, supported by an Enabling Layer of corporate support services and directed by a very small Strategic Layer. A new performance management regime has been created to drive performance across the organisation. For the first time the performance of the Enabling Services will be measured against standards set out in internal business agreements. These changes provide the basis for Phase 2 of the Restructuring programme, aimed at delivering significant effectiveness and efficiency benefits over the next two years.

DLO Strategic Plan

215. On 1 April 2004, the DLO published an update to its Strategic Plan. This set out six Critical Success Factors which were identified as the priority for DLO to drive its transformation. A number of Pathfinder Integrated Project Teams were chosen to lead the transformation breakthrough. These teams were chosen because together they represented many of the challenges that the DLO faced and their learning and experience was shared with others to drive the transformation. A key achievement during the year was the establishment of a programme to implement Output based performance management across the DLO. Full implementation is planned by April 2006. Significant savings opportunities through Procurement Reform were also identified.

DLO STAKEHOLDERS

Front Line Commands

216. To ensure that the Front Line Commands have a single focal point for all the outputs supplied to the DLO's four principal customers, the DLO introduced specific Domain 2-Stars as part of its corporate restructuring. These individuals are focused on delivering what the Front Line needs and provide a single point of accountability for all DLO outputs. This approach has helped the DLO to focus on improving its delivery of integrated capabilities that better meet customers' needs. In parallel each Front Line Command formed intelligent customer cells. Continuing development of this important liaison is improving the understanding and resolution of support issues.



Defence Procurement Agency

217. It is the intention to collocate the DLO Board with the DPA Executive Board at the earliest opportunity. Study work is proceeding to assess when and how this might be achieved. Work also progressed to bring together DLO and DPA enabling and support groups to establish single points of provision of key supporting functions. This included the formation of a Joint Technical Enabling Service, a Joint Accounting Operations Centre and a Joint Acquisition Safety and Environment Support Group. To improve consistency and spread best practice a single process was implemented across the DLO and DPA to review and assure progress on projects. Its three elements are:

- regular project reviews, where current performance of a project is reviewed against a common set of performance indicators;
- Key Stage Peer Review, a formal independent review of a project at a key stage in its evolution, usually in advance of a major decision point; and
- Functional Assurance, to provide independent assurance of processes by functional experts.

Industry

218. We are always working to improve how we work together with industry to mutual benefit. One example of the benefit this can bring is the £137M Contractor Logistic Support contract with Rolls-Royce Power Engineering Plc for Olympus and Tyne gas turbine engines used on the Royal Navy's Carriers, Type 22 and Type 42 warships. These engines are also used by the Belgian, French and Royal Netherlands Navies, and under the contract Rolls-Royce will also provide support to their ships. The contract covers provision of a complete support package for the engines until they go out of service in about 12 years. It will help sustain jobs at Rolls-Royce facilities at Bristol and Coventry and will save some £14M over conventional support arrangements.

EQUIPMENT DISPOSALS

219. The Disposal Services Agency had a successful year in which it achieved £21.6M in gross cash receipts against a target of £20M. Major disposals included the sale of T56-15 Engines; Off Shore Patrol Vessels; Stingray; MkII Depth Charge; Tank Transporters and Vehicles. Together with estates disposals of £211.6M, this produced a total Departmental figure for the year of £233.2M.

FURTHER SOURCES OF INFORMATION

220. Additional information on Logistics is available from the following sources:

- quarterly PSA reports to HM Treasury at www.mod.uk;
- UK Defence Statistics 2005;
- DLO Strategic Plan;
- ABRO Annual Report and Accounts 2004-05;
- Defence Aviation Repair Agency Annual Report and Accounts 2004-05;
- Warship Support Agency Annual Report and Accounts 2004-05;
- Defence Communication Services Agency Annual Report and Accounts 2004-05;
- Defence Storage and Distribution Agency Annual Report and Accounts 2004-05;
- Defence Transport and Movements Agency Annual Report and Accounts 2004-05;
- Medical Supplies Agency Annual Report and Accounts 2004-05;
- Disposal Services Agency Annual Report and Accounts 2004-05.

EQUIPMENT

Objective: Deliver equipment of the right quality, on time and within cost.

Public Service Agreement Targets (SR2002 MoD Targets 6 and 7)

Develop and deliver to time and cost targets military capability for the future, including battle-winning technology, equipment and systems, matched to the changing strategic environment:

- On average, in-year slippage of equipment in-service dates of fewer than 10 days for new major projects, to be attained during 2004-05;
- On average, in-year slippage of equipment in-service dates of fewer than 4 weeks for existing major projects, to be attained during 2004-05;
- 97% of customers' key requirements attained during 2004-05;
- On average, no real terms increase in major project costs (measured against project approval levels as set out in the Major Projects Report), to be attained during 2004-05.

Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability:

- Achieve 0% average annual cost growth (or better) against the Major Equipment Procurement Projects (measured against estimated project costs at the beginning of the year).

Performance Measures and Assessment

Delivery of at least 85% of planned in-year asset deliveries, by value:

- **100% of planned in-year assets delivered.**

97% of customers' key requirements met:

- **99% of customers' key requirements met (98.8% 2003-04).**

On average no increase in major project costs measured against approvals and against estimated project costs at the beginning of the year:

- **3.2% average decrease in costs measured against approvals (2.7% average increase 2003-04);**
- **4.6% average decrease in costs measured against estimated cost at beginning of year (3.1% average increase 2003-04).**

In year slippage of major equipment projects of 0.5 months, including fewer than 10 days for new projects and 4 weeks for existing projects:

- **1.6 months average slippage for new projects (2.2 months 2003-04);**
- **3.0 months average slippage for existing projects (2.8 months 2003-04).**

Proportion of Category A, B and C projects within Main Gate 50% confidence approvals for time and for cost:

- **23% of projects within Main Gate 50% confidence approvals for time;**
- **56% of projects within Main Gate 50% confidence approvals for cost.**

Achieve customer satisfaction level of 72%:

- **Overall satisfaction level of 71.9% (70% 2003-04).**

No excess against DPA resource control totals:

- **Outturn within resource control totals.**

Other Measures

- **Launch of DPA Forward performance improvement programme;**
- **Launch of Key Supplier Management initiative;**
- **Introduction of Supplier and Customer Performance Measurement Process;**
- **PFI deals worth £495M signed;**
- **Defence export orders worth over £4.5Bn won by UK industry.**



PROCUREMENT PERFORMANCE

221. The Equipment Programme, which includes projects that harness new technologies and concepts, is rigorously reviewed as part of the MoD's overall planning and programming process. This ensures that we make the best possible use of available resources and provide the UK Armed Forces with the capabilities they need for operations today and in the future. Performance of major equipment projects is set out by capability area in Annex G.

Deliveries and key contracts placed

222. The Defence Procurement Agency (DPA) delivered new equipment valued at £3.6Bn during the year, with 20 new projects formally accepted into service. This represented 100% of the asset value planned for delivery in-year and exceeded a Departmental target of less than 15% variance between planned and actual asset delivery value. The DPA also formally delivered the work relating to Typhoon development, bringing the total value of assets delivered by the Agency during the year to £8.3Bn. Key milestones achieved during the year included:

- acceptance into service by the Royal Navy of HMS Bulwark, the second of a class of two large and versatile amphibious assault ships;
- delivery of the world's most advanced torpedo defence system to the fleet;
- the placing of a contract for a batch of the latest submarine-launched cruise missiles;
- delivery to Land Forces of a range of infantry fighting equipment, including new light machine guns;
- delivery of the latest night vision equipment to armoured formations;
- the placing of a £1Bn order for a fleet of new trucks and recovery vehicles;
- continued deliveries of Typhoon combat aircraft;
- delivery of the Storm Shadow long-range cruise missile to the RAF;
- the placing of a £4.3Bn contract for production of the second tranche of 89 Typhoon aircraft;
- acceptance into service of the £2.5Bn Skynet 5 Private Finance Initiative satellite communications service;
- acceptance into service by all three Services of advanced Successor Identification Friend or Foe equipment on or ahead of schedule.



Minimi light machine gun



HMS Bulwark



Tornado carrying a Storm Shadow stand-off missile

Key Targets

223. Table 19 summarises the DPA's performance against the project management and operating cost targets set out in the DPA Corporate Plan. The DPA met or partially met all of its Key Targets for the first time since the inception of the Agency. Forecasts for all Post Main Gate and Pre-ISD projects valued over £20M, show that they are meeting 99% of customers' key requirements (Key Target 1). The average in-year forecast programme slippage for all projects is 0.9 months (Key Target 2) and the average cost of projects decreased by 2.2% in year (Key Target 3). The DPA nearly met its target for customer satisfaction (Key Target 4), with an overall satisfaction level of 71.9%, but exceeding the Target of 72% for two out of four customer segments. It delivered all of its Efficiency measures (Key Target 5) and the target for Asset Deliveries (Key Target 6). Further details on the DPA's performance can be found in the Major Projects Report, published annually by the National Audit Office, and in the DPA Annual Report and Accounts.

224. The 2002 Spending Review Public Service Agreement targets cover a much narrower range of projects (the 20 largest projects by value of spend remaining) than the DPA's Key Targets. Performance against the PSA Targets is consequently significantly different. In 2004-05 99% of customers' key requirements were met against a target of 97%, there has been a cost reduction of 3.2% measured against approvals at the beginning of the year, and a cost reduction of 4.6% measured against the Value-for-Money target of no increase in major project costs against the estimated costs at the beginning of the year. However, reflecting the continuing difficulty of controlling timescales on some of the older and larger projects, there was 1.6 months average slippage for new projects against a target of 10 days, and 3.0 months average slippage for existing projects against a target of 4 weeks. The Department therefore delivered the targets for cost and performance (in both cases improving on performance in 2003-04), but not those for time (where performance in the round was broadly comparable to 2003-04).

Table 19: Defence Procurement Agency – Key Targets and Achievements

No.	Efficiency	2004-05	2003-04	2002-03
1 ¹	Predicted achievement of projects' key requirements <i>Met</i>	97% 99%	98% 99%	97% 99%
2 ¹	Average in-year slippage of in-service dates not to exceed <i>Met</i>	0.9 months 0.9 months	0.5 months 2.4 months	0.4 months 7.2 months
3 ¹	Average cumulative cost variation not to exceed <i>Met</i>	0% -2.2%	0% 2.7%	0% 5.4%
4	Customer satisfaction rating <i>Partially met</i>	72% 71.9%	74% 70%	70% 72%
5 ²	i) Asset Turnover Ratio (months) <i>Met</i>	<70 months 59 months	N/A	N/A
	ii) Assets delivered per £ of Operating Costs <i>Met</i>	>£10.7 £14.4	N/A	N/A
	iii) Assets produced per £ of Operating Costs <i>Met</i>	>£16.2 £19.1		
6 ³	Asset Delivery achievement (percentage by value of planned asset deliveries) <i>Met</i>	85% 100%	N/A N/A	N/A N/A

Notes:

(1) Covered all equipment projects in the development and manufacture phase included in the Major Projects Report until 31/3/04. From 2004-05 covers all projects over £20M that have passed their main investment decision point, but not yet achieved ISD at the start of the financial year.

(2) A new set of measures was introduced for Key Target 5 for 2004-05 onwards.

(3) A new Key Target introduced for 2004-05 onwards.



225. In May 2005 the National Audit Office published a report examining the way we manage procurement programmes, comparing our performance to similar projects in the private sector/commercial environment and setting a 'Gold Standard' for effective project control. It found a number of areas where we meet its 'Gold Standard', particularly in the use of project charters, measuring and developing client-contractor relationships, the use of baseline reviews, agreed change management mechanisms and the Project Review and Assurance process. Projects singled out for praise included the procurement of TITAN and TROJAN armoured engineer vehicles and the HMS Illustrious aircraft carrier re-fit, both of which provided good examples of 'Gold Standard' practice. The NAO made a number of recommendations for improvement. We are developing an action plan to implement them.

Urgent Operational Requirements

226. Urgent Operational Requirements provide additional capability requirements for specific operations. The process aims to provide speedy and flexible procurement of capabilities using a streamlined version of the Department's normal procurement procedures. As such they are an important part of today's operations. Over 550 UORs have been procured to support operations in Afghanistan and Op TELIC. The House of Commons Public Accounts Committee 26th Report *Ministry of Defence: the rapid procurement of capability to support operations* (published 30 June 2005) examined how successfully the Department procures UORs. The PAC report draws a number of conclusions, including that many of the UORs to support operations in Iraq were successfully developed and introduced into service in very short time-scales and that, under the pressure of conflict, the Department and its industrial partners have shown considerable resourcefulness in coming up with good solutions to address urgent shortfalls in capability. The PAC report concludes with recommendations about how we can further improve the smooth and effective procurement of UORs, tracking cost and timely delivery and use. We continue to look for ways to improve UOR management and delivery, and are working with the National Audit Office to develop a framework of processes supporting further improvements.

ACQUISITION REFORM

227. Improving acquisition performance continues to be a high priority for the Department and a number of important initiatives are underway in the main components of the MoD acquisition community. To ensure this work is fully co-ordinated across the Department as a whole, and that it delivers the required results, in 2004 we established a new Ministerially-chaired Acquisition Policy Board (APB),

replacing a number of extant senior groups dealing with various aspects of acquisition and industrial policy business. As well as driving acquisition improvement the APB also provides direction to the Department's work on Defence Industrial Policy and Strategy. A key concern of the APB is that the improvements in acquisition processes that are already in hand must be accompanied by changes in organisational culture and by enhanced delivery skills if they are to achieve the required results. It has put its weight behind work to address both these issues.

228. We have also recently introduced improvements to the process of approving investment in individual projects. These improvements are intended to ensure that projects are only put forward to the Department's Investment Approvals Board when they have achieved a sufficient level of maturity to demonstrate with a high degree of assurance that they can be delivered within the proposed performance, cost, and time envelope. When considering Main Gate submissions, the Board now seek clear evidence of project maturity – including evidence that there has been an appropriate expenditure of resource on de-risking – across a range of parameters.

DPA Forward

229. Within this broader context, and following the review of the implementation of Smart Acquisition in the DPA that he instigated last year, the Chief of Defence Procurement launched a major performance improvement programme, DPA Forward, in October 2004. This aims to help the Agency deliver projects more consistently in accordance with Smart Acquisition principles and ensure that equipment is routinely delivered to time, cost and performance targets. DPA Forward is a single coherent programme focused on strengthening Performance, People, Processes and Projects by re-invigorating the application of Smart Acquisition principles through the improvement of current processes and the development of new ones. Further changes during the year included the introduction of a Project Review Process, the introduction of Development Partners to strengthen the skills of the DPA workforce, greater joint working with the Defence Logistics Organisation (see paragraph 217), the roll out of a Corporate Management Information System, and the development and implementation of a Key Supplier Management process.

Key Supplier Management and Improved Performance Measurement

230. The Key Supplier Management initiative aims to establish effective strategic relationships with companies in the defence sector which play a major part in meeting defence requirements. Specific senior defence staff are responsible for leading the

dialogue with each Key Supplier and meet with them on a regular basis to develop mutual understanding, to discuss longer-term strategies, and to identify means of improving performance on both sides. These senior officers are supported at working level by a number of Key Supplier Engagement Managers who are developing the relationship with the Key Suppliers on a day to day basis. Alongside this, a Supplier and Customer Performance Measurement Process was introduced on 1 April 2004, applying to all DPA and DLO contracts worth more than £5M (or more than £100K for consultancy contracts). This measures suppliers' performance in terms of quality, cost, time, communications and management, and Integrated Project Team performance in terms of the quality and clarity of their documentation, communication and management. At a strategic level the output from this new process will be used to drive mutual performance improvements.

PRIVATE FINANCE INITIATIVE

231. The Private Finance Initiative (PFI) remains an important delivery tool in the provision of innovative and efficient services for defence. We remain committed to involve the private sector, where appropriate, and to use PFI wherever this delivers best value for money and does not compromise operational effectiveness. This has included support to the frontline from the Joint Rapid Reaction Forces Strategic Sealift (Roll-on Roll-off ferries) and the Heavy Equipment Transporter PFIs. We signed three more deals in 2004-05 with a capital value of £495M (see Table 20), bringing total private sector capital investment through PFI to over £4.3Bn. Further details on signed PFI transactions are provided in note 22 to the Departmental Resource Accounts in Section 2 on page 177. We have a robust and diverse forward PFI programme (see Table 21) with an estimated capital value of approximately £4Bn to £6Bn.

Table 20: PFI Deals Signed in 2004-05

Project Name	Estimated Capital Value (£M) ¹
Devonport Support Services (Armada)	45
MOD-wide Water and Waste Water (Project AQUATRINE – packages B & C See paragraph 164 for further details)	450

(1) Based on private sector capital investment where known (or otherwise the capital value of the Public Sector Comparator).

Table 21: Major PFI Projects in Procurement or Under Construction, as at 31 March 2005

Project Name
Allenby/Connaught ¹
C Vehicles ²
Combined Aerial Target System
Corsham Development Project
Future Provision of Marine Services
Future Strategic Tanker Aircraft
Northwood Public Private Partnership
Portsmouth 2
RAF Brize Norton Service Family Accommodation
Royal School of Military Engineering
Defence Training Review
UK Military Flying Training System

Notes:

- (1) Redevelopment of barracks in Aldershot and Salisbury Plain areas, and long-term provision of associated support services.
- (2) Earthmoving and Specialist Plant, Engineer Contractors and Materials Handling services.



DEFENCE EXPORTS

232. Through the Defence Export Services Organisation, the MoD has continued to give strong support to legitimate defence exports. Companies greatly value this service. In 2004, UK industry won defence orders worth over £4.5Bn, including the sale of Hawk aircraft to India, Pinzgauer Vehicles to New Zealand, 105mm Light Guns to Thailand and a share in NATO's Military Satellite Communication System. In what remains an intensely competitive world market, this was a major achievement for our defence industry, maintaining the UK as Europe's most successful defence exporter, and in global terms, second only to the United States.

FURTHER SOURCES OF INFORMATION

233. Additional information on Equipment is available from the following sources:

- quarterly PSA reports to HM Treasury at www.mod.uk;
- UK Defence Statistics 2005;
- Defence Procurement Agency Corporate Plan 2004;
- Defence Procurement Agency Corporate Plan 2005;
- Defence Procurement Agency Annual Report and Accounts 2004-05;
- NAO *Major Projects Report 2004*, published 10/11/2004, HC 1159-I 2003-2004; ISBN: 0102930481;
- NAO Report: *The Rapid Procurement of Capability to Support Operations* Publication date: 19/11/2004 HC 1161 2003-2004; ISBN: 0102930589;
- The House of Commons Public Accounts Committee 26th Report Ministry of Defence: the rapid procurement of capability to support operations HC 70 published 30 June 2005;
- NAO Report: *Driving the Successful Delivery of Major Defence Projects: Effective Project Control is a Key Factor in Successful Projects*, published 19 May 2005, HC 30 2005-2006, ISBN: 0102932611;
- House of Commons Defence Committee Report *Defence Procurement* Sixth Report HC 572-i & ii published 28 July 2004;
- The Government's response to the House of Commons Defence Committee's sixth report of session 2003-04 on Defence Procurement. Cm 6338 published 11 October 2004;
- House of Commons Public Accounts Committee Report 'Ministry of Defence: Major Projects Report 2003' Forty Third Report HC 383 published on 21 October 2004;
- 'Ministry of Defence: *Major Projects Report 2003*' Cm 6416;
- House of Commons Public Accounts Committee Report 'Ministry of Defence: Battlefield Helicopters' Eighth Report HC 386 published on 18 March 2005;
- United Kingdom Strategic Export Controls Annual Report 2004.

Essay – Quality of our Equipment

While procurement issues feature highly in the public and media interest, it is very rarely mentioned that our Armed Forces have some of the most advanced war fighting equipment available in the world today. Large increases in capability have been achieved in the last few years, substantially improving the effectiveness of our forces. These new capabilities have provided the right equipment for the challenges and operations we are likely to face now and in the future.

For example, compare the equipment available to troops on operations today, to what was available only a few years ago. The lease of four C17 aircraft has vastly increased the RAF's strategic lift capability. The aircraft is capable of lifting five times the weight of cargo compared to a C130, and is able to transport it in less than two thirds of the time. In Iraq, troops are now accommodated in new Temporary Deployable Accommodation, which provides UK Armed Forces personnel with a comfortable air conditioned environment, and is the envy of other Armed Forces. New equipment available to operational infantry units, such as Underslung Grenade Launcher, Light Machine Gun, and the Head Mounted Night Vision System, has greatly enhanced the capability of the dismounted infantry soldier. An infantry section on operations today has double the firepower of a section pre-2003 and has a much improved ability to conduct close quarter night fighting. The Personal Role Radio introduces new capability and is extremely popular amongst UK Forces. Weighing just 1.5kg, the new UHF radio allows short range tactical communication within sections, and has a battery life of 24 hrs on 2 AA batteries. The deployment to Iraq of a core BOWMAN capability with 12 Mechanised Brigade has enabled high quality secure communications and GPS positional awareness, increasing their effectiveness. The MAMBA weapon locating radar has proved highly effective in locating firing positions and trajectories of incoming mortars, guns and rockets; its impressive performance is being singled out for praise by troops in post-operational reports. MAMBA introduces an important new force protection capability, is highly mobile, amphibious, and can be transported by helicopter or C130 aircraft. The new Battle Group Thermal Imaging system being fitted to Warrior and Scimitar enhances these vehicles' night operating capability, giving them a significant tactical advantage over less well equipped hostile forces and will hugely improve battlegroup effectiveness.

These improvements are not confined to land equipment. The Merlin Mk3 helicopter, which has been used in both the Balkans and Iraq, increases flexibility due to its ability to self-deploy, its long range and endurance and its ability to act as an airborne command post. Storm Shadow, first used during Operation TELIC, enables high precision stand-off attack of hardened targets, a totally new capability for the RAF, and arguably more advanced than any similar in-service missile in the world. The Typhoon multi-role combat aircraft introduces real capability improvement, and offers significant advantages in manoeuvrability and reliability when compared to existing aircraft.

The Surface Ship Torpedo Defence System, which entered service with the Royal Navy in 2005, is a world class system of torpedo detection and countermeasures. The system is able to inform commanders of RN ships when they are under attack, and will tell them how to manoeuvre the ship and engage off-board countermeasures to negate the threat. The system introduces additional capability over existing equipment, such as a detection and classification process which enables commanders to take balanced and timely decisions, and is targeted to defeat modern intelligent torpedoes. HMS Bulwark was accepted into service in December, and is one of the most technologically advanced warships to join the fleet, with the most sophisticated battlefield command system ever installed in a Royal Navy warship. HMS Bulwark is the second of and completes a class of new amphibious ships, which represent a huge step forward in modernising amphibious operations and will be a pivotal element of UK expeditionary warfare for the next thirty years.

Overall, the introduction of new capability over the last few years has allowed the UK Armed Forces to deploy more rapidly, operate more effectively and flexibly, and at a higher operational tempo, with increased firepower, more effective communications, and enhanced force protection than they were even as recently as five years ago.



Soldier with a 40mm Grenade Launcher equipped SA80

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FUTURE CAPABILITIES



CHANGE AND DEVELOPMENT

Objective: Drive organisation and process transformation.

Public Service Agreement Target (SR2002 MoD Target 7)

Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability:

- Reduce MoD Head Office and other management costs by 13%.

SR2004 MoD Efficiency Target

Realise total annual efficiency gains of at least £2.8Bn by 2007-08, of which three quarters will be cash-releasing

- Reduce civilian numbers by 10,000 and military posts in administrative and support roles by 5,000
- Be on course to have relocated 3,900 posts out of London and the South East by 2010

Performance Measures and Assessment

Award contract for future enabling Infrastructure:

- **Defence Information Infrastructure (Future) contract was signed with the Atlas consortium on 21 March 2005.**

Reduce Management Costs:

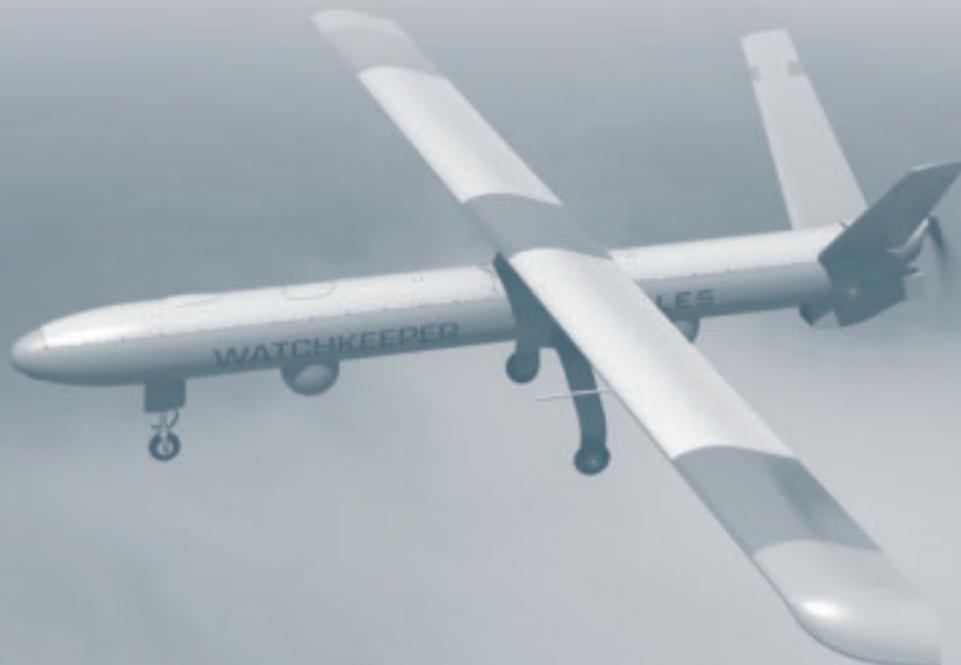
- **MoD Main Building modernised and re-occupied by September 2004, to cost and ahead of time;**
- **10% reduction in Head Office Posts and £8.5M savings per annum;**
- **12% cumulative reduction in Head Office and other management costs against cumulative target of 12%.**

Introduce a new Business Management System with identified Departmental Process Owners to improve management efficiency and coherence:

- **Business Management System approved April 2005. Implementation in hand.**

Force Capability Changes:

- **Announcement of plans for Future Army Structure;**
- **Significant progress on force structure and Service HQ estate rationalisation programmes;**
- **Savings of £88M resulting from changes to our force structure.**





CHANGE AND DEVELOPMENT

234. Today's security environment is one of great uncertainty. It is more difficult than ever to predict future sources of conflict in which our Armed Forces may have a role to play. Challenges of many types may lie ahead. To ensure that we succeed in the operations we are asked to undertake, the MoD has set in train a major transformation programme. The aim is a simple one: to maximise military capability within the resources at our disposal. To do this, work is underway to create a more flexible and efficient defence organisation, and to provide more flexible Armed Forces with a clearer emphasis on the delivery of particular military effects.

235. The July 2004 *Future Capabilities* Command Paper set out our plans for modernisation of the Armed Forces (see essay on page 114). We are making changes to our force structure to increase our capacity to undertake expeditionary operations as well as investing in an equipment programme that will continue to deliver an advanced range of capabilities. Alongside these changes we are also combining or collocating headquarters to streamline business processes and remove duplication in support areas.

236. Together, the Defence Change Programme and the changes announced in the *Future Capabilities* Command Paper make up about 90% of the efficiency gains that underpin the MoD's Spending Review 2004 settlement. MoD intends to realise total annual

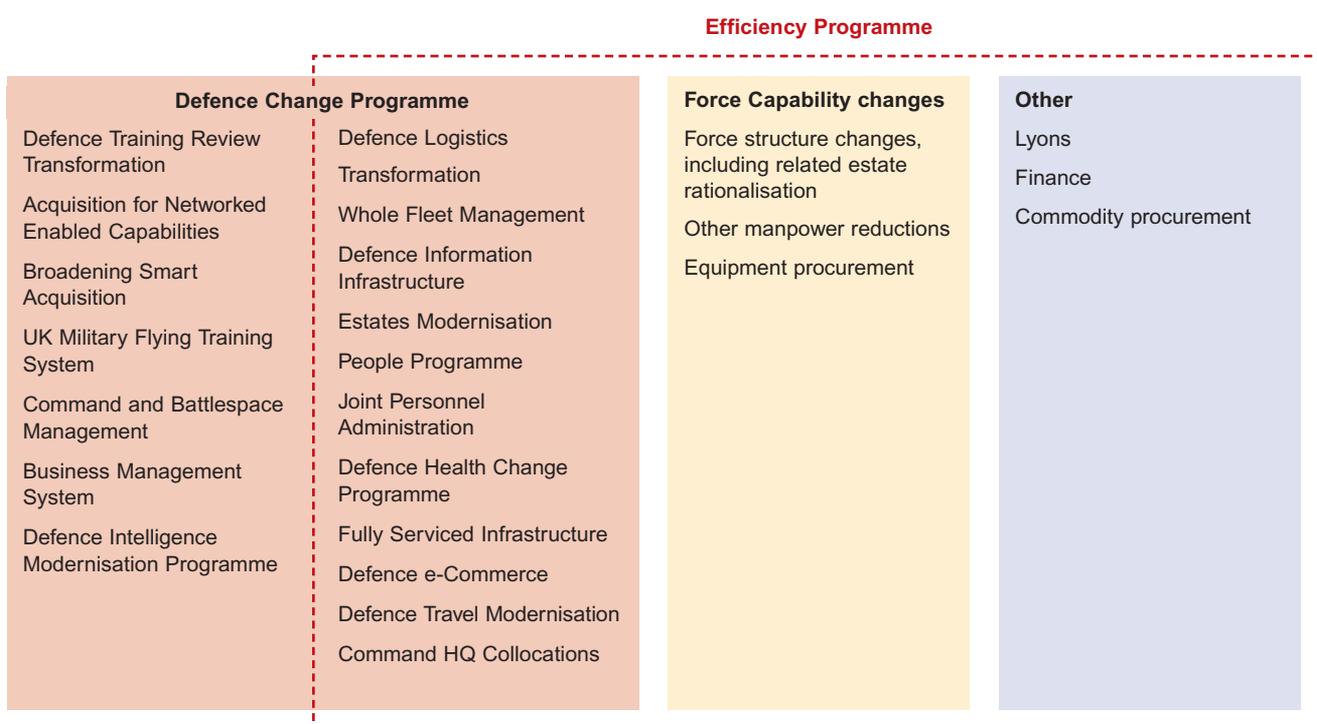
efficiency gains of at least £2.8Bn by 2007-08. Some three-quarters of this will be recycled to help resource the creation of the flexible and adaptable Armed Forces the UK requires to meet the challenges of the 21st Century. The relationship between these programmes is shown in Figure 12 and discussed in more detail below.

DEFENCE CHANGE PROGRAMME

237. The Defence Change Programme was launched in 2002. It links together the major business change initiatives across defence through strong central guidance and direction, to produce a single, coherent and prioritised modernisation programme. It ensures key initiatives have robust governance and plans, driving through improvements in departmental business processes for improved efficiency and effectiveness, so as to maximise investment in front-line operational capability. In prioritising between the various change initiatives underway across the Department, the Defence Change Programme ensures that resources of people, money and intellectual energy are devoted to the most important and productive areas. The programme has been supported by £179M of investment drawn down over 2004-05 from the ring-fenced Defence Modernisation Fund, established as part of the 2002 Spending Review settlement to support the modernisation of defence.

238. The Defence Change Programme is a long term commitment to improved delivery, and therefore includes both programmes which are now beginning

Figure 12: Relationship of Change and Efficiency Programmes



to mature, and new initiatives. There are 20 pan-Defence change programmes in all, covering almost every business process. In addition to improving the way we do our business, 13 of the programmes will deliver about 50% (£1.4Bn) of the efficiency target by 2007-08. Each is actively managed and reviewed using a coherent framework, to ensure that they will deliver the intended benefits. Each is also supported by rigorous governance structures. These arrangements include:

- top level ownership: a Senior Responsible Owner is appointed for each major change initiative and is personally accountable for maximising the delivery of benefits. Each programme is sponsored by one of the Department's Ministers;
- the Defence Change Programme Board leads, directs and manages the Defence Change Programme. The Board is responsible for cross-cutting issues such as common risks and interdependencies, and loading and capacity issues; and
- chaired by Secretary of State, the Change Delivery Group challenges and supports major change initiatives across Defence and manages the allocation of the Defence Modernisation Fund.

Improvements in areas such as logistics and medical services are already contributing directly to military capability, and efficiencies in process and essential support functions are being re-invested in the front-line. The key enabling elements of the programme are set out in more detail below.

Enabling Infrastructure

239. The Defence Information Infrastructure (DII) network is the key enabler of other change programmes. The programme is replacing over 300 different information systems with a single information infrastructure across 2,000 sites. It will enable many of the other benefits delivered by the Defence Change Programme, such as the modernisation of both

military and civilian human resource management; and will provide critical support to elements of the Equipment Programme and to the development of Network Enabled Capability. The Defence Modernisation Fund funded the Head Office element of DII which went live successfully in May 2004. The FLEET HQ element of DII was delivered on time in July 2004. The contract for Increment 1 of DII(Future) was signed with the Atlas consortium on 21 March 2005.

240. Many of the Defence Change Programmes are heavily dependent on the DII Programme. These include Joint Personnel Administration System, the People Programme, the Joint Asset Management and Engineering Solution element of Whole Fleet Management and elements of the Defence Logistics Transformation Programme and the Defence Health Change Programme. Details of these programmes are given below or in other sections of the report.

Managing People

241. The Joint Personnel Administration (JPA) programme aims to harmonise and simplify the management of personnel across the Armed Forces through the implementation of a single system to replace some 250 systems currently in use. The programme will roll out to the RAF from March 2006, to the Royal Navy from June 2006, and to the Army from November 2006. JPA will save nearly 1,500 posts and £100M per annum in steady state. Further information is provided at paragraph 266. A new strategy for civilian personnel is also being implemented by the People Programme, the new name for the Civilian HR Transformation programme. Details can be found in paragraph 265.

Head Office Modern Environment and Headquarters Collocations

242. The Head Office Modern Environment (HOME) Programme was a comprehensive modernisation programme to refurbish the MoD Main Building and introduce new technology and improved working



Main building before refurbishment



Main building after the refurbishment



practises. The return of some 3,100 staff by September 2004, to cost and ahead of time, has enabled a 10% reduction in Head Office posts, delivering over £8.5M in savings per annum. The redevelopment forms part of an overall reduction in staff numbers in central London from 6,000 to 4,900 since 1999. The increased space provided also allows the MoD to remain on target to dispose of five buildings in central London (Northumberland House, Metropole Building, St Giles' Court, Great Scotland Yard and St Christopher House).

243. The success of the HOME programme puts the Department well on track to achieve the 13% reduction by April 2006 in our Spending Review 2002 Public Service Agreement. As of 31 March 2005 we had achieved a cumulative reduction of 12% in these costs, against a cumulative target of 12%. Business developments since this target was set, in particular restructuring within the DLO and rationalisation of TLB headquarters, gives high confidence that the target will be exceeded.

244. All three Services are undertaking a major review of their Headquarters and Top Level Budget (TLB) organisations. The Royal Navy, having already collocated its headquarters in Portsmouth, will merge the Fleet and 2nd Sea Lord TLBs by April 2006, saving some 450 posts. The Army is conducting a top down review of the Land and Adjutant General TLBs and will collocate the two HQs. The Royal Air Force intends to collocate the Strike Command and Personnel and Training Command HQs in High Wycombe. These ambitious and radical reorganisations will improve our focus on the Front Line and provide a sound footing to meet the challenges of coming years.

Business Management System

245. To provide a better framework for process improvement, the Defence Management Board has agreed that a Business Management System should be introduced and implementation started in April 2005. The aim of the Business Management System is to provide a high level management framework that will enable continuous improvement in the delivery of core defence outputs. It will establish clearly understood Head Office functions and high level end-to-end processes, such as Personnel and Logistics, with single point accountability for their efficiency and effectiveness. It provides a simple mechanism through which to identify those processes which impact upon most, if not all, of the Top Level Budgets, so that improvements can be made, where needed. It will also help to improve the effectiveness of Head Office functions, and how these interrelate with the rest of the Department.

Other Programmes

246. Other important aspects of the Defence Change Programme are covered separately in this report. These include:

- the Defence Logistics Transformation Programme to deliver better logistic support to the front-line through improving effectiveness, efficiency and flexibility (paragraphs 208-213);
- Estate Modernisation to rationalise the estate, achieving efficiencies through Regional Prime Contracting, improving estate condition and building new single living accommodation (paragraphs 149-164);
- Defence Training Review Transformation to provide modern, flexible and responsive specialist individual training by modernising training delivery and facilities utilising new technologies and innovative approaches to learning on a reduced training estate (paragraphs 259-260);
- the Defence Health Change Programme to increase deployable operational capability through four main "cornerstones": increasing recruitment and retention of Defence Medical Services (DMS) personnel; implementing a comprehensive healthcare system, promoting healthier lifestyles in the Armed Forces and managing and motivating DMS staff more successfully (paragraphs 115 and 117-120);
- Broadening Smart Acquisition to help TLBs acquire what is needed, when it is needed and at better value for money. This covers the majority of non-equipment acquisition; the provision of estate services and IS enabled business change programmes (paragraph 228);
- Whole Fleet Management to ensure the better management of the Defence vehicle fleet and facilitate the training of force elements on future reduced fleets. Introducing a modern fleet management system across all Services will allow us to manage with fewer vehicles (paragraph 213);
- Defence Travel Modernisation to improve the effectiveness of travel process for the user and deliver efficiencies in costs and to replace the current Air Movements system;
- Defence Electronic Commerce Service to enable MoD and its industrial partners to exploit the efficiencies available through modern e-commerce systems, bringing with it significant benefits in the way business is conducted;

- Command and Battlespace Management is an integral component of the MoD's efforts to enhance military capability and is a key tool for driving forward and managing the changes necessary to develop more integrated command, control and management of military operations.

FORCE CAPABILITY CHANGES

247. The July 2004 *Future Capabilities* Command Paper set out our plans for modernisation of the Armed Forces based on our assessment of the security environment in the December 2003 White Paper *Delivering Security in a Changing World*. The details of the *Future Capabilities* Command Paper are set out in the essay on page 114. Our programme of modernisation is already being implemented and will continue to be over the coming months and years. We are making changes to our force structure to increase our capacity to undertake expeditionary operations as well as investing in an equipment programme that will continue to deliver an advanced range of capabilities. Alongside these changes we are also combining or collocating headquarters to streamline business processes and remove duplication in support areas.

248. Since the '*Future Capabilities*' announcement our progress to date includes:

- announcement of our plans on the Future Army Structure;
- entry into Service of HMS Bulwark; the second in a new class of amphibious assault ship;
- launch of the assessment project phase of the Future Rapid Effect System (FRES) family of vehicles which will form the core of our future medium weight forces;
- the second tranche of 89 Typhoon aircraft ordered for the RAF; and
- entry into service of Brimstone, an Advanced Air-Launched Anti-Armour Weapon.

249. Additionally, as a result of the modernisation of our force structure, £1.2Bn of cashable savings has been incorporated into the defence programme over the Spending Review 2004 period. These are resources available for re-investment in higher-priority capabilities. The emphasis now is on benefits tracking and reporting to ensure we deliver the programmed savings. The majority of these savings will be delivered in 2006-07 and 2007-08, although we delivered savings to the value of £88M in 2004-05, mainly as a result of changes to our force structure.

Force Structure Changes

250. Force structure changes for the Royal Navy will focus on delivering a versatile maritime force, structured and equipped for rapid deployment anywhere in the world. Investment in two larger and more capable aircraft carriers, with Joint Combat Aircraft and amphibious shipping, will transform the Royal Navy's carrier strike capabilities and enhance our ability to project military force from the sea onto the land, securing access by sea to the battlefield. The changing strategic context, together with the benefits of new technology and improved efficiency, mean that the Royal Navy no longer requires the same number of some types of ship as before. For example, the reduced submarine threat effectively means that our Anti-Submarine Warfare capability requirements can be met by fewer ships. The Type 23 frigates perform the specialised Anti-Submarine Warfare role, which is why three of these can be withdrawn. We are also disposing of our oldest three Type 42 destroyers, and the Royal Navy's fleet of attack submarines will reduce by two, to eight boats, by 2008. However, our future destroyer fleet of Type 45s will be much more capable than the vessels they replace, as will the new Astute class submarines, which will fulfil the attack submarine role in future.

251. The Army is moving towards the Future Army Structure which involves a shift from the current mix of light and heavy forces to a more balanced structure of light, medium and heavy forces. There will also be a greater emphasis on enabling capabilities such as engineering, logistics and intelligence. These changes to the land environment will be underpinned by some key elements including Apache which will provide an agile precision attack capability and the FRES family of vehicles which will replace our existing ageing fleet of armoured fighting vehicles and form the core of our future medium weight forces. In parallel the effectiveness of our land forces will be further enhanced through networked surveillance by WATCHKEEPER and ASTOR. These changes will mean that the Army is able to conduct short notice expeditionary operations more efficiently; allowing a more effective response to a wider range of possible contingencies, while at the same time retaining the ability for war-fighting at large scale effort with heavy forces if necessary.



252. The Royal Air Force will be driving forward modernisation to create a flexible and agile Air Force equipped with highly capable multi-role aircraft such as Typhoon and Joint Combat Aircraft, increasingly able to exploit networked capabilities and equipped with a range of advanced stand-off precision weapons. These changes aim to ensure the RAF can adapt to new threats and environments and is able to maintain air superiority and deploy forces worldwide in the future. In parallel, Network Enabled Capability will link our combat assets, commanders and surveillance assets, such as ASTOR and Nimrod MRA4, to bring about the level of accuracy and speed of response necessary now and in the future.

EFFICIENCY PROGRAMME

253. By 2007-08 we intend to have realised total annual efficiency gains of at least £2.8Bn, some of which will be cash-releasing. This target includes a commitment to reduce civilian numbers by 10,000 and military posts in administrative and support roles by 5,000 in the same period, and to be on course to have relocated 3,900 posts out of London and the South East by 2010 (see paragraph 157). These efficiency gains will be reinvested to maximise front line capability, and deliver more flexible and effective Armed Forces to meet the challenges of the 21st Century. The savings underpin our 2004 Spending Review settlement and the Department's commitment to the cross-Government review of public sector efficiency by Sir Peter Gershon.

254. The Efficiency Programme was established for the proper governance and prioritisation of the department's many efficiency initiatives and will involve modernising business processes, rationalising support functions, and organisational changes. Around half of the £2.8Bn target will be achieved by programmes that were already within the Defence Change Programme, and a further 40% from implementation of the force capability changes. The remaining 10% of efficiencies will come from various smaller programmes, including commodity procurement, relocations in response to the Lyons review and work to simplify and improve the finance function. The 2nd Permanent Under-Secretary of State has overall responsibility for delivery of the Efficiency Programme and chairs an Efficiency Delivery Board attended by the Vice Chief of the Defence Staff and the Finance Director. The Defence Management Board and Defence Council receive regular progress reports from the 2nd Permanent Under-Secretary of State.

255. The MoD's Efficiency Technical Note describes the Efficiency Programme in detail and explains how MoD will deliver and measure the efficiency gains. Additionally, extensive work has been undertaken to embed efficiency targets within Top Level Budget holders' financial control totals, and to develop robust methods to track delivery.

FURTHER SOURCES OF INFORMATION

256. Additional information on Change and Development is available from the following sources:

- quarterly PSA reports to HM Treasury at www.mod.uk;
- *2004 Spending Review: Stability, security and opportunity for all: investing for Britain's long-term future: New Public Spending Plans 2005-2008* [Cm 6237] at www.hm-treasury.gov.uk;
- SR2004 Efficiency technical note at www.mod.uk;
- House of Commons Defence Committee Report '*Future Capabilities*' Fourth Report HC 45-i & ii published 17 March 2005;
- The Government's Response to the House of Commons Defence Committee's Fourth Report of Session 2004-05 [Cm6616];
- *Releasing resources to the front line: Independent Review of Public Sector Efficiency* at www.hm-treasury.gov.uk.

ESSAY – Future Capabilities Command Paper

The 2003 Defence White Paper *Delivering Security in a Changing World* (Cm 6041-i), which provided a fresh assessment of the future security environment and the implications for defence, forms the policy baseline against which future planning decisions will be made. The White Paper highlighted the emergence of new, more disparate threats in the 21st century, such as international terrorism, the proliferation of weapons of mass destruction and weak and failing states. It concluded that our Armed Forces are most likely to be engaged in a pattern of concurrent and enduring small- and medium-scale operations, often in peace support and counter-terrorism roles. The *Future Capabilities* Command Paper (Cm 6269), which we published in July 2004, sets out the programme of modernisation that will deliver the flexible and adaptable Armed Forces we need to meet these future operational challenges.

Future Capabilities outlined how changes in the strategic environment are allowing us to reduce capability in certain areas in order to focus investment in higher priority areas. For example, changes in surface ship and submarine numbers are in large part a response to the reduced submarine threat we now face. The *Future Capabilities* programme is also underpinned by an increased focus on 'effects-based' warfare – improving the effects our systems and forces have, rather than concentrating simply on the number of systems involved – and on exploiting new technologies. Network Enabled Capability (NEC) – linking all the elements of our forces together in real time – will be particularly important in this respect. Individual platforms will no longer operate as independent units; networking systems and headquarters will instead allow our Armed Forces to act ever more quickly, decisively and with enhanced military effect.

As a result of the modernisation, the future Navy will be a more versatile and expeditionary force, capable of operating at a distance from the United Kingdom and focussed on delivering effect onto land at a time and place of our choosing. Investment in the new aircraft carriers with Joint Combat Aircraft and in amphibious shipping will provide a step change in our carrier strike capabilities and our ability to launch and support forces ashore. The new frigate and Type 45 destroyer force will, with enhanced weapons, networked sensors and command and control, have far greater capability to counter modern threats and greater versatility when individually deployed on smaller-scale operations.

The Future Army Structure will involve a shift from the current mix of light and heavy forces to a more balanced configuration of light, medium and heavy forces. Medium weight capability will be further enhanced in due course by the Future Rapid Effects System (FRES) family of vehicles, lighter than other armoured vehicles and transportable by air. The infantry will also be restructured so that it is better able to meet the likely operational demands of the future. The out-dated Arms Plot, the process by which infantry battalions re-role and re-locate every few years, will be ended. The manpower freed up as improvements in the Northern Ireland security situation allow will be reinvested to strengthen infantry battalions and the key enablers – engineers, logisticians and intelligence specialists – who have been in very high demand for recent operations. The Army of the future will be able to deploy an increased number of infantry battalions at any given time and will be better able quickly to mount and to sustain expeditionary operations.

The future RAF will be equipped with aircraft that provide greatly enhanced flexibility and capability in all roles. Typhoon and Joint Combat Aircraft will succeed the single-role aircraft we operate today, and will offer a far more versatile multi-role capability, able to exploit networked capabilities and equipped with a range of high-tech, precision weapons. Furthermore, we are purchasing the fleet of four C17s we currently lease plus an additional aircraft, which will operate in the future alongside the new A400M military transport aircraft. This will greatly enhance our airlift capability and hence our ability to respond rapidly to emerging crises.

The Department is already pressing ahead with the implementation of the *Future Capabilities* programme, utilising the additional resources (some £3.7Bn a year by 2007-08) provided by the 2004 Spending Review Settlement and the savings generated by the Department's comprehensive efficiency and rationalisation plans.



FUTURE MANPOWER

Objective: Identify the people and skills we need for the future.

Performance Measures and Assessment

Develop a joint future Service Personnel manpower requirement programme by April 2005:

- **Service Personnel Plan and Balanced Scorecard were implemented on 1 April 2004 drawing together the major change programmes and projects required to sustain sufficient, capable and motivated personnel across the three Services.**

Harmonise and modernise military Human Resource Information Systems:

- **Joint Personnel Administration contract signed 26 October 2004.**

Rationalisation of Specialist Training:

- **Invitation to Negotiate issued for PFI Defence Training Review rationalisation programme.**

Defence E-Learning Delivery:

- **Launch of Defence Learning Portal in March 2005.**

Operational Welfare Package:

- **Early entry communications package developed allowing service personnel deployed on operations to stay in contact with friends and family.**

Pension and Compensation Reviews:

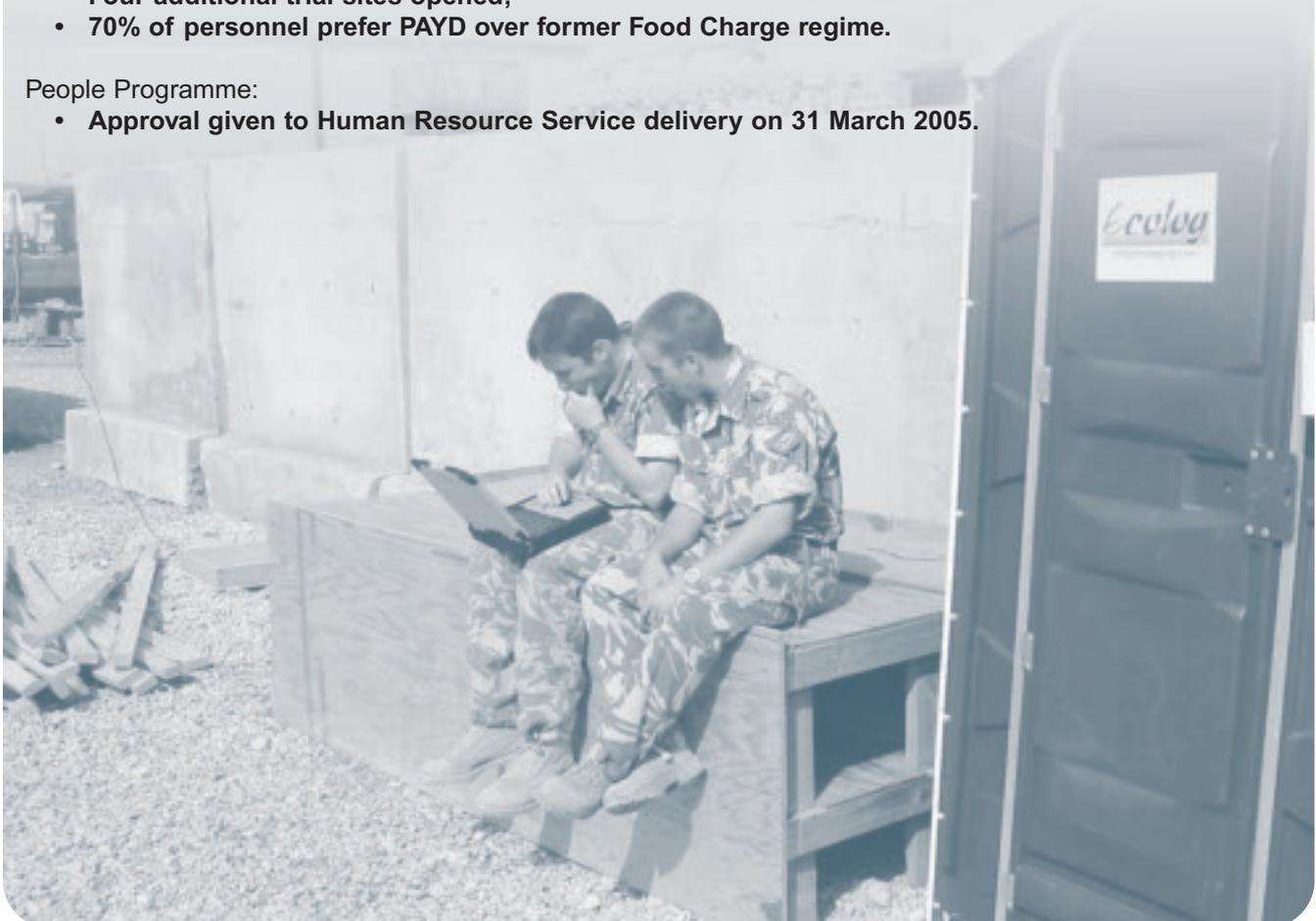
- **Armed Forces Pension Scheme 2005, Reserve Forces Pension Scheme 2005 and Armed Forces Compensation Scheme introduced on 6 April 2005.**

Pay As You Dine:

- **Four additional trial sites opened;**
- **70% of personnel prefer PAYD over former Food Charge regime.**

People Programme:

- **Approval given to Human Resource Service delivery on 31 March 2005.**



SERVICE PERSONNEL PLAN

257. The Service Personnel Plan and Balanced Scorecard were implemented on 1 April 2004 to draw together the major change programmes and projects required to sustain sufficient, capable and motivated personnel across the three Services, both now and into the long-term. Comprising 7 top level objectives the plan consists of a coherent set of projects which have clearly defined benefits; specific, measurable deliverables and a clearly defined governance structure. The associated Balanced Scorecard (the prime reporting mechanism for measuring performance against the 'People Agenda') tracks each key performance indicator over a rolling five year period and feeds directly into the overall Defence Management Board Scorecard (see Annex D). Together they have transformed the ability to present a comprehensive, coordinated and stakeholder agreed business case for Service Personnel as an integral part of the Defence Management Process. As well as achieving unprecedented 'buy-in' from the three Services and other stakeholders, the Service Personnel Plan has been welcomed by external organisations (such as the Chartered Management Institute).

DEFENCE TRAINING INITIATIVES

Duty of Care and Welfare in Initial Training

258. Preparing young people for life in the military carries with it a significant duty of care. The MoD takes this responsibility very seriously. Recent reviews of our Initial Training practices have been carried out by the House of Commons Defence Committee, the Adult Learning Inspectorate and our own internal Director of Operational Capability. Recommendations from these reviews are under consideration and will form the basis of an Action Plan whose implementation is subjected to external scrutiny to ensure that our key stakeholders, including the parents of potential young recruits, can have confidence in our ability to safeguard their interests. Further information is contained in the Essay on page 88.

Rationalisation of Specialist Training

259. The Defence Training Review rationalisation programme will provide modern, cost-effective specialist training, improved accommodation and facilities, and, by harmonising training currently being delivered by individual Services on a Defence basis, offer significant savings through the more efficient use of a reduced training estate. It comprises two packages:

- **Package One** – Aeronautical Engineering; Communications & Information Systems; and Electro-Mechanical Engineering;
- **Package Two** – Logistics; Joint Police and Personnel Administration; and Security, Languages, Intelligence and Photography.

260. Over the past year the programme has made significant progress. Invitations to Negotiate were issued to short-listed bidders in November 2004. Two strong consortia are competing for each package, with proposals to be submitted by 17 October 2005 for Package 1 and 14 November 2005 for Package 2. A recent Office of Government Commerce Gateway review confirmed the rationale of the proposed way forward but recommended additional specialist skills and resources be provided to meet the challenges ahead. These are being addressed.

Defence E-Learning Delivery

261. The Defence Centre of Training Support provides a coherent Defence-wide approach to the development and delivery of training for instructors and trainers. In addition, it is managing a Defence-wide e-learning management and support capability called the Defence Learning Portal. As the Portal is implemented, it will deliver a range of modern, cost-effective and cost-efficient services to enable e-learning across Defence. It will also allow other longer-term benefits by increasing accessibility of training (particularly for personnel on deployed operations), by reducing residential training and by supporting more effective coordination of training delivery. The Defence Learning Portal is being delivered in partnership with BT and was launched at the end of March 2005. The aim is to deliver the full range of Defence courses to 200,000 users within 5 years, with the initial operating capability achieved in March 2005 and the full operating capability expected in 2009, subject to successful implementation of the Defence Information Infrastructure Programme (See paragraph 239).



SERVICE PERSONNEL DEVELOPMENTS

Operational Welfare Package

262. The Operational Welfare Package continued to be well received in deployed operational theatres. Our main effort concentrated on the delivery of the Operational Welfare package more fairly and specifically to early entry and manoeuvre forces. Focussing on contact with family and friends, we have developed an early entry communications package that provides an easily transportable and robust satellite telephone, e-mail, data text link and postal letter system. The equipment was used and extremely well received, by 1 Black Watch Battle Group for their deployment to Camp Dogwood in November 2004.

263. The adaptability of the Operational Welfare Package Policy has also been tested and proven. Personnel serving on the VANGUARD class submarines that provide the UK's nuclear deterrent are now able to use their allocated telephone minutes before and after deployment (during which communications are prohibited in order to protect the location of the submarine). We have also catered for families with special needs by increasing publicly funded telephone time available to them on a case by case basis. Although not part of the Operational Welfare Package, for Christmas 2004 the Prime Minister authorised that, in the month prior to Christmas, friends and families could send postal packets weighing less than 2kg in weight free of charge to personnel in receipt of the operational welfare package. This recognised that Christmas is a special time and the difficult conditions Service personnel faced on operations during the year.

Pension and Compensation Reviews

264. The new Armed Forces Pension Scheme 2005, Reserve Forces Pension Scheme 2005 and Armed Forces Compensation Scheme were introduced on 6 April 2005. Personnel in service before that date will be given the opportunity to transfer from their existing pension arrangements from 6 April 2006. The new pension schemes are designed to be fairer, reflect modern practice and meet the needs of the Armed Forces in the 21st century. They are based on final pensionable pay and include a major improvement in spouse's benefits, extended to partners of the same and opposite sex, and are paid for life. They also include a new death-in-service lump sum of four times pensionable pay. In line with Government policy to introduce later pension ages for all public service pensions, the new schemes pay preserved pensions from age 65 to those who leave before age 55 with at least two years' service. This change is also being made in AFPS 75, so that service from 6 April 2006 will earn pension benefits payable from age 65, not age 60, as now. The new Compensation Scheme covers all Service personnel and provides a better focus on benefits for the more seriously disabled. It provides for the first time for lump sum payments for pain and suffering resulting from injury and ill-health caused by service on or after 6 April 2005. These can also be paid if an individual remains in service. In addition, a Guaranteed Income Payment will be awarded on leaving service for more serious conditions to compensate for an expected loss of earnings capacity. Bereavement benefits will be provided for dependants including unmarried partners, where there is a substantial relationship. Full details of these schemes can be found at www.mod.uk.

Pay As You Dine

265. There has been considerable progress on the Pay As You Dine Project. Four additional trial sites have opened: RAF Leuchars in Scotland in May 2004; Javelin Barracks, Elmpt in Germany in June 2004; Bourlon Barracks, Catterick in August 2004 and Wattisham Station in Suffolk in January 2005. A recent survey of all personnel at Pay As You Dine trial sites returned a 70% preference for Pay As You Dine over the former Food Charge regime; amongst living-in personnel this percentage rises to 72%. Further details on Pay As You Dine can be found at www.payd.mod.uk.



Pay As You Dine in action

Joint Personnel Administration

266. The Joint Personnel Administration (JPA) change programme aims to harmonise and modernise military Human Resources information systems. A contract with EDS was signed on 26 October 2004 for the implementation of this programme. The slight delay was caused by a conscious de-risking decision taken at the time of Main Gate approval in June 2004 not to proceed with contract signature given the large dependence on Defence Information Infrastructure which, at that time, had not secured its own Main Gate approval. The programme will roll out to the RAF from March 2006, to the Royal Navy from June 2006, and to the Army from November 2006. JPA will save nearly 1,500 posts and £100M per annum in steady state.

CIVILIAN PERSONNEL DEVELOPMENTS

People Programme

267. The People Programme, incorporating the Civilian Human Resources (HR) Transformation programme, is implementing the new strategy for civilian personnel launched in 2002. The programme has four principal elements; to develop individuals and managers, and to modernise the HR function and HR services. It remained on schedule, achieving Main Gate approval of the HR services element on 31 March 2005. A package of early services, including on-line absence reporting and training administration, was launched on 25 April 2005 through a new People Services Portal on the Defence Intranet.

268. Work on developing a modern, strategic HR function moved forward significantly. Over the year, the respective roles and responsibilities of the MoD's corporate HR function and business unit Business Partner HR functions were defined and the size and shape of the organisations agreed. Work with line managers and staff this year majored on communications to prepare them for the new HR services. As well as incorporating a number of simplifying policy changes, the new services will adopt a more efficient and effective self service approach. Business units have therefore been undertaking major programmes of road-shows.

FURTHER SOURCES OF INFORMATION

269. Additional information on Future Manpower is available from the following sources:

- quarterly PSA reports to HM Treasury at www.mod.uk;
- UK Defence Statistics 2005;
- Service Personnel Plan;
- House of Commons Defence Committee Report *Duty of Care* Third Report HC 63-i & ii published 17 March 2005;
- JPA: www.mod.uk;
- Armed Forces Pension Scheme 2005, Reserve Forces Pension Scheme 2005 and Armed Forces Compensation Scheme at www.mod.uk;
- Pay As You Dine at www.payd.mod.uk.



ESSAY – Recognising and Enhancing the Professionalism of our People: Implementing Professional Skills for Government

The MoD employs a very substantial body of civil servants who have or are working towards recognised professional qualifications. These cover a very wide range, from nuclear technicians and surveyors to project managers and accountants, from scientists and engineers to lawyers. We also have a range of programmes and development schemes to ensure that our people have the skills and experience they need to do their jobs. Many of these, such as the Defence Leadership Centre, the Acquisition Leadership and Development Scheme, the MIDIT programme and the certificates in Resource Management and in Human Resource Management, are mentioned elsewhere in this report. We continue to encourage all our people to make sure that any qualifications or other defined levels of professional expertise they hold are properly recorded on the Department's new personnel information system. But we are always looking to improve our capabilities further and ensure that the professionalism of our people is recognised and developed, whether or not they hold formal qualifications. We have therefore engaged vigorously with the Professional Skills for Government (PSG) programme being taken forward by the Cabinet Office to enhance the professionalism in particular of the Civil Service's middle and senior management (in MoD terms our Band Bs and members of the Senior Civil Service).

PSG includes a set of "core requirements", comprising Leadership, Core Skills, Professional Expertise and Broader Experience. Although meeting these will be a requirement for those who want to lay the foundations for a career in the Senior Civil Service (SCS), the basic principles apply at all levels of Defence. Our first step has been to develop a rough guide to Broader Experience in MoD and encourage our people to begin thinking about what professional skills may mean for them. As work matures we will introduce more specific career advice into our intranet and associated literature. We have also reviewed our internal development arrangements in the light of PSG. Work from 2003 on improving leadership capacity has been drawn in and a new Core Competence Framework is being developed for the more than 99% of Defence civil servants below the SCS that, while not identical with the PSG terminology and structure, is very similar in content. The Cabinet Office has separately been developing a new SCS competence framework. These frameworks will identify the skills and competences that aspiring and existing Band Bs and SCS members will be expected to have or to obtain.

Many of our Senior Civil Service and Band B staff may need to undertake some form of development activity to fill core skills gaps. Some new training will be provided by the National School of Government, but Departments have also been encouraged to look at internal training provision. We have therefore reviewed our own training arrangements against the PSG agenda and have concluded that we can usefully build on and adapt these to provide appropriate training options. We are also looking at ways to supplement these in particular by doing more to develop the leadership skills of our people below Band B.

In addition to these core requirements relevant to all Civil Servants regardless of their specific responsibilities, we are working to ensure that there should be a Professional expertise framework for all areas of our business. That way those people working in particular areas will be able to see what specific skills and experience will be expected of them at more senior management levels. Cross-Government frameworks already exist for a number of disciplines which are now being reviewed by the relevant Heads of Profession. PSG envisages a Government wide framework of three professional groupings (Corporate Service Delivery, Operational Delivery and Policy Delivery). General frameworks for Operational Delivery and Policy Delivery have been developed by cross-Government groups.

We have now looked at how these map onto defence structures and arrangements. Even before PSG our own Heads of Profession had been doing much to further greater professionalism. We expect them, and the MoD's internal Skills Champions, to have an important role in deciding how we implement the frameworks. In particular they will inform the content of the revised defence Functional Competence frameworks being brought in from April 2006. These will help determine job and post skills profiles and will therefore inform appointments.

The Cabinet Office expects all Departments to have established a core skills baseline in the Autumn. PSG implementation is likely to begin from September 2005, and will thereafter provide the baseline against which suitability for promotion to Band B and the Senior Civil Service is assessed. There will in parallel be a transitional period of two years before all the core requirements are enforced for current members of the SCS.

FUTURE EQUIPMENT PLANS

Objective: Develop new capabilities to meet tomorrow's defence challenges.

Performance Measures and Assessment

Assessment of Future Capability Gaps against Defence Guidance:

- **Future capability requirements and gaps identified and assessed to inform Equipment Plan 05.**

Access to Technology in support of Capability Requirements:

- **Placing of research contracts worth £470M;**
- **Establishment of Defence Technology Centre for Autonomous and Semi-Autonomous vehicles;**
- **Development of combined infra-red and laser sensor and seeker;**
- **Successful demonstration of new General Service Respirator and award of a £40M development and manufacture contract;**
- **Development and demonstration of new prototype munitions disposal vehicle with greater capability and increased operator safety;**
- **First implementation of Insensitive Munitions Strategy;**
- **Continued deployment of scientists and analysts to support operations in Iraq.**

Network Enabled Capability:

- **Achieved initial operating capability for Joint Operational Picture;**
- **Achieved initial operating capability for Computer Network Defence;**
- **Established new joint Communication and Information Systems (CIS) organisations to manage operational CIS networks;**
- **Progress on multinational experimentation programme;**
- **Further development of architectural framework to guide the integration and interoperability of systems.**





FUTURE EQUIPMENT AND PLANS

270. Continual investment in new equipment reflecting the best use of Science and Technology is needed to maintain the winning edge for UK Armed Forces for the future. Technical excellence, through the work of our scientists and technologists, is fundamental to providing the major enabling support to the battle against terror, front-line operations and to underpin the competitiveness of our national defence industry. Network Enabled Capability is a key component in delivering the more integrated, responsive and effective military capability we are working to acquire.

FUTURE CAPABILITY

271. Potential changes in the military capabilities that we will need in the medium to long term must be identified as early as possible to meet the Government's requirements. A variety of means are used to assess the likely capabilities that the Department plans to deliver in the future, including scenario modelling. This work informs the biennial Defence Strategic Guidance (of which the latest version was completed in April 2005) and, together with the outcome of the parallel biennial Equipment Capability Audit, provides a comprehensive picture of where changes may be necessary. These are reflected in the concurrently developed Equipment Plan which sets out our key investment priorities for military equipment over the next ten years. Much of this work is inevitably highly classified. The current Equipment Plan, EP05, was endorsed by the then Secretary of State in March 2005.

272. The Department's Science Innovation Technology organisation provides operational, procurement and capability analysis. This helps identify the scope for enhanced performance, new capabilities, cost reduction and risk reduction and plays a key role in making investment decisions. It also contributes to identifying emerging threats and potential solutions to them, including where this might be best delivered through international research and project collaboration.

SCIENCE AND TECHNOLOGY

The Science Innovation Technology TLB

273. Science Innovation Technology (SIT) was formed as a Top Level Budget on 1 April 2004, headed by the Department's Chief Scientific Adviser. It works to provide expert advice and technological solutions to the demands of Defence. SIT also manages the Defence Research Programme. Some £470M worth of research contracts were placed during 2004-05, a slight increase over the previous year. We are working to achieve maximum advantage

for Defence from our investment in science and technology. The research programme is focused on delivering a practical product that provides value for money and effective alignment of outputs with Defence priorities. There are seven specified top-level outputs; each has a defined set of specific objectives and a way to measure its success. The Research Acquisition Organisation (located at Shrivenham) is the focus for managing this, drawing on skilled programme managers and world class technical knowledge.

Research Procurement

274. Delivery of high quality technology and technical advice requires access to world class suppliers. The successful development in parallel as world class organisations of the public private partnership company QinetiQ and the Defence Science and Technology Laboratory has helped us to achieve best value from our research programme while extending the supplier base into industry and academia. This well-structured policy of collaboration allows us to focus on commonly identified technology development areas, improves risk reduction and maximises our ability to incorporate world class technologies developed in the UK into the equipment we buy.

275. The policy of Research Partnerships with Industry is fostered by two complementary initiatives – Defence Technology Centres (DTCs) and Towers of Excellence. DTCs are formal collaborative arrangements between MoD, industry and academic experts to generate and enhance technology vital to the delivery of future UK defence capabilities in specific scientific fields. Based on defined outcomes, industrial and academic partners have freedom to use their combined expertise and experience to propose innovative and cost-effective solutions. There are currently four DTCs – Data and Information Fusion, Human Factors Integration, Electromagnetic Remote Sensing, and the newly established Autonomous and Semi-Autonomous vehicles. They have been a key element in achieving improved collaboration with industry and academia. The three Towers of Excellence in Underwater Sensors, Guided Weapons and Radar are co-operative groupings involving MoD, industry and academia, which are focused towards the system-level application of research.

Our Successes

276. Significant research achievements during the year included:

- development of a new prototype munitions disposal vehicle. Using world-leading technology, the CARVER prototype has greatly enhanced performance, added capabilities and a greater margin of operator safety;

- construction of a dual mode imaging InfraRed and Laser Sensor and development of a new seeker. This will allow future autonomous anti-surface weapons successfully to attack mobile targets that are deploying countermeasures or hiding in clutter;
- successful first implementation of the MoD Insensitive Munitions Strategy with the introduction of the Storm Shadow air-to-ground missile into service. This is the first fully compliant insensitive munition to enter UK service, enabling safer and more efficient transport, storage and handling;
- training and deployment of over 100 scientists and analysts since 2003 in support of operations in Iraq at the request of UK commanders to provide scientific and operational analysis support in theatre;
- demonstration of the ability to construct a new General Service Respirator that fully meets demanding protection and usability requirements, and the award of a £40M development and manufacture contract to Scott Health and Safety.

NETWORK ENABLED CAPABILITY

277. The achievement of military effect in the future will be significantly enhanced through the networking of existing and future military capabilities under Network Enabled Capability (NEC). The latent power of networks is not new – technological advances over time, like the telegraph, telephone, fibre optics and satellites have enabled the development of ever more extensive networks and hence the better exchange of information. Although these advances now enable wider and faster sharing of information, realising the full potential of NEC requires parallel development of our ability to manage and exploit the information we have.

278. NEC enables us to operate more effectively in an uncertain strategic environment through a more dynamic system of sharing information within the Armed Forces, the MoD, and with coalition partners. It is based on our ability to integrate sensors, decision-makers, weapons systems and support capabilities to achieve a range of effects. This



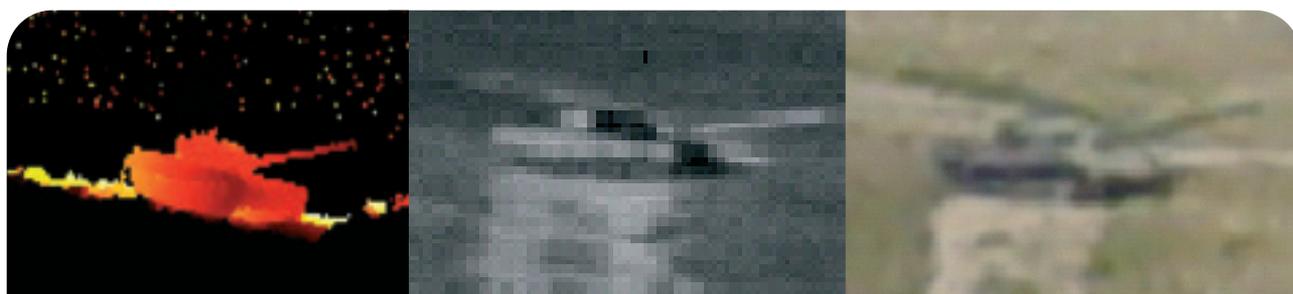
General Service Respirator

produces a better informed decision-making process and an improved ability to achieve precise, timely military effects. We have already seen some benefits during operations in Afghanistan and Iraq. We are now conducting an authoritative analysis of NEC's benefits and risks to inform future investments.

279. The amalgamation of high capacity information networks is a crucial building block of NEC. Several current major programmes will contribute to this over the next five years. These include:

- Skynet 5, which will provide a strategic long-range satellite communications service;
- CORMORANT, to deliver a theatre-wide area communications network for voice and data at the deployed operational level;
- FALCON, to provide tactical formation-level (i.e. Division and Brigade) communications;
- BOWMAN, a secure tactical communications systems for voice and data; and
- the underpinning Defence Information Infrastructure.

We aim to reach an initial state of Network Enabled Capability by 2009 with further enhancements downstream.



The Dual Mode Imaging Laser and Infrared Sensor



280. Significant achievements during 2004-05 included development of an initial operating capability for the Joint Operational Picture and for Computer Network Defence, and the establishment of new joint deployable Communication and Information Systems (CIS) organisations to manage operational CIS networks. Multinational experimentation work has also made progress, including through NITeworks, which uses a unique experimental environment to assess the benefits of NEC and options for successful delivery. There has also been progress in the development of the underlying MoD architectural framework which drives the integration and interoperability of systems

FURTHER SOURCES OF INFORMATION

281. Additional information on Future Equipment Plans is available from the following sources:

- Defence Science and Innovation Strategy April 2004;
- UK Defence Statistics 2005;
- Science Innovation Technology at www.mod.uk;
- Defence Science and Technology Laboratory *Annual Report and Accounts 2004-05*;
- *Delivering Security in a Changing World: Future Capabilities*;
- Detailed information on NEC at www.mod.uk.

DEPARTMENTAL RESOURCE ACCOUNTS

2004-05

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THE ANNUAL REPORT

History and Background

The present Ministry of Defence (MoD), the Department, was formed by the amalgamation in 1964 of the Ministry of Defence, the Admiralty, the War Office and the Air Ministry, and the inclusion in 1971 of the Ministry of Aviation Supply. In 1973, the operations of the Atomic Weapons Establishment were transferred from the UK Atomic Energy Authority to the MoD.

Principal Activity

The principal activity of the Department is to deliver security for the people of the United Kingdom and the Overseas Territories by defending them, including against terrorism; and to act as a force for good by strengthening international peace and stability.

Further definition of the Departmental Objectives in terms of output is given in Schedule 5, Resources by Departmental Aims and Objectives.

Departmental Boundary

At 31 March 2005 the Department consisted of the 12 (2003-04:11) Top Level Budget (TLB) Holders detailed in Note 27 to the financial statements, responsible for providing forces and support services required for a modern defence force. Within these TLBs there were 69 (2003-04: 72) reporting entities known as management groupings. There are 26 (2003-04: 30) on-vote Defence agencies listed in Note 31. All on-vote agencies are also management groupings, except for the Defence Procurement Agency (a TLB) and the Disposal Services Agency (part of a management grouping). Also included within the Departmental Boundary are Advisory Non-Departmental Public Bodies (NDPB) sponsored by the Department listed in Note 31. Defence Agencies also publish their own financial statements.

The five (2003-04: five) Defence Executive Agencies established as Trading Funds and owned by the Department at 31 March 2005 fall outside the Departmental Boundary and are detailed in Note 10. The six Executive NDPBs and one Public Corporation listed in Note 11 are sponsored by the Department and fall outside the Departmental Boundary. The accounts of these bodies are published separately.

QinetiQ Holdings Limited (hereafter referred to as "QinetiQ") is a Self-Financing Public Corporation, incorporated in the United Kingdom, which falls outside the Departmental Boundary. The Navy, Army and Air Force Institutes (NAAFI) is also outside the Departmental Boundary.

The transactions and balances of the Armed Forces Pension Scheme (AFPS) are not consolidated within these financial statements. The report and accounts of the AFPS are prepared separately.

Future Developments

Plans have progressed to co-locate the operational Command headquarters and the personnel & training headquarters for each of the three Services. In addition, the Royal Navy will merge their FLEET and 2nd Sea Lord TLBs. The new RN headquarters in Portsmouth will be operational by April 2006; the main part of the RAF co-location of Strike and Personnel & Training Commands at High Wycombe will be complete by October 2006; and the Army's LAND and Adjutant General Commands plan to co-locate progressively by March 2009.

From 1 April 2005, agency status was removed from six on-vote agencies. These were the Warship Support Agency, The Medical Supplies Agency, the Defence Dental Agency, the Queen Victoria School, the Defence Geographic and Imagery Intelligence Agency and the Defence Intelligence and Security Centre. In addition, Defence Estates took on dual status as both an agency and a Top Level budget. The Disposal Services Agency merged with the DLO's Head of Specialisation (Disposal Sales) and the enhanced organisation moved from under the ownership of MoD Centre to the Defence Logistics Organisation.

Fixed Assets

Changes in fixed assets during the year are summarised in Notes 8, 9 and 10 to the financial statements.

Research and Development

Research and development expenditure is incurred mainly for the future benefit of the Department. Such expenditure is primarily incurred on the development of new fighting equipment and on the improvement of the effectiveness and capability of existing fighting equipment.

Amounts spent on research are not capitalised, and certain development expenditure is expensed, in accordance with SSAP13 "Accounting for Research and Development", and is included in Other Operating Costs detailed in Note 3.

Development expenditure is included in Intangible Assets, where appropriate, and shown in Note 8.

Net Expenditure

The Operating Cost Statement shows net expenditure of £32,410,138,000 which has been charged to the General Fund. Cash voted by Parliament and drawn down for the provision of Defence Capability (RfR 1), Conflict Prevention (RfR 2) and War Pensions and Allowances (RfR 3) amounting to £29,497,000,000 has been credited to the General Fund (Note 18).

Operating and Financial Review

The Operating and Financial Review is included on pages 131 to 132.

Management

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

Secretary of State for Defence

The Right Honourable Geoffrey Hoon, MP

Minister of State for the Armed Forces

The Right Honourable Adam Ingram, MP

Parliamentary Under Secretary of State for Defence and Minister for Defence Procurement

The Lord Bach of Lutterworth

Parliamentary Under Secretary of State for Defence and Minister for Veterans

Ivor Caplin, MP

Since the end of the financial year the following changes in appointment have arisen:

The Right Honourable Dr John Reid MP was appointed as Secretary of State for Defence on 6 May 2005.

Lord Drayson was appointed as Parliamentary Under Secretary of State for Defence and Minister for Defence Procurement on 9 May 2005.

Don Touhig MP was appointed as Parliamentary Under Secretary of State for Defence and Minister for Veterans on 9 May 2005.

Composition of Defence Management Board (DMB), during the year ended 31 March 2005:

Permanent Under Secretary of State

Sir Kevin Tebbit KCB CMG

Chief of the Defence Staff

General Sir Michael Walker GCB CMG CBE ADC Gen

First Sea Lord and Chief of the Naval Staff

Admiral Sir Alan West GCB DSC ADC

Chief of the General Staff

General Sir Mike Jackson GCB CBE DSO ADC Gen

Chief of the Air Staff

Air Chief Marshal Sir Jock Stirrup GCB AFC ADC DSc FRAeS FCMI RAF

Vice Chief of the Defence Staff

Air Chief Marshal Sir Anthony Bagnall KCB OBE FRAeS RAF

Second Permanent Under Secretary of State

Ian Andrews CBE TD

Chief of Defence Procurement

Sir Peter Spencer KCB ADC

Chief of Defence Logistics

Air Chief Marshal Sir Malcolm Pledger KCB OBE AFC BSc FRAeS RAF (to 31 December 2004)

General Sir Kevin O'Donoghue KCB CBE (appointed 1 January 2005)

Chief Scientific Adviser

Professor Sir Keith O'Nions FRS (to 9 July 2004)

Professor Roy Anderson FRS (appointed 1 October 2004)

Finance Director

Trevor Woolley (appointed to the Defence Management Board 24 June 2004)

Non-Executive members

Charles Miller Smith, Chairman of Scottish Power

*Philippa Foster Back, Director of the Institute of Business Ethics

* Chairman of the Defence Audit Committee.

Remuneration of Ministers, and details of salary and pension entitlements of the members of the DMB, are shown in Note 2.3.

The Methodology of Senior Appointments

The Senior Civil Service was formed in April 1996 through an Order in Council. The recruitment principles, and their application, under which senior appointments, including those of the Permanent Under Secretary of State and Second Permanent Under Secretary of State, are made are specified in the "Commissioners' Recruitment Code", responsibility for which lies with the Civil Service Commissioners.

The Chief of Defence Procurement and the Chief Scientific Adviser are recruited on three year fixed-term appointments. The conditions covering the termination of their employment are set out in their contract documents.

The Chief of the Defence Staff, Vice Chief of the Defence Staff, Single-Service Chiefs of Staff and Chief of Defence Logistics are appointed on the recommendation of the Secretary of State for Defence to the Prime Minister. The final approval of the appointee lies with Her Majesty The Queen.

Elements of Remuneration

Senior Civil Service and Ministers' emoluments are reviewed annually by the Review Body on Senior Salaries (SSRB). For civil servants outside the Senior Civil Service, emoluments are set on the basis of annual negotiations between the Department and the Trades Unions.

Emoluments for senior military officers, at two-star rank and above, are based on rank and rates of pay are recommended annually by the SSRB.

Performance and Reward

Civilian members of the Defence Management Board (DMB) do not participate in any incentive/performance schemes. Their basic salary and annual increases, which could include a bonus payment, are performance related and are set by the Permanent Under Secretaries Remuneration Committee.

Pay and management arrangements for members of the Senior Civil Service (SCS) (one-star to three-star) reward individuals for delivery and personal achievement. These arrangements include:

- a. An objective-setting regime complementary to the Department's developing performance management system embodied in the Defence Balanced Scorecard.
- b. A performance-related incremental pay system.

All senior military officers (except for Legal Branch 2-star officers, medical and dental officers and those in the Chaplaincy branches) are paid under the Performance Management and Pay System under which they can be awarded a double increment, a single increment or no increment depending on their performance. The award of increments is recommended by the MoD Remuneration Committee, chaired by the Department's Permanent Under Secretary.

Pension Liabilities

Pension liabilities for the majority of civilian personnel and Service personnel are provided by the Civil Service Pension scheme (CSP) arrangements and the Armed Forces Pension Scheme (AFPS) respectively. The Department makes regular payments of Accruing Superannuation Liability Charge (ASLC) into the relevant pension schemes at rates determined by the Government Actuary.

On 1 October 2002 the new CSP arrangements came into effect. Since that date all new entrants to the Department have had the option to join either the defined benefits scheme, known as "Premium", or to join the defined contributions scheme which is known as "Partnership". The previous scheme, now known as "Classic", was closed to new members when the new CSP arrangements came into effect. Member contributions to Premium are 3.5% and are considered to be a general contribution to the scheme. Members in Classic continue to contribute 1.5% in respect of the Widows Pension Scheme benefits. The Department's contributions to Partnership vary depending on the age of the individual and the amount that they contribute.

Both the Premium and Classic schemes are accounted for as Defined Contribution schemes in accordance with Treasury requirements. The pension liabilities are not included in the Department's Balance Sheet. The financial statements of these schemes are published separately.

Employees

The Department is committed to recruiting and retaining the best people for the job from all walks of life irrespective of race, gender or background.

Payments to Suppliers

The Department's bills, with the exception of some payments to suppliers by units locally and outside Great Britain, are paid through the Defence Bills Agency (DBA). In 2004-05 the DBA met its target by paying 99.98% of all correctly submitted bills within eleven calendar days, ensuring that the Department is in compliance with its statutory obligation under the Late Payment of Commercial Debts (Interest) Act 1998. Commercial debt interest paid by units locally during the year amounted to £63 (2003-2004: £336).

Environmental Protection Policy

The Ministry of Defence acts as a force for good in the world, by enabling a climate that supports the pursuit of sustainable development objectives. The MoD is an operational government department and is required to manage its sustainable development aspects and impacts alongside Defence imperatives. Ensuring a better quality of life for everyone now and for future generations to come lies at the heart of the Government's Sustainable Development Strategy. The MoD is committed to these objectives in pursuit of core business.

It is the Department's intention to comply with the Government's strategy for sustainable development and to take into consideration environmental and socio-economic factors in the development of policies, projects, acquisition programmes and training activities. A Sustainable Development Steering Group has been set up to oversee the development and implementation of a Departmental Sustainable Development Strategy. A report on the Department's performance against core sustainable development indicators will be published annually.

The Department will comply with the Environmental Protection Act 1990 and Environment Act 1995 and other relevant statutory provisions and any additional requirements arising from international treaties and protocols to which the UK is a signatory. Where the Department has been granted specific exemptions, disapplications or derogations from legislation, international treaties and protocols, Departmental Standards and arrangements will be introduced which are, as far as reasonably practical, at least as good as those required by the legislation. Any powers not to apply legislation on the grounds of national security will be invoked only when such action is absolutely essential for the maintenance of operational capability.

Departmental Report

The MoD's Departmental Report which is presented to Parliament each year comprises the "Ministry of Defence Performance Report 2004-05" and "The Government's Expenditure Plans 2004-05: Ministry of Defence". The Departmental Report sets out the performance of the MoD against the objectives stated in Schedule 5 and also includes developments since the year-end, where appropriate. The Departmental Performance Report forms the first Section of the Annual Report and Accounts.

Financial Instruments

The Department does not trade or enter into any speculative transactions in foreign currencies. Forward contract commitments entered into to cover future expenditure in foreign currencies are stated in Note 28.

Provision of Information and Consultation with Employees

The MoD has a strong Whitley committee structure through which employees' representatives, in the form of recognised industrial and non industrial trades unions (TUs), are consulted on and informed of all matters likely to affect our civilian personnel. This structure is supported by formal policy and procedures for consulting and informing TUs. We also advocate the development of informal relationships with the TUs to discuss ideas together. Our policy makes clear that consulting the TUs is not a substitute for dealing with personnel direct, and vice versa. Managers and project leaders for example are encouraged to use all media available, including cascade briefings, newsletters and intranet websites/email. In respect of Service personnel, the process operates through the chain of command, with no formal representation through the TUs.

Auditor

The financial statements for the Department are audited by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000. The Certificate and Report of the Comptroller and Auditor General on the financial statements are set out on pages 137 to 138. The audit fee is disclosed in Note 3.

Kevin Tebbit

Accounting Officer **26 September 2005**

OPERATING AND FINANCIAL REVIEW

Operating Review

The operating review of the Department's performance is covered by the Departmental Annual Performance Report which forms the first section of the Annual Report and Accounts. The Performance Report is structured against the Balanced Scorecard that the Defence Management Board uses to assess and manage the Department's performance. The Finance section of the Performance Report covers the Department's management of financial resources and reports on the outcome for the year against Parliamentary Controls.

The Armed Forces continued to achieve a high degree of success against the policy and military objectives set for all Operations overseas in 2004-05, including in Iraq, Afghanistan and the Balkans, in response to crisis in Cote D'Ivoire, and on Tsunami relief around the Indian Ocean. They contributed to six United Nations peacekeeping missions, in Cyprus, the Democratic Republic of Congo, Georgia, Liberia, Sierra Leone, and Sudan. A minimum nuclear deterrent capability was maintained throughout the year. The security of the UK's Overseas Territories, including the Sovereign Base Areas in Cyprus, the Falkland Islands, and Gibraltar, was maintained. Continuing support was provided to the civil authorities at home, including in Northern Ireland, in responding to civil emergencies, in the routine provision of Search and Rescue and of Fisheries Protection services, and in the investigation and disposal of suspected explosive devices. Defence continued to contribute in 2004-05 to the Government's conflict prevention work under the Defence Diplomacy Programme and through the Joint Africa and Global Conflict Prevention Pools by providing support to a number of conflict prevention initiatives across Africa, the Middle East, Central America and Asia including widespread support to Security Sector Reform, provision of training to the Iraqi Security Forces and new Afghan National Army and provision of international training in Europe and Africa in military peace support operations. Of the Department's seven Public Service Agreement targets, three have been met, two partly met, one remains on course and one has yet to be assessed.

Financial Review

For the second year running the Department has received a clean audit opinion on its Accounts. This is a significant achievement considering the complexity of the Department's business, and the background against which it has been achieved. The Department moved from a myriad of financial systems to a single platform for accounting operations: Oracle 11i, to reduce the cost of operation and to provide consistency across the Department. The TLB re-structuring, which is under way to reduce costs and improve efficiency has also been challenging. The Department has also stayed within the resources allocated to it under each of the three "Requests for Resources" agreed in the Supplementary Estimates.

The two main areas which have had a significant impact on the results for the year have been the rolling programme of professional valuations of certain fixed assets, and the early retirement provisions which had to be set up during the year. The professional valuation of the Department's Estate has resulted in a significant increase in the overall Balance Sheet values, and led to impairments of a number of properties, which have been charged to the Operating Cost Statement. Details of both these items are given in the notes to the Accounts.

At 1 April 2004, the intangible and tangible fixed assets were reclassified in accordance with the requirements of HM Treasury. The main change under the new classifications has been the introduction of a category for Single Use Military Equipment; this includes all Fighting Equipment, Plant, Machinery and Vehicles, IT & Communication Equipment, and Capital Spares which are deemed not to have a dual military and civilian role.

Net Resource Outturn

The total Net Resource Outturn was £1,019M below the Estimate. Schedule 1 provides a summary explaining the reasons for the underspend, which is mainly due to lower than forecast non-cash costs. Of the total underspend, the provision for Defence Capability (Request for Resources 1) accounted for £955M, Conflict Prevention (Request for Resources 2) accounted for £12M, and War Pensions and Allowances (Request for Resources 3) £52M.

The Net Resource Outturn of £32,641M was £2,010M below last year. The reduction is made up of £2,319M in respect of the unwinding of provisions which arose in 2003-04 due to a change in HM Treasury Discount Rate on 1 April 2003 from 6% to 3.5%; this was offset by an overall increase in staff costs of £560M, mainly due to early retirement and redundancy provisions set up during the year. The early retirement and redundancy programme is part of the Department's commitment to reduce civilian posts by 10% by end of March 2008, together with reductions in military personnel, as announced by the Secretary of State in the 2004 Spending Review.

Net Cash Requirement

The net cash utilised in the year was £29,624M and was £187M below the Estimate. The underspend was mainly due to the timing of debtor payments and supplier invoicing which are difficult to forecast accurately.

Financial Position

The net asset value at 31 March 2005 was £85,645M, an increase over last year of £4,498M.

The increase in value of net assets is largely due to an increase in fixed assets of £5,285M, mainly resulting from the QQR, offset by increases in creditors and provisions for liabilities and charges of £885M: the latter amount includes a new liability of £348M in respect of the on-balance sheet PFI for the Main Building redevelopment and provisions set up for the early retirement and redundancy programmes.

Cash Flow

The amount drawn from the Consolidated Fund was £29,497M. This amount was mainly utilised in financing operating activities (£23,011M) and net capital expenditure (£6,246M). Closing cash and bank balances were £438M (2003-04 £313M).

Other areas

The Department's Accounts include a note (Note 29) on Losses and Special Payments. The nature of the losses and special payments, as defined in Government Accounting, vary from year to year depending on the circumstances arising and decisions made by the Department during the year. The value of losses and special payments reported in year show a significant reduction from last year. Improvement in this area is continuing, with control and procedures set up to minimise them where possible. Cases brought forward from last year are shown separately in order properly to identify the cases arising during the year. Further details on this Statement are included in the Resource Section of the Departmental Performance Report.

The Department is required to have a professional revaluation of its tangible fixed assets every five years, and manages this process through a rolling programme. The current revaluation programme is due to complete in 2007-08 but is currently under review to ensure that it is being carried out effectively and at minimum cost.

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, the department is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the department during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

HM Treasury has appointed the Permanent Head of Department as Accounting Officer of the department, with responsibility for preparing the department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going-concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting*.

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Departmental policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

During the Financial Year 2004/05, the Department's outputs were delivered through 12 Top Level Budget areas, each managed by a military or civilian Top Level Budget (TLB) Holder, together with 5 Trading Fund Agencies. The Department also has 6 executive Non-Departmental Public Bodies (NDPB) and 1 Public Corporation with delegated responsibilities. Included within the TLBs are 26 on-vote Defence Agencies whose Chief Executives are responsible for producing annual accounts which are laid before Parliament but which also form part of the Departmental Resource Accounts. TLB Holders operate within a framework of responsibilities delegated by me. To assist me in assessing the adequacy of control arrangements across the Department, TLB Holders submit to me an annual statement of Assurance, endorsed by their Audit Committee and Management Board, also covering the Agencies for which they are responsible¹. The MoD Trading Funds fall outside the Departmental Accounting Boundary and their Chief Executives are Accounting Officers in their own right. They therefore publish their own SICs together with their Annual Accounts. Given their close integration into the Department's business, and their extensive use of Departmental personnel and assets, their Chief Executives also provide to me the SIC prepared for their annual Accounts. Although sponsored by the Department, the 6 NDPBs and Public Corporation also fall outside the Departmental Boundary and their accounts are also published separately. The NDPBs operate within a financial memorandum agreed between their respective Boards of Trustees and the Department. The Public Corporation (Oil and Pipelines Agency) has a Board of Directors on which the Department is represented.

Ministers are involved in the delivery of outputs, including the management of risks to delivery, through the Defence Council which is chaired by the Secretary of State for Defence and includes all the senior executive members of the Defence Management Board. Ministers also chair a variety of internal Boards which review the performance of the Trading Funds, the primary on-vote Agencies and other elements of MoD business such as Environment and Safety, and Estates. In particular, all 5 Trading Funds (the Defence Aviation Repair Agency, the Army Base Repair Organisation, the Defence Science and Technology Laboratory (Dstl), the UK Hydrographic Office, and the Met Office) together with the Defence Procurement Agency (DPA) report to Advisory Boards chaired by MoD Ministers². Ministers are consulted on all key decisions affecting defence, including major investment decisions and on operational matters. The Chief of Defence Staff is the Secretary of State's principal advisor on military operations and is responsible for the maintenance of military operational capability and for the preparation and conduct of military operations, including risks to successful outcomes.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

Active management of risk is fundamental to the effective achievement of Defence objectives, and is central to the way business is conducted within the Department. It informs operational decision making, contingency planning, investment decisions and the financial planning process. Risk forms an integral element of the Defence Management Board's performance reviews. Guidance on the Department's

¹For the Defence Procurement Agency, which is both an agency and a Top Level Budget, this is discharged by submission of the Statement on Internal Control prepared for its own annual Accounts.

²Until 27 July 2004 the Met Office reported to the UK Met Board chaired by the 2nd PUS.

approach to risk is detailed in a Joint Service Publication³, which is periodically reviewed and updated. This sets out the Department's corporate governance and risk management policy statement and strategy to be cascaded down through TLB Holders, and provides extensive guidance to staff on definitions, criteria and methods available for risk assessment and management. It is made available to all personnel in either hard copy or via the Department's intranet. Individual training, at both awareness and practitioner level, is available to all staff via the Department's in-house training provider.

A network of Risk Improvement Managers across the Department enhances the sharing of best practice by working with management at all levels to improve risk management in their area, facilitating learning from others across the Department, and drawing on the work carried out in the context of the Government-wide programme to improve the handling of risks to Government objectives.

4. The risk and control framework

The Department's Performance Management System provides the strategic framework for the consideration of risks within the Defence Balanced Scorecard and lower level scorecards, offering a starting point for the identification, evaluation, control and reporting of risk against a balanced assessment of Departmental objectives. Key Departmental objectives, performance indicators and targets are defined annually by the Defence Management Board (DMB) and cascaded to TLB Holders through Service Delivery Agreements. Performance is monitored and discussed quarterly at DMB and lower level management board meetings, including explicit consideration of key risks.

The Department's risk appetite is determined through the advice on operations given to Ministers, through decisions taken as part of the Department's annual planning round including assessing any gaps against Planning Assumptions as set out in the Defence White Paper, and demonstrated through the limits and controls placed on individual investment projects as part of the Department's Investment Approval process and the total number of projects.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Defence Management Board and the Defence Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The following processes are in operation in order to maintain and review the effectiveness of the system of internal control:

- A Defence Management Board (DMB), which meets approximately monthly to manage the plans, performance and strategic direction of the Department, comprising the senior members of the Department and two external independent members.
- A Defence Audit Committee (DAC), chaired by an external independent member of the DMB, which has adopted a risk-based approach to internal control and is placed at the heart of the assurance process, co-ordinating the activities of internal audit, and drawing on reports from specialist assurance sources, including:
 - the Defence Environment and Safety Board
 - the Departmental Security Officer
 - Defence Internal Audit, including the Defence Fraud Analysis Unit
 - the Director General Financial Management

³JSP 525 Corporate Governance and Risk Management 2nd Edition May 2004.

- the Director of Operational Capability
 - the Science and Technology Director
 - the National Audit Office
- A Departmental risk register, supported by operational-level risk registers, which complements the Defence Balanced Scorecard. The Departmental risk register has been reviewed and endorsed by both the DAC and the DMB.
 - Through TLB Holders, a cascaded system for ensuring compliance with legal and statutory regulations. Each TLB holder is supported by an Audit Committee, including and, in all but one case⁴, chaired by non-executive directors and at which representatives from the internal and external auditors are present. Like the DAC these committees focus their activities to provide advice on wider-business risk and assurance processes.
 - A developing Business Management System through which responsibility for the effective and efficient operation of the key pan-Departmental processes, such as Planning and Human Resources (military and civilian), including the identification of risks within these processes and the maintenance of effective controls to manage them, is assigned to functional heads or process owners. Process Owners report directly to the Defence Management Board.
 - Through TLB Holders, a cascaded system for ensuring that business continuity plans are in place, and that these plans are tested on a regular basis. Following a revamp of the Department's business continuity management policy⁵, an in-year review by the Directorate General of Safety and Security was undertaken to ascertain how the policy is being adopted across the Department, what improvements are planned and to identify specific areas of risk and the measures being taken to mitigate those risks. The review revealed that all business continuity plans currently in place had been at minimum desktop tested and that there are no significant internal control problems.
 - An annual risk-based programme of internal audit provided by Defence Internal Audit (DIA), who are the primary source of independent assurance, which is complemented by the activity of the Directorate of Operational Capability (DOC), which provides independent operational audit and assurance to the Secretary of State and the Chief of Defence Staff. On the basis of the audit work conducted during the year, DIA offered Substantial Assurance that the systems of internal control, risk management and governance reviewed are operating effectively.
 - Annual Reports providing measurable performance indicators and more subjective assessments on the Health of Financial Systems from all TLB Holders and key functional specialists. Improvements have continued to be made to our financial control during the year. The Department has delivered its outputs within the resources voted by Parliament and the Treasury's expenditure limits despite the additional workload generated by Operation TELIC and the migration to a new accounting system.
 - Centres of Excellence in key areas – including Change, Equipment and Estates, integrating Office of Government Commerce (OGC) processes, tools and structures into existing Departmental management and control processes – to ensure that high-risk mission-critical projects and programmes carried out by the Department do not suffer from any of the common causes of failure identified by the OGC and the National Audit Office.
 - A dedicated team to co-ordinate, and appropriate mechanisms to strengthen, the management of scientific risks, particularly to Service personnel health, and in health, safety and environmental matters.
 - An effective governance structure and performance management system that addresses the risks arising from the introduction of the general right of access to information from January 2005 under the Freedom of Information Act.

Kevin Tebbit

Accounting Officer 26 September 2005

⁴The General Officer Commanding Northern Ireland (GOCNI)'s Audit Committee is chaired by the TLB Civil Secretary, but contains two Non-Executive Directors with direct access to the Management Board and TLB Holder.

⁵Revised policy and guidance issued in Joint Service Policy 503 Business Continuity Management, 2nd Edition, published May 2003, and Defence Council Instruction (General) 160/03 dated 20 June 2003.

THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements on pages 139 to 146 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and stock and the accounting policies set out on pages 147 to 198.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 133, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Annual Report and Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report, including the Operating and Financial Review, is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and Accounts, including the Annual Performance Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 134 to 136 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Ministry of Defence at 31 March 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

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

28 September 2005

SCHEDULE 1

Summary of Resource Outturn for the year ended 31 March 2005

	Estimate			Outturn			Net Total Outturn compared to Estimate Savings/ (Excess)
	Gross Expenditure	A-in-A *	Net Total	Gross Expenditure	A-in-A * (note 4)	Net Total	
	1 £000	2 £000	3 £000	4 £000	5 £000	6 £000	
Request for resources 1 (RfR 1)	32,806,571	1,258,309	31,548,262	31,851,150	1,258,309	30,592,841	955,421
Request for resources 2 (RfR 2)	949,884	—	949,884	938,181	—	938,181	11,703
Request for resources 3 (RfR 3)	1,161,221	—	1,161,221	1,109,521	—	1,109,521	51,700
Total resources	34,917,676	1,258,309	33,659,367	33,898,852	1,258,309	32,640,543	1,018,824
Non operating cost A-in-A			287,435			287,435	—
Net cash requirement			29,811,461			29,624,275	187,186
Outturn in Respect of Prior Year The corresponding figures for 2003-04 Outturn were as follows:							
Total Resources						34,651,226	
Non operating cost A-in-A						367,798	
Net cash requirement						29,337,645	
* Appropriation-in-Aid (A-in-A)							
Summary of Income payable to the Consolidated Fund							
	Note	Forecast 2004-05		Outturn 2004-05			
		Income £000	Receipts £000	Income £000	Receipts £000		
Total	4	—	—	383,612	283,612		

The notes on pages 147-198 form part of these financial statements.

Reconciliation of resources to cash requirement				
	Note	Estimate £000	Outturn £000	Savings/ (Excess) £000
Net total resources	Sch 2	33,659,367	32,640,543	1,018,824
Capital:				
*Purchase of fixed assets:				
– RfR 1	8/9	6,697,715	6,895,537	(197,822)
– RfR 2	8/9	223,151	173,842	49,309
– RfR 1 Capitalised provisions	8/9	—	22,937	(22,937)
– Investments		—	—	—
Non operating cost A-in-A:				
Proceeds on sale of fixed assets	8/9/3	(193,193)	(366,912)	173,719
Proceeds on redemption of shares	Sch 4	(54,301)	(48,543)	(5,758)
Excess non-operating costs Appropriation-in-Aid payable to the Consolidated Fund		—	153,207	(153,207)
Repayment of loans made to the Trading Funds and QinetiQ	10	(39,941)	(25,187)	(14,754)
Repayment of Loans from the National Loans Fund	Sch 4	—	1,599	(1,599)
Accruals adjustments:				
Non-cash transactions-				
Included in operating costs	Sch 4	(6,513,094)	(7,012,404)	499,310
Included in net interest payable	6	(2,025,252)	(289,956)	(1,735,296)
Capitalised provisions shown above		—	(22,937)	22,937
		(8,538,346)	(7,325,297)	(1,213,049)
Cost of capital charge	18	(2,586,125)	(2,857,714)	271,589
		(11,124,471)	(10,183,011)	(941,460)
*Changes in working capital other than cash, excluding movements on creditors falling due after one year	Sch 4	83,106	168,222	(85,116)
* Increase in creditors falling due after one year		—	(357,508)	357,508
*Use of provisions for liabilities and charges	17	560,028	522,959	37,069
Adjustment for movements on cash balances in respect of collaborative projects	14	—	26,590	(26,590)
Net cash requirement	Sch 4	29,811,461	29,624,275	187,186

* Stated in accordance with Schedule 1 requirement to include accruals within the movements in the year

Explanation of variation between Estimate and Outturn (net total resources)

Planned RfR 1 expenditure for 2004-05 was set out in the *Ministry of Defence: The Government's Expenditure Plans 2004/05 to 2005/06*, and in the Main, Winter and Spring Supplementary Estimates voted by Parliament. Total Defence expenditure in 2004-05 was contained within voted provision, with an overall Net Resource under spend of £1,019M, net of £230M Consolidated Fund Extra Receipts.

The biggest single variance lies within the Defence Procurement Agency, and is attributable in part to an indirect resource provision of £500M for Typhoon development costs requested in Estimates, which were deemed not to be required in the current year. £208M relates to a change in the method of calculating nuclear provisions, and accounting adjustments were made for £66M of capital spares, which the department assumed would be written off, but which were recovered for future use.

Air Officer Commanding-in-Chief RAF Personnel and Training Command made a provision of £148M for the costs of service personnel redundancies, which also explains £27M of the Adjutant General's variance.

The remaining variances are all below 10% against Estimates and arise principally from the impact of revaluations of fixed assets.

As in previous years, resources have been reallocated and redistributed between TLB holders as and when required in order to optimise the use of those resources in the generation of military capability and its effective use on operations. This normal process explains apparent in-year shortfalls and excesses shown against some of the TLB holders. These offset each other, with no material impact on the Department's Total Resources.

The Department is also voted additional resources (RfR 2) to cover the net additional costs of Operations. Overall Expenditure was £938M as against £950M requested in the Spring Supplementary Estimates. There is a small under spend on War Pensions under RfR 3 of £52M. This relates to smaller actual pension payments than originally forecast, and requested, in Estimates.

Explanation of the variation between estimate and outturn (net cash requirement)

It is difficult to forecast cash movements precisely, as the timing of debtor payments and supplier invoicing cannot be predicted accurately. In the event, net cash outflow from the Department was marginally (0.63%) lower than that forecast when the Spring Supplementary Estimates were prepared.

The Request for Resources (RfR) represents:

- RfR 1: Provision for Defence Capability
- RfR 2: Conflict Prevention
- RfR 3: War pensions and Allowances

SCHEDULE 2

Operating Cost Statement for the year ended 31 March 2005

	Note	2004-05 £000	2003-04 £000
Staff costs	2	10,995,642	10,435,157
Other operating costs	3	19,700,190	20,126,927
Gross operating costs		30,695,832	30,562,084
Operating income	5	(1,416,807)	(1,412,306)
Net operating cost before interest		29,279,025	29,149,778
Net interest payable	6	273,399	2,611,043
Cost of capital charge	18	2,857,714	2,769,726
Net operating cost		32,410,138	34,530,547
Net resource Outturn	7	32,640,543	34,651,226

	Note	2004-05 £000	2003-04 £000
Net gain on revaluation of fixed assets and stocks	19	(4,521,891)	(2,473,614)
Receipts of donated assets and (gain)/loss on revaluation	19	(440,664)	32,702
Recognised gains during the year		(4,962,555)	(2,440,912)

The results shown above are in respect of continuing activity.

The notes on pages 147-198 form part of these financial statements.

SCHEDULE 3

Balance Sheet as at 31 March 2005

	Note	31 March 2005		31 March 2004	
		£000	£000	£000	£000
Fixed Assets					
Intangible assets	8	22,647,823		20,186,743	
Tangible fixed assets	9	69,634,594		66,737,257	
Investments	10	<u>347,108</u>		<u>420,838</u>	
			92,629,525		87,344,838
Current Assets					
Stocks and work-in-progress	12	6,095,363		6,318,224	
Debtors	13	2,870,899		2,675,419	
Cash at bank and in hand	14	<u>438,411</u>		<u>312,564</u>	
			9,404,673		9,306,207
Creditors: amounts falling due within one year	15	<u>6,075,613</u>		<u>5,662,598</u>	
Net current assets			<u>3,329,060</u>		<u>3,643,609</u>
Total assets less current liabilities			95,958,585		90,988,447
Creditors: amounts falling due after more than one year	16	809,896		451,649	
Provisions for liabilities and charges	17	<u>9,503,208</u>		<u>9,389,690</u>	
			10,313,104		9,841,339
Net assets			<u>85,645,481</u>		<u>81,147,108</u>
Taxpayers' equity					
General fund	18		64,906,908		64,028,508
Revaluation reserve	19		18,719,510		15,396,444
Donated assets reserve	19		2,019,063		1,722,156
			<u>85,645,481</u>		<u>81,147,108</u>

Kevin Tebbit
Accounting Officer

26 September 2005

SCHEDULE 4

Cash Flow Statement

For the year ended 31 March 2005

	Note	2004-05 £000	2003-04 £000
Net cash outflow from operating activities before interest	A	23,011,015	23,110,005
Returns on investments and servicing of finance	B	(44,735)	(7,225)
Net capital expenditure and financial investment	C	6,246,193	5,977,172
Payments to the Consolidated Fund		157,081	279,587
Financing from the Consolidated Fund	14	(29,497,000)	(29,257,550)
Repayment of loans from the National Loans Fund		1,599	1,375
(Increase)/Decrease in cash at bank and in hand	14	(125,847)	103,364
Notes to the cash flow statement:			
A. Net cash outflow from operating activities before interest			
Net operating cost before interest	Sch 2	29,279,025	29,149,778
Non-cash transactions:			
– Depreciation and amortisation charges	3	(6,106,056)	(5,719,358)
– Impairment in value of fixed assets	3	238,174	(299,009)
– Provisions to reduce value of stock to its net realisable value	3	(227,498)	72,345
– Stocks written off – net	3	(703,558)	(528,120)
– Auditors' remuneration	3	(3,300)	(3,150)
– Surplus/(deficit) arising on disposal of tangible fixed assets	3	53,620	71,725
– Fixed Assets written off – net	3	85,648	(26,017)
– Capital project expenditure written off	3	(25,851)	(268,310)
– Movement in provisions for liabilities and charges (excluding capitalised provisions)	17	(323,583)	(424,701)
		<u>(7,012,404)</u>	<u>(7,124,595)</u>
Dividends received from Trading Fund and QinetiQ	5	28,387	8,902
Adjustments for movements in working capital other than cash			
– Increase/(decrease) in stocks/WIP		288,489	757,323
– Increase/(decrease) in debtors		95,461	83,431
– (Increase)/decrease in creditors		(60,092)	(206,831)
		<u>323,858</u>	<u>633,923</u>
Paid against provisions for liabilities and charges		<u>392,149</u>	<u>441,997</u>
		<u>23,011,015</u>	<u>23,110,005</u>
B. Returns on investments and servicing of finance			
Dividends received from Trading Funds and QinetiQ	5	(28,387)	(8,902)
Interest received		(25,145)	(28,125)
Interest paid		298,753	2,639,007
Deduct: Unwinding of discount on provisions for liabilities and charges	6	(289,956)	(2,609,205)
		<u>8,797</u>	<u>29,802</u>
		<u>(44,735)</u>	<u>(7,225)</u>
C. Analysis of capital expenditure and financial investment			
Acquisition of fixed assets		6,586,835	6,467,310
Proceeds on disposal of tangible fixed assets		(266,912)	(481,298)
Proceeds of redemption of Redeemable Preference Shares in QinetiQ		(48,543)	—
		<u>6,271,380</u>	<u>5,986,012</u>
Repayment of loans made to the Trading Funds and QinetiQ	10	(25,187)	(28,040)
Loans made to Trading Funds	10	—	19,200
		<u>6,246,193</u>	<u>5,977,172</u>

The notes on pages 147-198 form part of these financial statements.

	Note	2004-05 £000	2003-04 £000
Analysis of Financing			
Parliamentary Funding from the Consolidated Fund (Supply)	14	29,497,000	29,257,550
(Increase)/decrease in cash at bank and in hand during the year	14	(125,847)	103,364
Consolidated Fund Extra Receipts (CFERs) received and not paid over	4	369,096	222,659
Consolidated Fund Extra Receipts (CFERs) received in prior year paid over		(222,659)	(134,737)
Grant undrawn/(drawn) in the previous year and paid by/(to) the Consolidated Fund during the year		80,095	(105,291)
Adjustment for movements on cash balances in respect of collaborative projects		26,590	(5,900)
Net cash requirement	Sch 1	<u>29,624,275</u>	<u>29,337,645</u>
Amount of grant actually issued to support the net cash requirement = £29,497,000,000.00			

SCHEDULE 5

Resources By Departmental Aim And Objectives for the year ended 31 March 2005

Aim

The principal activity of the Department is to deliver security for the people of the United Kingdom and the Overseas Territories by defending them, including against terrorism; and to act as a force for good by strengthening international peace and stability.

In pursuance of this aim, the Department has the following objectives:

	2004-05			2003-04		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Objective 1: Achieving success in the tasks we undertake	3,725,324	(335,767)	3,389,557	3,818,272	(336,995)	3,481,277
Objective 2: Being ready to respond to the tasks that might arise	25,950,299	(1,016,681)	24,933,618	27,796,553	(1,019,105)	26,777,448
Objective 3: Building for the future	3,041,800	(64,359)	2,977,441	3,211,981	(56,206)	3,155,775
	<u>32,717,423</u>	<u>(1,416,807)</u>	<u>31,300,616</u>	<u>34,826,806</u>	<u>(1,412,306)</u>	<u>33,414,500</u>
Paying war pensions and allowances	1,109,522	—	1,109,522	1,116,047	—	1,116,047
Total	<u>33,826,945</u>	<u>(1,416,807)</u>	<u>32,410,138</u>	<u>35,942,853</u>	<u>(1,412,306)</u>	<u>34,530,547</u>

See additional details in Note 26.

The notes on pages 147-198 form part of these financial statements.

NOTES TO THE ACCOUNTS

1 Statement of Accounting Policies

Introduction

1.1 These financial statements have been prepared in accordance with the generic Accounts Direction issued by HM Treasury under reference DAO(GEN)01/05 on 16 February 2005 and comply with the requirements of HM Treasury's Resource Accounting Manual (RAM). In order to reflect the particular circumstances of the Department, the following exception to the RAM has been made:

The Operating Cost Statement is not segmented into programme and non-programme expenditure, as agreed with HM Treasury.

Accounting Convention

1.2 These financial statements are prepared on an accruals basis under the historical cost convention, modified to include the revaluation of certain fixed assets and stocks.

Basis of preparation of Departmental Resource Accounts

1.3 These financial statements comprise the consolidation of the Department, its Defence Supply Financed Agencies and those Advisory NDPBs sponsored by the Department which are not self-accounting. The Defence Agencies and the Advisory NDPBs sponsored by the Department are listed in Note 31.

1.4 Five of the Department's agencies are established as Trading Funds. They therefore fall outside Voted Supply and are subject to a different control framework. Consequently, the Department's interests in the Trading Funds are included in the financial statements as fixed asset investments. Executive NDPBs operate on a self-accounting basis and are not included in the consolidated accounts. They receive grant-in-aid funding from the Department which is treated as an expense in the Operating Cost Statement.

1.5 The Department's interest in QinetiQ, a Self-Financing Public Corporation, is included in the financial statements as a fixed asset investment.

1.6 The Armed Forces Pension Scheme (AFPS) is not consolidated within these financial statements. Separate accounts are prepared by the AFPS.

1.7 Machinery of Government changes which involve the merger of two or more Departments into one new Department, or the transfer of functions or responsibility of one part of the public service sector to another, are accounted for using merger accounting in accordance with the Financial Reporting Standards (FRS) 6.

Net Operating Costs

1.8 Costs are charged to the Operating Cost Statement in the period in which they are incurred and matched to any related income. Costs of Contracted-Out Services are included net of related VAT. Other costs are VAT inclusive, although a proportion of this VAT is recovered via a formula agreed with HM Customs and Excise. Surpluses and deficits on disposal of fixed assets and stock are included within Other Operating Costs (Note 3).

1.9 Income from services provided to third parties is included in operating income, net of related VAT. Dividends are included in the operating income in the year in which the cash is received.

Fixed Assets

1.10 Through the application of the Modified Historical Cost Accounting Convention (MHCA), the Department's fixed assets are expressed at their current value to the Department. The Department achieves this through the application of prospective indices which are produced by the Defence Analytical Services Agency. These indices are applied to the fixed assets, falling within the categories listed below, at the start of each financial year and look ahead to the subsequent balance sheet date. For Land and IT & Communications Equipment the indices are also adjusted to reflect the actual change in prices in the prior year as compared to the earlier prediction.

- Land (by region and type);
- Buildings – Dwellings (UK and specific overseas indices);
- Buildings – Non Dwellings (UK and specific overseas indices);
- Single Use Military Equipment – Sea Systems;
- Single Use Military Equipment – Air Systems;
- Single Use Military Equipment – Land Systems;
- Plant and Machinery;
- Transport – Fighting Equipment;
- Transport – Other;
- IT and Communications Equipment – Office Machinery and Computers; and
- IT and Communications Equipment – Communications Equipment.

1.11 Additionally all fixed assets are subject to a quinquennial revaluation by external professional valuers in accordance with FRS15.

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

1.13 The Department's policy on the capitalisation of subsequent expenditure under FRS15 is to separately account for material major refits and overhauls when their value is consumed by the Department over a different period to the life of the corresponding core asset and where this is deemed to have a material effect on the carrying values of a fixed asset and the depreciation charge. Subsequent expenditure is also capitalised where it is deemed to enhance significantly the operational capability of the equipment, including extension of life and when it is incurred to replace or restore a component of an asset that has been treated separately for depreciation purposes.

Intangible Assets

1.14 Pure and applied research costs are charged to the Operating Cost Statement in the period in which they are incurred.

1.15 Development costs are capitalised where they contribute towards defining the specification of an asset that will enter production. Development costs not capitalised are charged to Other Operating Costs. The development costs are amortised over the planned operational life of that asset type, e.g. class of ship or aircraft, on a straight-line basis. Amortisation commences when the asset type first enters operational service within the Department. If it is decided to withdraw the whole or a significant part of an asset type early, then a corresponding proportion of any remaining unamortised development costs is written off to the Operating Cost Statement along with the underlying tangible fixed assets. For the purposes of development costs, a significant withdrawal of assets is deemed to be 20% or greater of the total of the asset class.

Tangible Fixed Assets

1.16 The useful economic lives of tangible fixed assets are reviewed annually and adjusted where necessary. The capitalisation threshold is £10,000. The £10,000 threshold is applied when deciding whether to register an asset on the Fixed Asset Register (FAR). The decision to record an asset on a FAR normally takes place at the point when the asset is initially acquired.

1.17 In these financial statements, guided weapons, missiles and bombs (GWMB) and capital spares are categorised as fixed assets and subject to depreciation. The depreciation charge in the Operating Cost Statement also includes the cost of GWMB fired to destruction. The principal asset categories and their useful economic lives, depreciated on a straight line basis, are:

	Category	Years
Land and Buildings	Land Buildings, permanent Buildings, temporary Leasehold	Indefinite, not depreciated Useful economic life 5 – 20 Shorter of expected life and lease period
Single Use Military Equipment (including GWMB)		Useful economic life (on a pooled basis for GWMB)
Plant, Machinery and Transport	Plant and Machinery Specialised Vehicles (includes non-fighting vessels and aircraft) Other standard vehicles	5 – 15 Useful economic life 3 – 5
IT and Communications Equipment	Computers Satellites Communications Equipment	3 – 7 Useful economic life Useful economic life
Operational Heritage Assets *		As other tangible fixed assets
Capital Spares	Items of repairable material retained for the purpose of replacing parts of an asset undergoing repair, refurbishment, maintenance, servicing, modification, enhancement or conversion.	Useful economic life (on a pooled basis, consistent within the life of the prime equipment supported)

*Operational Heritage Assets are included within the principal asset category to which they relate.

Donated Assets

1.18 Donated assets (i.e. those assets that have been donated to the Department or assets for which the Department has continuing and exclusive use but does not own legal title and for which it has not given consideration in return) are capitalised at their current valuation on receipt and are revalued/depreciated on the same basis as purchased assets.

1.19 A donated assets reserve represents the value of the original donation, additions, any subsequent professional revaluation and indexation (MHCA) or a professional valuation. Amounts equal to the donated asset depreciation charge, impairment costs and deficit/surplus on disposal arising during the year, are released from this reserve to the Operating Cost Statement.

Impairment

1.20 The charge to the Operating Cost Statement in respect of impairment arises on the decision to sell a fixed asset and take it out of service; on transfer of a fixed asset into stock; on reduction in service potential and where the application of MHCA indices causes a downward revaluation below the historical cost and which is deemed to be permanent in nature. Impairment also includes the cost of capital spares that are embodied into a fixed asset, as part of a major refit and overhaul, but which cannot be capitalised in accordance with FRS 15. Any reversal of an impairment cost is recognised in the operating cost statement to the extent that the original charge, adjusted for subsequent depreciation, was recognised in the Operating Cost Statement. The remaining amount is recognised in the revaluation reserve.

Disposal of Tangible Fixed Assets

1.21 Disposal of assets is principally handled by two specialist agencies: Defence Estates for property assets and the Disposal Services Agency for non-property assets.

1.22 Property assets identified for disposal are included at the open market value with any resulting changes in the net book value charged to the Operating Cost Statement under Impairment or credited to the revaluation reserve as appropriate. On subsequent sale the surplus or deficit is included in the Operating Cost Statement under surplus/deficit on disposal of fixed assets.

1.23 Non-property assets are subject to regular impairment reviews. An impairment review is also carried out when a decision is made to dispose of an asset and take it out of service. Any write down in value to the net recoverable amount (NRA) is charged to the Operating Cost Statement under Impairment. The surplus or deficit at the point of disposal is included in the Operating Cost Statement under surplus/deficit on disposal of fixed assets. Non-property assets, where the receipts on sale are anticipated not to be separately identifiable,

are transferred to stock at their NRA and shown under assets declared for disposal. Any write down on transfer is included in the Operating Cost Statement under Impairment.

1.24 Disposals exclude fixed assets written off and written on. These items are included within Other Movements in Notes 8 and 9.

Leased Assets

1.25 Assets held under finance leases are capitalised as tangible fixed assets and depreciated over the shorter of the lease term or their estimated useful economic lives. Rentals paid are apportioned between reductions in the capital obligations included in creditors, and finance charges charged to the Operating Cost Statement. Expenditure under operating leases is charged to the Operating Cost Statement in the period in which it is incurred. In circumstances where the Department is the lessor of a finance lease, amounts due under a finance lease are treated as amounts receivable and reported in Debtors.

Private Finance Initiative (PFI) Transactions

1.26 Where the substance of the transaction is that the risks and rewards of ownership remain with the Department, the assets and liabilities are reported on the Department's Balance Sheet. Unitary charges in respect of on-balance sheet PFI deals are apportioned between reduction in the capital obligation and charges to the Operating Cost Statement for service performance and finance cost. Where the risks and rewards are transferred to the private sector the transaction is accounted for in the Operating Cost Statement through service charges in accordance with FRS 5 and Treasury Guidance.

1.27 Where assets are transferred to the Private Sector Provider and the consideration received by the Department is in the form of reduced unitary payments, the sales value is accounted for as a prepayment. This prepayment is then reduced (charged to the Operating Cost Statement) over the course of the contract as the benefits of the prepaid element are utilised.

Investments

1.28 Investments represent holdings that the Department intends to retain for the foreseeable future. Fixed asset investments are stated at market value where available; otherwise they are stated at cost. They include the Public Dividend Capital of those Executive Agencies owned by the Department and established as Trading Funds. Investments may either be equity investments, held in the name of the Secretary of State for Defence, or medium or long-term loans made with the intention of providing working capital or commercial support.

1.29 Joint Ventures are accounted for using the Gross Equity method of accounting. Under this method the Department's share of the aggregate gross assets and liabilities underlying the net equity investments are shown on the face of the Balance Sheet. The Operating Cost Statement includes the Department's share of the investee's turnover.

Stocks and Work-in-Progress

1.30 Stock is valued at current replacement cost, or historic cost if not materially different. Provision is made to reduce cost to net realisable value (NRV) where there is no expectation of consumption or sale in the ordinary course of the business. Stock provision is released to the operating costs on consumption, disposal and write-off.

1.31 Internal Work-in-Progress represents ongoing work on the manufacture, modification, enhancement or conversion of stock items. This is valued on the same basis as stocks. External Work-in-Progress represents ongoing work on production or repair contracts for external customers. This is valued at the lower of current replacement cost and NRV.

1.32 Assets declared for disposal include stock held for disposal and those non-property fixed assets identified for disposal where receipts are not anticipated to be separately identifiable.

1.33 Stocks written-off, included within other operating costs, represents the book value of stock which has been scrapped, destroyed or lost during the year, and adjustments to agree the book values with the figures shown on the supply systems.

Provisions for Liabilities and Charges

1.34 Provisions for liabilities and charges have been established under the criteria of FRS 12 and are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations that exist at the Balance Sheet date.

1.35 Provisions are charged to the Operating Cost Statement unless they have been capitalised as part of the cost of the underlying facility where the expenditure provides access to current and future economic benefits. In such cases the capitalised provision will be depreciated as a charge to the Operating Cost Statement over the remaining estimated useful economic life of the underlying asset. All long-term provisions are discounted to current prices by use of HM Treasury's Test Discount Rate which was 3.5% (unchanged from 2003-04) for the financial year 2004-05. The discount is unwound over the remaining life of the provision and shown as an interest charge in the Operating Cost Statement.

Reserves

1.36 The Revaluation Reserve reflects the unrealised element of the cumulative balance of revaluation and indexation adjustments on fixed assets and stocks (excluding donated assets and those financed by Government grants). The Donated Asset Reserve reflects the net book value of assets that have been donated to the Department.

1.37 The General Fund represents the balance of the taxpayers' equity.

Pensions

1.38 Present and past employees are mainly covered by the Civil Service Pension (CSP) arrangements for civilian personnel and the AFPS for Service personnel. There are separate scheme statements for the AFPS and CSP as a whole.

1.39 Both pension schemes are contracted out, unfunded, defined benefit pay as you go occupational pension schemes, although they are being accounted for as if they were defined contribution schemes in accordance with the HM Treasury RAM. The employer's charge is met by payment of an ASLC, which is calculated based on a percentage of pensionable pay. The ASLC represents an estimate of the cost of providing future superannuation protection for all personnel currently in pensionable employment. In addition, civilian personnel contribute 1.5% of salary to fund a widow/widower's pension if they are members of Classic and 3.5% if they are members of Premium. The Department's Balance Sheet will only include a creditor in respect of pensions to the extent that the contributions paid to the pension funds in the year fall short of the ASLC and widow/widower's pension charges due.

1.40 The pension schemes undergo a reassessment of the ASLC contribution rates by the Government Actuary at three-yearly intervals. Provisions are made for costs of early retirement programmes and redundancies up to the normal retirement age and charged to the Operating Cost Statement.

1.41 The Department operates a number of small pension schemes for civilians engaged at overseas locations. These schemes have been accounted for in accordance with the application of SSAP 24 – *Accounting for Pension Costs*, as set out in the HM Treasury RAM. Since 1 April 2003 they have been accounted for in accordance with FRS 17 – *Retirement Benefits*. Prior year's figures have not been restated as any adjustments would not be material.

1.42 The disclosures required under FRS 17 are included in Note 2.4

Early Departure Costs

1.43 The Department provides in full for the cost of meeting pensions up to normal retirement age in respect of civilian personnel early retirement programmes and redundancies announced in the current and previous years. Pensions payable after normal retirement age are met by the CSP arrangements for civilian personnel.

Cost of Capital Charge

1.44 A charge, reflecting the cost of capital utilised by the Department, is included in the Operating Cost Statement and credited to the General Fund. The charge is calculated using the HM Treasury standard rate for financial year 2004-05 of 3.5% (2003-04: 3.5%) in real terms on all assets less liabilities except for:

Donated assets and cash balances with the Office of HM Paymaster General (OPG), where the charge is nil.

Liabilities for the amounts to be surrendered to the Consolidated Fund and for amounts due from the Consolidated Fund, where the charge is nil.

Assets financed by grants, where the charge is nil.

Additions to heritage collections where the existing collection has not been capitalised, where the charge is nil.

1.45 The cost of capital charge on the fixed asset investments in the Trading Funds and in the Self Financing Public Corporation is calculated at a specific rate applicable to those entities, and is based on their underlying net assets.

Foreign Exchange

1.46 Transactions that are denominated in a foreign currency are translated into Sterling using the General Accounting Rate ruling at the date of each transaction. US\$ and Euros are purchased forward from the Bank of England. Monetary assets and liabilities are translated at the spot rate applicable at the Balance Sheet date and the exchange differences are reported in the Operating Cost Statement.

1.47 Overseas non-monetary assets and liabilities are subject to annual revaluation and are translated at the spot rate applicable at the Balance Sheet date and the exchange differences are taken to the revaluation reserve for owned assets, or the donated asset reserve for donated assets.

2 Staff Numbers and Costs

2.1 The average number of whole-time equivalent persons employed during the year was: Service 210,180 (2003-04: 213,600) and Civilian 97,540 (2003-04: 96,040). [Source: Defence Analytical Services Agency]. The Civilian total includes staff on maternity leave, career breaks and secondment to non-MoD bodies, and employed at United States Air Force bases in the United Kingdom. Comparative figures have been amended accordingly from 92,720 to 96,040.

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

	2004-05 £000	2003-04 £000
Salaries and Wages	8,470,881	8,332,356
Social Security costs	619,673	609,865
Pension costs (see Note 2.4)	1,486,848	1,442,696
Redundancy and severance payments	418,240	50,240
	<u>10,995,642</u>	<u>10,435,157</u>
Made up of:		
Service	8,047,195	7,973,835
Civilian	2,948,447	2,461,322
	<u>10,995,642</u>	<u>10,435,157</u>

2.3 For the year ended 31 March 2005 the salary, pension entitlements and the value of any taxable benefits-in-kind for Ministers in respect of their services to the Department are detailed below and should be read in conjunction with the following notes.

Ministerial Salaries and Allowances

† The presentation below is based on payments made by the Department and thus recorded in these Accounts. In respect of Ministers in the House of Commons, Departments bear only the cost of the additional Ministerial remuneration. The salary for their services as an MP £57,485 pa with effect from 1 April 2004 (2003-04 £56,358 pa with effect from 1 April 2003), and various allowances to which they are entitled are borne centrally by the House of Commons. However, the arrangements for Ministers in the House of Lords are different in that they do not receive a salary but rather an additional remuneration which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures below.

** Lords Ministers' Night Subsistence paid to The Lord Bach of Lutterworth was £30,353 in 2004-05 (2003-04: £27,866). These figures are included in the salary figures disclosed. No Minister received payment of the London Supplement allowance this year.

Ministers who have not attained the age of 65, and who are not re-appointed to a relevant Ministerial or other paid office within three weeks, are eligible for a severance payment. No payments were made in 2004-05 (2003-04: One).

Ministerial Pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended).

Those Ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution.)

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate, and 9% if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV

This takes account of the increase in accrued pension due to inflation and contributions paid by the Minister and is calculated using common market valuation factors for the start and end of the period.

Benefits-in-kind for Ministers

Ministers' private use of official cars is exempt under the rules governing the definition of taxable benefits-in-kind. Mr Hoon was provided with living accommodation. The value of the benefit is calculated in accordance with the Inland Revenue regulations. No tax is charged on the living accommodation itself; a charge is made on the value of associated services, limited to 10% of taxable Ministerial salary.

Ministers:

Figures for 2004-05 in bold, 2003-04 in italics.

	Salary (as defined below)	Taxable Benefits- in-kind	Total Accrued Pension at retirement as at 31 March 2005	CETV at 31 March 2004	CETV at 31 March 2005	Real increase in CETV as funded by employer
	£000	(to nearest £100)	£000	£000	£000	£000
<i>Secretary of State for Defence:</i>						
The Right Honourable Geoffrey Hoon, MP †	70-75 <i>70-75</i>	7,300 <i>7,100</i>	5-10 <i>5-10</i>	78	93	6
<i>Minister of State for the Armed Forces:</i>						
The Right Honourable Adam Ingram MP †	35-40 <i>35-40</i>	Nil <i>Nil</i>	5-10 <i>5-10</i>	66	80	6
<i>Parliamentary Under Secretary of State and Minister for Defence Procurement:</i>						
The Lord Bach of Lutterworth † **	95-100 <i>90-95</i>	Nil <i>Nil</i>	5-10 <i>5-10</i>	78	101	12
<i>Parliamentary Under Secretary of State for Defence and Minister for Veterans:</i>						
Ivor Caplin MP †	25-30 <i>20-25</i>	Nil <i>Nil</i>	0-5 <i>0-5</i>	14	21	3

Salary includes gross salary, performance pay and allowances paid.

Defence Management Board:

The salary, pension entitlements and the value of taxable benefits-in-kind for the Department's senior management board, the DMB, were as below.

Figures for 2004-05 in bold, 2003-04 in italics.

	Salary (as defined below)	Taxable Benefits- in-kind (to nearest £100)	Accrued Pension at retirement as 31 March 2005	CETV at 31 March 2004	CETV at 31 March 2005	Real increase in CETV
	£000	£100	£000	£000	£000	£000
<i>Permanent Under Secretary of State</i> Sir Kevin Tebbit KCB CMG	170-175 <i>165-170</i>	32,600 <i>33,000</i>	Pension 70-75 Lump sum 210-215	1,223	1,285	(5)
<i>Chief of the Defence Staff</i> General Sir Michael Walker GCB CMG CBE ADC Gen	185-190 <i>165-170</i>	33,400 <i>27,900</i>	Pension 90-95 Lump sum 280-285	1,487	1,533	33
<i>First Sea Lord and Chief of the Naval Staff</i> Admiral Sir Alan West GCB DSC ADC	135-140 <i>125-130</i>	22,100 <i>21,300</i>	Pension 65-70 Lump sum 200-205	1,287	1,331	45
<i>Chief of the General Staff</i> General Sir Mike Jackson GCB CBE DSO ADC Gen	150-155 <i>135-140</i>	22,500 <i>22,200</i>	Pension 70-75 Lump sum 210-215	1,104	1,134	26
<i>Chief of the Air Staff</i> Air Chief Marshal Sir Jock Stirrup GCB AFC ADC DSc FRAeS FCMI RAF	135-140 <i>85-90</i>	22,300 <i>14,800</i>	Pension 65-70 Lump sum 200-205	1,254	1,382	130
<i>Vice Chief of the Defence Staff</i> Air Chief Marshal Sir Anthony Bagnall KCB OBE ADC FRAeS RAF	140-145 <i>130-135</i>	24,800 <i>22,900</i>	Pension 70-75 Lump sum 210-215	1,255	1,188	28
<i>Second Permanent Under Secretary of State</i> Ian Andrews CBE TD	130-135 <i>125-130</i>	29,000 <i>28,300</i>	Pension 40-45 Lump sum 115-120	641	686	Nil
<i>Chief of Defence Procurement</i> Sir Peter Spencer KCB	125-130 <i>105-110</i>	31,100 <i>29,000</i>	Pension 0-5	26	56	26
<i>Chief of Defence Logistics</i> Air Chief Marshal Sir Malcolm Pledger KCB OBE AFC BSc FRAeS RAF (Until 31 December 2004)	95-100 <i>125-130</i>	Nil <i>Nil</i>	Pension 65-70 Lump sum 195-200	1,278	1,295	27
General Sir Kevin O'Donoghue KCB CBE (From 1 January 2005)	30-35 <i>Nil</i>	Nil <i>Nil</i>	Pension 70-75 Lump sum 210-215	1,378**	1,378	-10
<i>Chief Scientific Adviser</i> Professor Sir Keith O'Nions FRS (Until 9 July 2004)	35-40 <i>145-150</i>	6,900 <i>25,700</i>	Pension 40-45 Lump sum 120-125	723	746	6
Professor Roy Anderson FRS (From 1 October 2004)	60-65 <i>Nil</i>	10,900 <i>Nil</i>	N/A	N/A	15	N/A

	Salary (as defined below) £000	Taxable Benefits- in-kind (to nearest £100)	Accrued Pension at retirement as 31 March 2005 £000	CETV at 31 March 2004 £000	CETV at 31 March 2005 £000	Real increase in CETV £000
<i>Finance Director</i> Trevor Woolley (From 24 June 2004)	80-85* <i>Nil</i>	Nil <i>Nil</i>	Pension 40-45 Lump sum 120-125	510‡	581	31
<i>Non-executive member of the DMB</i> Charles Miller Smith (Chairman of Scottish Power)	25-30 25-30 <i>Fees</i>					
<i>Non-executive member of the DMB and Chair of the Defence Audit Committee</i> Philippa Foster Back † (Director of the Institute of Business Ethics)	25-30 35-40 <i>Fees</i>					

The CETV values for 31 March 2004 have been updated since the 2003-04 Annual Report and Accounts.

† Mrs Foster Back's fees are £25,000 per annum. Fees for 2003-04 include an increase payable from July 2002.

* The Finance Director was appointed to the Board on 24 June 2004.

** At 31 December 2004.

‡ At 24 June 2004.

Salary includes gross salary, performance pay and allowances paid.

Benefit in kind figures for civilian members of the DMB represent the value obtained from the private use of official cars, and for Service members of the DMB represents the value obtained from use of Official Service Residences. The Department has an arrangement with the Inland Revenue where MoD pays the tax liability that would ordinarily be paid by the individual. The tax liability consists of income tax, and where applicable, employees National Insurance Contributions. This tax liability is therefore included in the figures disclosed to arrive at the full "value" of the benefit to the individual.

Details of Chief Executives and other senior staff of agencies are given in the agency accounts.

Pensions

2.4 The CSP scheme is an unfunded multi-employer defined benefit scheme but the Ministry of Defence is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 for the CSP. Details can be found in the resource accounts of the scheme which are published and laid before the House of Commons. The CSP accounts are also available on the web at www.civilservice-pensions.gov.uk.

For 2004-05, employers' contributions of £240,854,000 in respect of civilian staff were payable to the Office of the Paymaster General (OPG) (2003-04: £218,459,000) at one of the four rates in the range of 12 /18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revalorisation of the salary bands. Employer contributions to the PCSPS are to be reviewed every four years following a full scheme valuation by the Government Actuary.

For Service personnel, employers' contributions of £1,245,994,000 (2003-04: £1,224,237,000) were also made to the AFPS based on rates determined by the Government Actuary. The applicable rates were 33.8% of pensionable pay for officers and 18.2% for other ranks.

The contribution rates reflect benefits as they are accrued, not when costs are actually incurred, and reflect past experience of the scheme.

2.5 Certain other employees are covered by other schemes such as the NHS Superannuation Scheme and the Teachers' Superannuation Scheme. Contributions to these schemes in 2004-05 are included within the amount of £240,854,000 shown in Note 2.4 above.

Cash Equivalent Transfer Values

2.6 A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Civil Service Pension Scheme has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries. The calculations involve the application to projected pension values of a number of factors, including related to market conditions, which change with individuals' ages, particularly near retirement.

Real increase in CETV

2.7 This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation and contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement). The real increase is arrived at using common market valuation factors for the start and end of the period.

3 Other Operating Costs

	2004-05	2003-04
	£000	£000
Operating expenditure:		
– Fuel	181,373	161,329
– Stock consumption	1,136,329	1,059,775
– Surplus arising on disposal of stock (net)	(25,214)	(29,456)
– Provisions to reduce stocks to net realisable value	227,498	(72,345)
– Stocks written off (net)	703,558	528,120
– Movements: includes personnel travelling, subsistence/relocation costs and movement of stores and equipment	422,769	491,226
– Utilities	241,111	220,327
– Property management	1,509,085	1,393,283
– Hospitality and entertainment	6,450	7,991
– Accommodation charges	340,113	422,888
– Equipment support costs	3,623,327	3,804,132
– Increase/(Decrease) in nuclear and other decommissioning provisions (note 17)	(211,238)	154,509
– IT and telecommunications	678,250	737,717
– Professional fees	565,138	549,048
– Other expenditure	2,148,897	2,032,368
– Research expenditure and expensed development expenditure	996,421	1,011,213
Depreciation and amortisation:		
– Intangible assets (Note 8)	1,023,665	902,707
– Tangible owned fixed assets (Note 9)	5,128,204	4,838,283
– Donated assets depreciation – release of reserve	(49,473)	(46,625)
– Tangible fixed assets held under finance leases (Note 9)	3,660	24,993
Impairment on fixed assets (Notes 8 & 9)		
– Arising on Quinquennial valuation (net of reversal of impairments of £349M)	110,000	—
– Arising on Other items **	(335,339)	299,010
Impairment – donated assets release of reserve	(12,835)	(1)
(Surplus) arising on disposal of tangible and intangible fixed assets		
– Tangible and Intangible fixed assets	(52,079)	(68,676)
– Donated assets – release of reserve	(1,541)	(3,049)
Fixed assets written off/(written on) – net	(85,648)	26,017
Capital project expenditure written off	25,851	268,310
Bad debts written off	(5,411)	27,491
Increase in bad debts provision	920	(2,939)
Rentals paid under operating leases	228,515	214,328
Auditors' remuneration – audit work only *	3,300	3,150
Grants-in-Aid	63,079	54,790
Exchange differences on foreign currencies: net deficit/(surplus)	14,728	(622)
War Pensions and Allowances	1,096,727	1,117,635
Total Other Operating Costs	19,700,190	20,126,927

Note:

* Auditor's remuneration: No charge is made for non-audit work carried out by the auditors.

** Figure for 2004-05 includes some £520M of capital spares coming into the supply system, mainly from the cannibalisation of Tornado and Harrier aircraft, previously impaired.

4 Analysis of income payable to the Consolidated Fund

In addition to Appropriations-in-Aid the following income relates to the Department and is payable to the Consolidated Fund. (Cash receipts are shown in italics).

	2004-05 Forecast		2004-05 Outturn	
	Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts – excess A-in-A	—	—	215,889	215,889
Non operating income and receipts – excess A-in-A	—	—	153,207	53,207
Subtotal	—	—	369,096	269,096
Other operating income and receipts not classified as A-in-A	—	—	14,516	14,516
Other non-operating income and receipts not classified as A-in-A	—	—	—	—
Other amounts collectable on behalf of the Consolidated Fund	—	—	—	—
	—	—	383,612	283,612

5 Operating Income

	2004-05 £000	2003-04 £000
External customers		
Rental Income – property	54,618	54,717
Other	1,142,142	1,171,897
Other Government Departments, Trading Funds and QinetiQ		
Rental income – property	2,680	4,974
Dividends received from Trading Funds (Note 10)	28,387	8,902
Other	188,980	171,816
	1,416,807	1,412,306
Of which:		
Appropriations-in-Aid	1,402,595	1,378,937
CFER – Payable to the Consolidated Fund	14,212	33,369
	1,416,807	1,412,306
Appropriation-in-Aid shown on Schedule 1 is the lower of the amounts shown in the Estimate and the Outturn:		
Outturn:		
– Operating Income (see above)	1,402,595	1,378,937
Included in other operating costs:		
– Refunds of formula based VAT recovery	71,603	46,766
– Foreign exchange gains	—	37,435
	1,474,198	1,463,138
Estimate:		
Appropriation-in-Aid as shown in the Spring Supplementary Estimate:	1,258,309	1,377,823
Excess Appropriation-in-Aid payable to the Consolidated Fund as CFERs	215,889	85,315

6 Net Interest Payable

	2004-05	2003-04
	£000	£000
Interest receivable:*		
– Bank interest	(18,529)	(20,006)
– Loans to Trading Funds	(5,523)	(6,637)
– Loan to a Self Financing Public Corporation – QinetiQ	(1,109)	(1,346)
– Other interest receivable	(2)	(137)
	(25,163)	(28,126)
Interest payable:		
– Bank interest	25	164
– Loan interest	3,417	3,536
– Unwinding of discount on provision for liabilities and charges (Note 17)	289,956	2,609,205
– Finance leases and PFI contracts	5,164	26,264
– Late payment of Commercial debts	—	—
	298,562	2,639,169
Net interest payable	273,399	2,611,043

* Interest receivable of which payable to Consolidated fund of £304,000.

7 Reconciliation of Net Operating Cost to Control Total and Net Resource Outturn

	2004-05	2003-04
	£000	£000
Net operating cost (Schedule 2)	32,410,138	34,530,547
– Add income scored as Consolidated Fund Extra Receipts and included in operating income and interest (inc. excess operating Appropriation-in-Aid) (Note 4)	230,405	120,679
Net resource Outturn	32,640,543	34,651,226

Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement. Net resource Outturn is the total of those elements of expenditure and income that are subject to Parliamentary approval and included in the Department's Supply Estimate. The Outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

8 Intangible Assets

	Single Use Military Equipment	Others	Total
	£000	£000	£000
Cost or Valuation			
At 1 April 2004	20,933,708	3,991,110	24,924,818
Additions	1,561,224	18,660	1,579,884
Impairment	(2,446)	(8,104)	(10,550)
Revaluations	589,037	7,235	596,272
Other movements	4,911,391	(3,559,935)	1,351,456
At 31 March 2005	<u>27,992,914</u>	<u>448,966</u>	<u>28,441,880</u>
Amortisation			
At 1 April 2004	(4,568,373)	(169,702)	(4,738,075)
Charged in Year	(998,276)	(25,389)	(1,023,665)
Impairment	(253)	2,884	2,631
Revaluations	(115,607)	(1,479)	(117,086)
Other movements	(31,349)	113,487	82,138
At 31 March 2005	<u>(5,713,858)</u>	<u>(80,199)</u>	<u>(5,794,057)</u>
Net Book Value:			
At 31 March 2005	<u>22,279,056</u>	<u>368,767</u>	<u>22,647,823</u>
At 1 April 2004	<u>16,365,335</u>	<u>3,821,408</u>	<u>20,186,743</u>

Note:

- i) Intangible asset valuations are based on the actual costs incurred over time, where available, or derived by applying a ratio to the tangible fixed asset valuations based on the historical relationship between development and production costs. The intangible asset valuations were indexed using the appropriate Gross Domestic Product (GDP) deflator to determine the opening balance sheet valuation;
- ii) Intangible assets include development expenditure in respect of fixed assets in use and assets under construction where the first delivery into operational use of the asset type has taken place;
- iii) Additions on intangible and tangible fixed assets (Note 9) include accruals amounting in total to £2,246,205,000 (2003-04: £2,204,303,000); and
- iv) Other movements comprise reclassifications to tangible fixed assets and transfers to operating costs.

9 Tangible Fixed Assets

	Dwellings	Other Land and Buildings	Single Use Military Equipment (SUME)	Plant and Machinery	Transport	IT and Comms Equipment	Assets under Construction (SUME)	Assets under Construction (Others)	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2004 (Restated)	2,049,604	14,457,359	58,346,879	7,840,074	3,975,618	1,229,336	12,599,701	577,509	101,076,080
Additions	7,617	381,801	434,349	123,990	72,680	134,466	3,789,444	545,148	5,489,495
Capitalised provisions	—	20,887	2,050	—	—	—	—	—	22,937
Donations	—	1,906	—	205	—	—	—	—	2,111
Impairment	50,511	(273,778)	864,164	(46,192)	501	(65,604)	(10,315)	(1,578)	517,709
Disposals	(5,531)	(290,817)	(758,828)	(59,631)	(5,599)	(47)	—	—	(1,120,453)
Revaluations	336,489	3,519,357	1,200,163	(28,685)	(223,732)	25,941	216,285	5,917	5,051,735
Other movements	400,269	(183,117)	(1,945,583)	(1,386,629)	4,731,821	143,435	(4,879,640)	(385,280)	(3,504,724)
At 31 March 2005	<u>2,838,959</u>	<u>17,633,598</u>	<u>58,143,194</u>	<u>6,443,132</u>	<u>8,551,289</u>	<u>1,467,527</u>	<u>11,715,475</u>	<u>741,716</u>	<u>107,534,890</u>
Depreciation									
At 1 April 2004 (Restated)	(208,867)	(998,337)	(26,995,079)	(4,193,193)	(1,609,954)	(333,393)	—	—	(34,338,823)
Charged in year	(51,806)	(549,374)	(3,590,135)	(317,146)	(430,380)	(193,023)	—	—	(5,131,864)
Impairment	(13,969)	(16,965)	(239,754)	(17,770)	325	3,682	—	—	(284,451)
Disposals	2,664	32,244	713,716	53,777	3,181	38	—	—	805,620
Revaluations	(78,250)	(529,769)	(452,699)	112,672	205,759	(27,861)	—	—	(770,148)
Other movements	1,807	60,475	2,985,690	1,393,052	(2,737,760)	116,106	—	—	1,819,370
At 31 March 2005	<u>(348,421)</u>	<u>(2,001,726)</u>	<u>(27,578,261)</u>	<u>(2,968,608)</u>	<u>(4,568,829)</u>	<u>(434,451)</u>	<u>—</u>	<u>—</u>	<u>(37,900,296)</u>
Net Book Value:									
At 31 March 2005	<u>2,490,538</u>	<u>15,631,872</u>	<u>30,564,933</u>	<u>3,474,524</u>	<u>3,982,460</u>	<u>1,033,076</u>	<u>11,715,475</u>	<u>741,716</u>	<u>69,634,594</u>
At 1 April 2004 (Restated)	<u>1,840,737</u>	<u>13,459,022</u>	<u>31,351,800</u>	<u>3,646,881</u>	<u>2,365,664</u>	<u>895,943</u>	<u>12,599,701</u>	<u>577,509</u>	<u>66,737,257</u>

Note:

- i) Additions on intangible assets (note 8) and tangible fixed assets include accruals amounting in total to £2,246,205,000 (2003-04: £2,204,303,000);
- ii) Other movements comprise reclassifications between tangible fixed asset categories, intangible assets, assets under construction, stock and transfers to operating costs; and
- iii) Fixed Assets as at 31 March 2005 include capitalised provisions at cost of £245,382,000 (2003-2004: £222,519,000).

9.1 The net book value of tangible fixed assets by each major class of asset includes an amount of £660,800,000 (2003-04 £329,852,000) in respect of assets held under finance leases and PFI contracts. Detail by asset category is as follows:

	Dwellings	Other Land and Buildings	Plant and Machinery	Fighting equipment transport	Other Transport	IT and Comms equipment	Total
	£000	£000	£000	£000	£000	£000	£000
Gross Cost:							
At 31 March 2005	28,204	450,358	95,915	51,814	47,907	62,792	736,990
At 1 April 2004 (restated)	4,040	98,564	45,665	130,804	41,598	64,797	385,468
Accumulated Depreciation:							
At 31 March 2005	4,382	11,324	4,388	44,716	3,867	7,865	76,542
At 1 April 2004 (restated)	—	8,046	4,794	42,377	176	223	55,616

9.2 Restatement of Fixed Assets at 1 April 2004

	Net Book Value 1 April 2004	Reclassification	Restated 1 April 2004
	£000	£000	£000
Land & Buildings	15,299,759	(15,299,759)	—
Dwellings		1,840,737	1,840,737
Other Land and Buildings		13,459,022	13,459,022
Fighting Equipment	27,156,996	(27,156,996)	—
Single Use Military Equipment (SUME)		31,351,800	31,351,800
Plant, Machinery & Vehicles	3,453,060	(3,453,060)	—
Plant and Machinery		3,646,881	3,646,881
Transport		2,365,664	2,365,664
IT & Comms Equipment	895,943	—	895,943
Capital Spares	6,754,289	(6,754,289)	—
Assets Under Construction	13,177,210	(13,177,210)	—
Assets Under Construction (SUME)		13,346,377	13,346,377
Assets Under Construction (Other)		(169,167)	(169,167)
	<u>66,737,257</u>	<u>—</u>	<u>66,737,257</u>

9.3 Capital Spares movement in Fixed Assets

	SUME £000	Transport £000	Plant & Machinery £000	Total £000
Cost or Valuation At 1 April 2004	18,294,289	29,960	485,127	18,809,376
Additions	407,243	37,158	13,274	457,675
Impairment	769,954	(344)	(9)	769,601
Disposals	(692,389)	—	(6,065)	(698,454)
Revaluations	404,809	1,743	3	406,555
Other	(193,141)	320,783	(55,290)	72,352
At 31 March 2005	18,990,765	389,300	437,040	19,817,105
Depreciation: At 1 April 2004	(11,747,617)	(7,049)	(300,421)	(12,055,087)
Charged in year	(1,127,753)	(23,558)	(21,458)	(1,172,769)
Impairment	(253,257)	—	174	(253,083)
Disposals	690,278	—	—	690,278
Revaluations	(252,222)	—	(2,040)	(254,262)
Other	425,956	(163,881)	1,409	263,484
At 31 March 2005	(12,264,615)	(194,488)	(322,336)	(12,781,439)
Net Book Value At 31 March 2005	6,726,150	194,812	114,704	7,035,666
At 1 April 2004	6,546,672	22,911	184,706	6,754,289

Note:

In previous years, Capital Spares were shown as a separate category in the Tangible Fixed Assets Table. From 1 April 2004, capital spares have been reclassified to comply with HM Treasury's RAM, and are now included within the various categories shown in the top Table above. However, in order to maintain comparability with figures for prior years, movements on capital spares are disclosed separately in the table shown above.

9.4 Analysis of Land and Buildings:

	Freehold £000	Long lease £000	Short lease £000	Beneficial Use* £000	Total £000
Net Book Value: At 31 March 2005	16,665,120	248,469	50,232	2,001,336	18,965,157
At 1 April 2004 (restated)	13,895,883	261,029	70,985	1,704,157	15,932,054

The net book values at 31 March 2005 and 1 April 2004 include assets under construction of £842,748,000 and £632,295,000 respectively

- Relates to properties that are being used by the Department where no legal title is held. Such properties have been valued on the same basis as all other properties used by the Department.

9.5 2004 – 05 Quinquennial Revaluation

- i) All categories of fixed assets, except Intangibles, Assets under Construction and Capital Spares, are subject to a quinquennial revaluation, which is being conducted on a rolling basis and is due to complete by 31 March 2007. During 2004-05 as the first part of this programme, 50% of land and buildings were re-valued by three external organisations: the Valuation Office Agency who dealt with the UK estate; Atisreal (previously known as Weatheralls) who valued the first tranche of the overseas estate with the remainder being assigned to GVA Grimley. These valuations were undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual and were on the basis of the existing use value to the Department. Due to the specialised nature of the Departmental estate, the majority of assets were valued using the Depreciated Replacement Cost method.
- ii) The remaining 50% of land and buildings were re-valued by qualified Defence Estates (DE) staff using an uplift factor that took account of designated use and known regional market trends. In addition, surplus land and buildings were valued internally by DE on the basis of market value. The effective date of all re-valuations was 1 April 2005, but the impact of the revaluations has been reflected in these accounts by way of an adjusting post Balance Sheet event.
- iii) A small percentage of plant and machinery was professionally re-valued on a depreciated replacement cost basis in 2004-05 by the Valuation Office Agency valuers: the net increase in net book value from these valuations (£125M) is reflected in these accounts. Impairments of £57M have been charged to the Operating Cost Statement and reversals of impairments of £2M credited to the Operating Cost Statement.
- iv) The net increase on the Land and Buildings carrying value was £2,821M. Impairments charged to the Operating Cost Statement were £402M. Impairments that originated in the 2002-03 quinquennial review of asset values have been reversed through the Operating Cost Statement in 2004-05 to the sum of £347M.

10 Investments

	Public Dividend Capital £000	Trading Funds Loans £000	Other Investments £000	QinetiQ £000	Total £000
At 1 April 2004	184,254	112,577	1	124,006	420,838
Movements during year:					
Redemption of shares				(48,543)	(48,543)
Repayment of Loans					
– DARA		(21,640)			(21,640)
– UK Hydro Office		(329)			(329)
– DSTL		(1,064)			(1,064)
– ABRO		(2,154)			(2,154)
At 31 March 2005	184,254	87,390	1	75,463	347,108
At 1 April 2004	184,254	112,577	1	124,006	420,838

Public Dividend Capital and Loans at 31 March 2005 were held in the following Trading Funds:

	Public Dividend Capital	Loans	Interest Rate
	£000	£000	% p.a.
DSTL	50,412	—	8.375
Met Office	58,867	—	—
The UK Hydrographic Office	13,267	11,350	8.375
DARA	42,303	50,190	4.882
ABRO	19,405	25,850	5.375 - 5.625
	184,254	87,390	

Analysis of loans repayable by instalments:

	Due within one year	Due after one year	Total
	£000	£000	£000
The UK Hydrographic Office	300	11,050	11,350
DARA	4,840	45,350	50,190
ABRO	2,154	23,696	25,850
	7,294	80,096	87,390

At 31 March 2005, the loan made to QinetiQ Group Limited, a subsidiary undertaking of QinetiQ, amounted to £45,886,000 (31 March 2004: £45,886,000) and the book value of investment in QinetiQ amounted to £29,577,000. The loan note is repayable from the net proceeds of disposals of certain identified assets. The loan note was interest free until 30 June 2003. Interest has been charged at rates relating to LIBOR until 28 August 2004, thereafter the loan has been interest-free.

As at 31 March 2005, the loans repaid by QinetiQ and subsidiary undertakings, representing the partial original asset value of the business since its formation on 1 July 2001, amounted in total to £104,114,000 (2003-04: £104,114,000). The cash received on the part disposal of the shares to The Carlyle Group during 2002-03 amounted to £39,427,000 and cash received on the partial redemption of the Redeemable Preference Shares during 2004-05 amounted to £48,542,000.

10.1 Other Investments:

Investments, including “Golden” shares, were held in the following at 31 March 2005 and 31 March 2004:

7.5% Non-cumulative irredeemable preference shares at £1 each	
Chamber of Shipping Limited	688 Shares
British Shipping Federation Limited	55,040 Shares

Preferential “Golden” Shares at £1 each	
Devonport Royal Dockyard Limited	1 Share
Rosyth Royal Dockyard Limited	1 Share
Atomic Weapons Establishment plc	1 Share
Atomic Weapons Establishment Pension Trustees Limited	1 Share
QinetiQ Group plc	1 Share
QinetiQ Limited	1 Share
BAE Systems Marine (Holdings) Ltd (formerly VSEL Limited)	1 Share

Non Preferential Shares of £1 each	
International Military Services Limited	19,999,999 Shares

Shareholding in QinetiQ

The Department holds 5 classes of shares in QinetiQ. A brief summary of the financial and voting rights of each class are detailed below in order of their ranking in accordance with the Articles of Association of QinetiQ.

Convertible “A” ordinary (3,773,481 shares of 1p each – 49% of class)

Voting Rights – holders of these shares are entitled to receive notice of, attend, speak and vote at general meetings of the company.

Dividends – none to be paid until Preference Shares have been redeemed in full along with any accrued Preference Dividend.

Convertible “B” ordinary (285,833 shares of 1p each – 49% of class)

Dividend and Voting rights as per “A” Ordinary shares.

Convertible Preferred (3,752,686 shares of 1p each – 100% of class)

Voting rights – This class of shareholder is not entitled to receive notice of, nor attend, speak or vote at general meetings of the company.

Dividends – until conversion each Convertible Preferred share in issue will be entitled to the same dividend as paid on each “A” Ordinary Share.

Redeemable Cumulative Preference (21,765,524 shares of £1 each – 58% of class)

Voting rights – preference shareholders are not entitled to receive notice of nor attend speak or vote at general meetings of the company.

Dividend – to be paid at the rate of 9% per annum on the nominal value of the preference shares held.

Dividends will not be paid, but will accrue until the preference shares are redeemed at the Sale, Listing or the Winding up of the company. The dividend accrued on these shares will be recognised in the Operating Cost Statement in the year in which it is received, in accordance with accounting policy in Note 1.9.

In June 2004, the Department received £48,542,475 on the partial redemption of some of these shares at its nominal value of £1 and a dividend up to the date of redemption of £5,759,382.

Special Rights Redeemable of £1 each – the one “Special Share”, which is held by MoD

The Special Shareholder has the right to require the Company to implement and maintain a regime which protects the defence and security interests of the nation.

Voting Rights – The Special Shareholder must receive notice of, and may attend and speak at general company and share class meetings, but carries no voting rights, except to enforce certain aspects of the compliance regime.

Preferential “Golden” Shares at £1 each (1 share QinetiQ Group plc, 1 share QinetiQ Limited)

The Preferential “Golden” Shareholder has the right to require the Company to implement and maintain a regime which protects the defence and security interests of the nation.

Voting Rights – The Special Shareholder must receive notice of, and may attend and speak at general company and share class meetings, but carries no voting rights, except to enforce certain aspects of the compliance regime.

Dividends – The Special Shareholder has no right to share in the capital or profits of the company other than – in the event of liquidation – to be repaid the capital paid up in respect of the special share before other shareholders receive any payment.

QinetiQ also issued other classes of shares on its formation, which are not shown above. These shares were issued to the employees of the company.

10.2 Net assets

The reported net assets, after deducting loans due to MoD, of the investments held at 31 March 2005 and 31 March 2004 were:

	31 March 2005	31 March 2004
	£million	£million
The UK Hydrographic Office	43.2	48.7
The Met Office	175.8	167.8
Defence Aviation Repair Agency (DARA)	76.9	67.2
Defence Science and Technology Laboratory (Dstl)	198.9	176.5
QinetiQ	214.1	225.2
Army Base Repair Organisation (ABRO)	53.5	57.3
Total	762.4	742.7

During the year, dividends were received from Dstl of £3,000,000 (2003-04: £6,000,000), The Hydrographic Office of £19,627,477 (2003-04: £2,902,359) and QinetiQ of £5,759,382 (2003-04: nil) in respect of the year ended 31 March 2004. These are included within operating income. No dividend was received from The Met Office, Defence Aviation Repair Agency and ABRO.

10.3 The Department has a 100% interest in the non-preferential shares of International Military Services Limited, a company registered in England. International Military Services Limited ceased trading on 31 July 1991. Following settlement of outstanding contracts, the company will be liquidated. The Department has written down the value of the investment to nil.

10.4 All the shares held are unlisted and are valued at historical cost. The 7.5% Non-cumulative irredeemable preference shares in Chamber of Shipping Limited and British Shipping Federation Limited are valued at 1p each reflecting the value at which shares would be recovered by the two companies should membership by the Department be ceded, as laid down in the articles of association of the respective companies.

10.5 “Golden” shares confer on the Secretary of State for Defence special rights regarding ownership, influence and control, including voting rights in certain circumstances, under the individual articles of association of the relevant companies in which the shares are held. Further detailed information can be obtained from the companies’ individual annual reports and accounts, which can be obtained from:

Company	Registration Number
Devonport Royal Dockyard Limited, Devonport Royal Dockyard, Devonport, Plymouth PL1 4SG	02077752
Rosyth Royal Dockyard Limited, Rosyth Royal Dockyard, Rosyth, Fife KY11 2YD	SC101959
Atomic Weapons Establishment plc, AWE Aldermaston, Reading, Berkshire RG7 4PR	02763902
Atomic Weapons Establishment Pension Trustees Limited, AWE Aldermaston, Reading, Berkshire RG7 4PR	02784144
QinetiQ Group PLC, 85 Buckingham Gate, London SW1E 6PD	4154556
QinetiQ Limited, 85 Buckingham Gate, London SW1E 6PD	3796233
BAe Systems Marine (Holdings) Limited, Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hants, EU14 6YU	1470151

11 Related Party Transactions

11.1 The Defence Science and Technology Laboratory, The UK Hydrographic Office, The Met Office, the Defence Aviation Repair Agency and the Army Base Repair Organisation operate as Executive Defence Agencies financed by Trading Fund. QinetiQ is a Self Financing Public Corporation. These fall within the ambit of the Department and are regarded as related parties outside the Departmental Boundary with which the Department has had material transactions. All transactions are carried out on terms which are contracted on an arms length basis, and are subject to internal and external audit. The NAAFI is outside the Departmental Boundary and is also regarded as a related party.

The following bodies are Executive NDPBs of the MoD. They are self-accounting on an accruals basis, and are regarded as Related Parties. During the year, each NDPB has had a material transaction with the Department, as listed below:

Fleet Air Arm Museum

Grant-in-Aid: £564,448 (2003-2004: £550,323)

Commodore Naval Aviation (Deputy Chairman), Commanding Officer HMS Heron (RNAS Yeovilton), Commanding Officer HMS Seahawk (RNAS Culdrose), Director Logistics (Rotary Wing), and Assistant Director Joint Manoeuvre, Director of joint Capability are members of the Board of Trustees.

National Army Museum

Grant-in-Aid: £5,151,170 (2003-2004: £4,413,460)

No Departmental representation.

Royal Air Force Museum

Grant-in-Aid: £7,026,895 (2003-2004: £6,810,815)

No Departmental representation.

Royal Marines Museum

Grant-in-Aid: £704,839 (2003-2004: £688,061)

Director Royal Marines, Corps Secretary Headquarters Royal Marines and Corps Regimental Sergeant Major, Royal Marines Stonehouse, Plymouth are members of the Board of Trustees.

Royal Naval Museum

Grant-in-Aid: £1,143,901 (2003-2004: £962,120)

Naval Base Commander Portsmouth and Chief of Staff (Warfare) CinCFleet are members of the Board of Trustees.

Royal Navy Submarine Museum

Grant-in-Aid: £649,314 (2003-2004: £509,332)

Rear Admiral Submarines is a member of the Board of Trustees.

Oil and Pipelines Agency

Agency Fees: £1,625,000 (2003-2004: £1,600,000)

VAT recovery £284,375 (2003-2004: £280,000).

Director Defence Fuels Group is a member of the Board of Directors.

Other

Ian Andrews CBE TD, Second Permanent Under Secretary of State, is a trustee of the Imperial War Museum. Mr Charles Miller Smith is Chairman of Scottish Power. These entities are therefore related parties of the Ministry of Defence.

The payments made to these entities were:

		£000
Imperial War Museum	Various transactions-Payments	16
	Various transactions-Receipts	10
Scottish Power	Various transactions-Payments	1,731

During the year there were also various works of art and other items transferred to and from the Imperial War Museum. No value was attributed to these items.

Note:

- i) The Department also pays a number of grants to other bodies outside the Departmental Boundary. These include Grants-in-Aid to the Royal Hospital Chelsea and the Commonwealth War Graves Commission; and
- ii) The museums are designated NDPBs under the National Heritage Act 1983. Each NDPB is required to produce annual accounts in accordance with the Charities (Accounts and Reports) Regulations 1995 (Statutory Instrument 1995 No. 2724). The Oil and Pipelines Agency is a corporate body established under the Oil and Pipelines Act 1985.

Joint Ventures

11.2 The Department does not have any Joint Ventures.

11.3 The Department is also involved in collaborative projects with various foreign countries for the development and production of fighting equipment. Costs capitalised represent the Department's proportion of the total cost of a project.

12 Stocks and Work in Progress

	31 March 2005	31 March 2004
	£000	£000
Work in progress	28,861	60,058
Raw materials and consumables	6,064,180	6,255,211
Assets declared for disposal	2,322	2,955
	<u>6,095,363</u>	<u>6,318,224</u>

13 Debtors

	31 March 2005	31 March 2004
	£000	£000
Amounts falling due within one year		
Trade debtors	142,708	133,695
Deposits and advances	53,186	39,437
Value Added Tax	277,354	244,920
Amounts owed by other Government Departments	59,788	68,252
Amounts owed by Local Authorities	2,375	—
Amounts owed by National Health Trusts	10,136	—
Amounts owed by entities in which the Department has a participating interest	38,637	7,446
Other debtors	220,348	209,570
Prepayments and accrued income	809,263	1,224,380
	1,613,795	1,927,700
Amounts falling due after one year		
Trade debtors	7,235	50,254
Other debtors	96,949	88,948
Prepayments and accrued income	1,092,105	608,457
Amounts owed by other Government Departments	60,514	—
Amounts owed by entities in which the Department has a participating interest	301	60
	1,257,104	747,719
Total Debtors	2,870,899	2,675,419

Note:

- i) Other debtors include loans for house purchase and other loans made to staff amounting to £85,299,668 (2003-04: £91,317,714). The number of staff with house purchase loans was 12,558 (2003-04: 13,927); and
- ii) Prepayments falling due after one year include an amount of £358M in respect of an adjudication decision where an appeal is pending: the amount represents an amount paid into an Escrow Account in the financial year 2002-03 and interest earned on it since that date. In 2003-04, the amount was shown under amounts falling due within one year.

14 Cash at Bank and in Hand

	31 March 2005	31 March 2004
	£000	£000
At 1 April	312,564	415,928
Net Cash Inflow/(Outflow):		
Received from Consolidated Fund	29,497,000	29,257,550
Utilised	(29,371,153)	(29,360,914)
Increase/(decrease) during year	125,847	(103,364)
At 31 March	438,411	312,564
Represented by:		
Balances at the OPG	277,775	279,166
Commercial Banks and Cash in Hand	160,636	33,398
	438,411	312,564
The balance at 31 March comprises:		
Consolidated Fund Extra Receipts received during the year and due to be paid to the Consolidated Fund (Note 15)	369,096	222,659
Amounts due from the Consolidated Fund for supply	(127,275)	(80,095)
Net amount due to the Consolidated Fund	241,821	142,564
Amounts held in respect of Collaborative Projects (see note below)	196,590	170,000
Total	438,411	312,564

Note:

The cash at bank balance includes £196,590,000 (2003-04: £170,000,000) of sums advanced by foreign governments to the Department on various collaborative projects where the United Kingdom is the host nation. Advances made by foreign governments for the procurement of defence equipment on their behalf are also included in this amount. The corresponding liability for these advances is shown under creditors due within one year.

15 Creditors: amounts falling due within one year

	31 March 2005	31 March 2004
	£000	£000
Trade creditors	688,539	472,930
Payments received on account	22,115	7,979
Other taxation and social security	215,375	203,939
Other creditors	344,645	357,592
Accruals and deferred income	4,223,012	4,216,352
Obligations under finance leases	4,914	4,853
Obligations under PFI contracts	16,409	10,418
Payable to the Consolidated Fund	241,821	142,564
Amounts owed to other Government Departments	14,144	5,281
Amounts owed to Local Authorities	1,216	—
Amounts owed to National Health Trusts	14,485	—
Amounts owed to entities in which the Department has a participating interest	287,243	239,091
Loans	1,695	1,599
Total creditors due within one year	6,075,613	5,662,598

Note:

Amounts payable to the Consolidated Fund comprise:

	31 March 2005	31 March 2004
	£000	£000
CFERs received during the year	—	19
Excess Operating Appropriation-in-Aid	215,889	85,315
Excess Non-Operating Appropriation-in-Aid	153,207	137,325
	369,096	222,659
Amount in respect of supply to be set off against CFER liability (Note iii)	(127,275)	(80,095)
Net amount payable to Consolidated Fund	241,821	142,564

Note:

- i) Loans are from the National Loans Fund in respect of the Armed Forces Housing Loans. These are fully repayable between years 2012 and 2028, with the last instalment due on 20 February 2028. Interest on the loans is payable at rates ranging from 4.25% to 7% per annum.
- ii) Included in other creditors are amounts advanced by foreign governments to the Department in respect of various collaborative projects where the United Kingdom is the host nation and for the procurement of defence equipment on their behalf of £196,590,000 (2003-04 – £170,000,000).
- iii) The amount comprises amounts drawn down from the Consolidated Fund of £29,497,000,000 less Net Cash Requirement (Schedule 1) of £29,624,275,000.

16 Creditors: amounts falling due after more than one year

	2004-05	2003-04
	£000	£000
Other creditors	96,942	96,897
Accruals and deferred income	558	2,655
Obligations under finance lease:		
– Amounts payable between one and two years	4,771	5,372
– Amounts payable between two and five years	3,248	8,413
– Amounts payable over five years	2,488	6,528
Obligations under PFI contracts:		
– Amounts payable between one and two years	25,175	16,884
– Amounts payable between two and five years	44,953	43,837
– Amounts payable over five years	581,629	219,215
Amounts owed to entities in which the Department has a participating interest	—	21
Loans:		
– Amounts payable between one and two years	1,797	2,527
– Amounts payable between two and five years	6,064	8,500
– Amounts payable over five years	42,271	40,800
Total creditors due after more than one year:	809,896	451,649

17 Provisions for Liabilities and Charges

	Nuclear Decommissioning	Other Decommissioning and Restoration Costs	Early Retirement Commitments	Other	Total
	£000	£000	£000	£000	£000
At 1 April 2004	7,818,769	184,904	310,947	1,075,070	9,389,690
Increase in Provision	202,539	8,943	248,878	349,162	809,522
Unwinding of discounting	265,591	2,509	3,682	18,174	289,956
Amounts released	(415,752)	(6,968)	(6,858)	(56,709)	(486,287)
Reclassifications	—	(72,337)	—	72,686	349
Amounts capitalised	22,937	—	—	—	22,937
Utilised in year	(282,919)	(6,168)	(89,027)	(144,845)	(522,959)
At 31 March 2005	7,611,165	110,883	467,622	1,313,538	9,503,208

Analysis of amount charged / (credited) to Operating Cost Statement	2004-05	2003-04
	£000	£000
Charged/(credited) to:		
Property management	6,066	—
Staff costs	407,621	40,379
Nuclear and Other Decommissioning provisions	(211,238)	154,509
War Pensions and Allowances	(10,355)	866
Other costs	131,141	228,947
Net interest (receivable)/payable	289,956	2,609,205
	613,191	3,033,906
Made up of:		
Increase	809,522	490,111
Release	(486,287)	(65,410)
	323,235	424,701
Unwinding of discount *	289,956	2,609,205
Net increase in provisions	613,191	3,033,906

* The 2003-04 charge for the unwinding of discount was higher due to the change in discount factor from 6% to 3.5% in that year.

Nuclear Decommissioning

17.1 Nuclear decommissioning provisions relate principally to the cost of facility decommissioning and the treatment and storage of nuclear waste arising at British Nuclear Fuel plc (BNFL) sites, operations at United Kingdom Atomic Energy Authority (UKAEA) sites, operations at MoD sites, operations of Royal Navy submarines and for the Departmental share of planning and constructing a national repository for the eventual disposal of that waste.

17.2 On 1 April 2005, the Nuclear Decommissioning Authority (NDA), a newly formed organisation which sits within the Department of Trade and Industry, took over the responsibility for certain nuclear clean up issues. As a result, the MoD liabilities at 1 April 2005 relating to civil nuclear sites and the associated value of provisions and funding for decommissioning costs were transferred to NDA. The liabilities for the decommissioning of other MoD sites, and for the disposal of submarine waste, have been retained by MoD.

Liabilities have arisen since the late 1940's and will continue well into the future as a result of ongoing production and operations associated with the manufacture and reprocessing of Special Nuclear Materials (SNM).

The majority of the liability is historic and relates to facilities used for the production of SNM by BNFL and its predecessor the UKAEA. The Atomic Weapons Establishment is the other main source of MoD's liabilities.

The liabilities include the costs associated with decommissioning and care and maintenance of redundant facilities including submarines (the conditioning, retrieval and storage of contaminated materials), research and development and the procurement of capital facilities to handle the various waste streams.

Calculation of the provision to cover the liabilities is based on schedules of information received by the MoD from major decommissioning contractors. These schedules are based on technical assessments of the processes and methods likely to be used in the future to carry out the work. Estimates are based on the latest technical knowledge and commercial information available, taking into account current legislation, regulations and Government policy. The amount and timing of each obligation are therefore sensitive to these factors. These sensitivities and their likely effect on the calculation and amount of the liabilities are reviewed on an annual basis.

The latest estimate of the undiscounted cost of dealing with the MoD's nuclear liabilities is £23,149,585,000 (2003-2004: £23,387,678,000).

The estimate of £7,607,136,000 (2003-2004: £7,818,769,000) at 31 March 2005 represents the liabilities discounted at 3.5% and expressed in 2004/05 money values.

The estimated timescale over which the costs will need to be incurred is as follows:

	31 March 2005	1 April 2004
	£Bn	£Bn
Up to 3 years	0.1	1.5
From 4 – 10 years	0.3	2.1
Beyond 10 years	7.2	4.2
Total	7.6	7.8

The bulk of the earlier anticipated costs relate to pre and post 1971 liabilities allocated to the Department. The significance of pre and post 1971 refers to the formation date of BNFL. Specific liabilities refer to the BNFL Sellafield, Springfields, Capenhurst, Calder Hall and Chapelcross sites.

Later provisions have been made to cover the costs associated with the research, development and construction of the NIREX Deep Waste Repository (DWR). The provisions have been based on advice provided by NIREX.

However, the policy for the disposal of intermediate and high level waste has yet to be clarified following the previous government's rejection, in May 1997, of planning consent for the proposed DWR. Pending the current government's consideration of a House of Lords Sub Committee report on means of disposing radioactive waste, the UK holders of such waste are working on the assumption that a repository will not be available earlier than 2040. This will necessitate the continued provision of interim storage.

Other Decommissioning and Restoration

17.3 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 and for the decommissioning of certain fighting equipment and GWMB.

Early Retirement Pensions

17.4 Where the Department implements an early retirement scheme, provision is made for future liability payable to civilian early retirees. During the year, a provision was set up in the Central TLB of £188M for the early retirement scheme announced in 2004-05. Provisions include those arising from the "80:20

Scheme" under which 20% of the cost was borne by the Department and 80% was borne by the Civil Superannuation Vote. This scheme was terminated in 1997 and the full cost of the obligations are now payable by CSP.

Other

17.5 Other provisions include costs arising from the disposal of fixed assets; redundancy and relocation costs associated with reorganisation and restructuring (including provisions set up during the year in respect of the Adjutant General (£27M) and Personnel and RAF Training Command (£148M); and amounts payable under guarantees, litigation and contractual arrangements. Provisions include those concerning an adjudication decision where an appeal is pending.

18 Reconciliation of Net Operating Costs to changes in General Fund

	2004-05 £000	2003-04 £000
Net Operating Cost for the Year (Sch 2)	(32,410,138)	(34,530,547)
Paid and payable to the Consolidated Fund	(256,337)	(182,125)
Parliamentary funding from the Consolidated Fund (Sch 4)	29,497,000	29,257,550
Transfer to General Fund of realised element of:		
– Revaluation reserve (Note 19)	1,094,062	1,258,804
– Donated asset reserve (Note 19)	92,799	6,794
Non-cash charges:		
– cost of capital charge (Sch 2)	2,857,714	2,769,726
– auditors' remuneration (Note 3)	3,300	3,150
Net increase in General Fund	878,400	(1,416,648)
General Fund at 1 April	64,028,508	65,445,156
General Fund at 31 March	64,906,908	64,028,508

19 Reserves

	Revaluation Reserve £000	Donated Asset Reserve £000
At 1 April 2004	15,396,444	1,722,156
Arising on revaluation during the year (net)	4,521,891	438,552
Additions during the year	—	2,112
Transfers and reclassifications	(104,763)	12,891
Transferred (to) / from Operating Cost Statement	—	(63,849)
Transferred (to) / from General Fund	(1,094,062)	(92,799)
At 31 March 2005	18,719,510	2,019,063

20 Capital Commitments

Capital Commitments for which no provision has been made in these financial statements, were as follows:

	31 March 2005 £000	31 March 2004 £000
Contracted but not provided for	20,446,744	15,158,637

21 Financial Commitments

Commitments under operating leases:

	Land and Buildings		Other	
	31 March 2005	31 March 2004	31 March 2005	31 March 2004
	£000	£000	£000	£000
The Department was committed to making the following payments during the next year in respect of operating leases expiring:				
Within one year	215	7,883	3,227	15,178
Between two and five years	1,121	13,733	135,909	69,413
After five years	136,490	168,517	61,016	48,596
	137,826	190,133	200,152	133,187

22 Private Finance Initiative (PFI) Commitments

22.1 The payments made during the year in respect of on and off Balance Sheet PFI transactions were £728,465,000 (2003-04: £605,139,000).

22.2 The service payments which the Department is committed to make during the year 2005-06 are analysed below by time-bands specifying the period in which the individual commitment expires:

	31 March 2005	31 March 2004
	£000	£000
In the 2 nd to 5 th years	186,883	181,324
In the 6 th to 10 th years	117,687	94,986
In the 11 th to 15 th years	132,590	49,693
In the 16 th to 20 th years	54,447	34,312
In the 21 st to 25 th years	190,569	185,566
In the 26 th to 30 th years	86,967	54,252
In the 31 st to 35 th years	28,339	1,300
In the 36 th to the 40 th years	—	30,060

The following information is provided for those schemes assessed as off Balance Sheet:

Project Description	Capital Value* £000	Contract Start**/End Dates	
Training, Administration and Financial Management Information System : Provision of training administration and financial management information systems to the Army Training and Recruiting Agency	41,000	Aug 1996	Aug 2007
Hazardous Stores Information System : Provision of an information management service for hazardous stores safety datasheets with 2,000 users	1,000	Oct 1997	Oct 2007
Defence Fixed Telecommunications System : Integration of 50 fixed telecommunications networks used by the Armed Forces and MoD, including the delivery of voice, data, LAN interconnect and other WAN services	70,000	Jul 1997	Jul 2012
Electronic Messaging Service: Interoperability of messaging services for the Army	33,000	Apr 1997	Apr 2007
Medium Support Helicopter Aircrew Training Facility: Provision of 6 flight simulator training facilities, covering three different types of helicopter, at RAF Benson	114,000	Oct 1997	Oct 2037
Hawk Synthetic Training Facility: Provision of replacement simulator training facilities at RAF Valley	19,000	Dec 1997	Dec 2015
Joint Services Command and Staff College : Design and delivery of a new tri-Service Command and Staff Training College infrastructure and supporting services, including single residential accommodation and married quarters (of the total amount £64M relates to on-balance sheet)	92,800	Jun 1998	Aug 2028
Attack Helicopter Training Service: Provision of full mission simulator, 3 field deployable simulators, ground crew, maintenance and armament training	165,000	Jul 1998	Sep 2027
Family Quarters Yeovilton: Provision of married quarters accommodation for 88 Service families at RNAS Yeovilton	8,200	Jul 1998	Jul 2028
RAF Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities, serving a population of 7,000, to meet regulatory standards at RAF Lyneham	3,800	Aug 1998	Aug 2023
Tidworth Water and Sewerage: Pathfinder project providing water, sewerage and surface water drainage, serving a population of 12,000 military and dependants at Tidworth.	5,000	Feb 1998	Aug 2018
RAF Mail: Provision of informal messaging services for the RAF	12,000	Nov 1998	Nov 2008
Fire Fighting Training Units: Provision of fire fighting training for the Naval Recruiting and Training Agency (NRTA)	22,500	Apr 1999	Apr 2019
Light Aircraft Flying Training: Provision of flying training and support services for Air Experience Flying and University Air Squadron Flying Training	20,000	Apr 1999	Mar 2009
Tornado GR4 Synthetic Training Service: Provision of aircraft training service at RAF Marham and RAF Lossiemouth	61,700	Jun 1999	Jun 2031
Army Foundation College: Provision of teaching and training facilities for the further vocational education and military training of high-quality school leavers	73,400	Feb 2000	Dec 2029
RAF Cosford/RAF Shawbury Family Quarters: Provision of married quarters accommodation for 145 Service families at RAF Cosford and RAF Shawbury	15,100	Mar 1999	Jun 2025
Central Scotland Family Quarters: Provision of married quarters accommodation for 164 Service Families in Central Scotland	24,700	Aug 1999	Jan 2021
Tri-Service Material Handling Equipment: Provision of Tri-Service materials handling capability	35,000	Jun 2000	Jun 2010
Commercial Satellite Communication Service (INMARSAT): Provision of world-wide commercial satellite communication system for Royal Navy Ships to run for five years	2,600	Mar 2001	Mar 2006
E3D Sentry Aircrew Training Service: E3D Sentry simulators instructors and maintainers at RAF Waddington	6,900	Jul 2000	Dec 2030
Lynx MK 7 and 9 Aircrew Training Service: Provision for simulator training facility for Lynx MK 7 and 9 helicopter aircrew	15,400	Jul 2000	Jul 2025
Tri-Service White Fleet: Provision, management and maintenance of support vehicles in the UK	40,000	Jan 2001	Jan 2011
Family quarters at Wattisham: Provision of married quarters accommodation for 250 service families	34,200	May 2001	Mar 2028

Project Description	Capital Value* £000	Contract Start**/End Dates	
Family quarters at Bristol / Bath / Portsmouth: Provision for married quarters accommodation for 317 service families	78,000	Nov 2001	Sep 2028
Defence Housing Executive Information Systems : Provision for a management information system for the Defence Housing Executive	11,600	Oct 2001	Sept 2010
Marine Support to Range and Aircrew Training: Provision of management, manning, operation and maintenance of Air Support Craft and Range Safety Craft	11,800	Dec 2001	Dec 2012
Astute Class Training: Provision of a training environment for crewmen and maintainers to support Astute Class submarines for 30 years	79,600	Sep 2001	Jan 2037
Strategic Sealift (RoRo): Provision of strategic sealift services based on six RoRo ferries in support of Joint Rapid Reaction Force (JRRF) deployments	175,000	Jun 2002	Dec 2024
Material Handling Equipment: Provision of tri-service material handling equipment for Army, Navy and RAF storage depots	9,000	Aug 2002	Jul 2010
Provision for storage facilities	22,000	Apr 1996	Jan 2011
Aquatrine Project A: Provision of water and waste water services	154,000	Apr 2003	Nov 2028
Aquatrine Project B: provision of water and water services	86,400	Sep 2004	Mar 2030
Aquatrine Project C: provision of water and water services	363,600	Oct 2004	Mar 2030
Hayes Records and Storage: Pan-Government Records Management and Archive Services	11,100	Sep 2003	Sep 2028
Defence Sixth Form College: Development of a sixth form college to help meet the future recruitment requirements in the Armed Forces and MoD Civil Service	20,000	Jun 2003	Aug 2033
Colchester Garrison: Redevelopment, rebuilding and refurbishment to provide accommodation and associated services (messing, education, storage, workshops)	539,000	Feb 2004	Feb 2039
Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites	1,079,000	Oct 2003	Feb 2018

*The capital value is based on private sector partners' capital investment, where known, or otherwise the capital value of the public sector comparator.

**The dates when the contracts were signed.

The following PFI projects, where service delivery has commenced, are treated as on balance sheet and their service payment commitments for the year 2004-05 are included in the table shown above: Lossiemouth FQs; RAF Fylingdales; Defence Helicopter Flying School; Defence Animal Centre; Naval Communication; Provision of storage facilities; Main Building Redevelopment, part of the Joint Services Command and Staff College, Heavy Equipment Transporter, Field Electrical Storage Facilities, Defence Electronic Commerce Services and Devonport Armada Single Living Accommodation.

Since the year ended, the Department has signed a PFI deal for the provision of 'C' Vehicles (Earthmoving and Specialist Plant, Engineering Construction Plant and Material Handling Equipment) and support.

No specific contingent liabilities have been identified in respect of the PFI contracts listed above.

23 Contingent Liabilities and Contingent Assets Disclosed under FRS 12

Contingent Liabilities

Contingent liabilities estimated at some £1,607,000,000 (2003-04: £1,127,000,000) were identified. This mainly comprised possible environmental clean-up and site restoration liabilities of some £400,000,000 (2003-04: nil) relating to the British Army Training Units in Canada, and indemnities, that are quantifiable, of £1,036,000,000 (2003-04: £852,000,000) granted to contractors and suppliers.

The Department hold a number of sites where it may be necessary to carry out remediation work in respect of contamination. It is not cost effective or practicable to identify all levels of contamination at individual sites nor to assess the likely cost of any remediation work necessary. As any liability cannot, therefore, be quantified it is not appropriate to include a provision in accordance with FRS 12.

Contingent Assets

A US salvage company, Odyssey Marine Exploration, has found what is believed to be the wreck of HMS Sussex, which sank in the Western Mediterranean in 1694 carrying gold and silver coins estimated to be valued at the time at £1 million. If confirmed as HMS Sussex the wreck and its contents are legally the property of Her Majesty's Government.

A licensing agreement was signed on 27 September 2002 between the Disposal Services Agency of the Ministry of Defence, on behalf of Her Majesty's Government and Odyssey for further archaeological exploration of the wreck of HMS Sussex and recovery of artefacts et cetera. Under the agreement the net proceeds of the sale of coins and other marketable artefacts will be shared between the two parties. Insufficient certainty exists at present as to the presence or value of any potential recovery of artefacts to quantify the contingent asset.

24 Contingent Liabilities not required to be disclosed under FRS 12 but included for Parliamentary Reporting and Accountability

24.1 Quantifiable

MoD has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	1 April 2004	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2005	Amount reported to Parliament by departmental minute
UNRESTRICTED						
Indemnities						
Residual liability for the remediation of unidentified contamination in parts of the former Rosyth Naval Base which has been sold to Rosyth 2000 plc.	Up to £1,000k				Up to £1,000k	Not Known
Termination liabilities arising out of MoD's association with the Research Council under the Joint Grants Scheme.	£17,620k	NIL	NIL	NIL	£17,620k	£17,620k
Liabilities arising from insurance risk of exhibits on loan to the Army, Navy and RAF Museums.	£1,965k	£160k (Note1)	NIL	NIL	£2,125k	
RESTRICTED						
Details on restricted liabilities not given because they are sensitive due to commercial confidentiality, national security, or where public knowledge of a guarantee could prompt claims from third parties.						

Note 1: Explanation of movement

Increase due to a new exhibit on loan to the Army, Navy and RAF Museums and reassessment of indemnities.

Reconciliation between disclosed amount and amount reported to Parliament

MoD conducts a review of its outstanding liabilities annually to ensure that all its liabilities have been properly recorded under the requirements of Resource Accounting and Government Accounting. Until 2003/04 unclassified liabilities which were reportable to Parliament under Government Accounting were published in the annual Supplementary Statement to the Consolidated Fund and National Loans Fund accounts. The Finance Act 2003 repealed the requirement for this publication. Restricted liabilities continue to be reported annually to Parliament.

24.2 Unquantifiable

MoD has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS12 since the likelihood of a transfer of economic benefit in settlement is too remote.

Unrestricted Indemnities

- Indemnity given in relation to the disposal of Gruinard Island in the event of claims arising from the outbreak of specific strains of anthrax on the Island.

- Indemnity to Devonport Royal Dockyards Ltd (DRDL) in respect of nuclear risks under the Nuclear Installations Act 1965.
- Indemnity to the Babcock Group in respect of nuclear risks under the Nuclear Installations Act 1965.
- Indemnities to DRDL and 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.
- Product liability to BAE SYSTEMS in respect of work carried out by third party contractors on aircraft for which BAE are Design Authority and for which BAE, at MoD's request, provide the third party contractor with design advice and verification.

Restricted Indemnities

- Details on restricted liabilities are not given because they are sensitive due to commercial confidentiality and national security.
- These liabilities are unquantifiable due to the nature of the liability and the uncertainties surrounding them.

25 Post Balance Sheet Events

The Treasury standard rate used for calculating the discounting of provisions was reduced from 3.5% to 2.2% with effect from 1 April 2005. The rate for calculating the cost of capital charge remains unchanged, at 3.5%. The effect of the reduction in the Treasury rate on the operating costs for 2005-06 would be to increase the unwinding of interest charge relating to the discounted provisions.

The Department transferred the responsibility for historic liabilities relating to the cleaning and decommissioning of civil nuclear sites to the Nuclear Decommissioning Authority on 1 April 2005.

26 Notes to Schedule 5

The net costs of the Departmental Objectives are determined as follows:

Objective 1: Achieving success in the tasks we undertake

This objective comprises the following:

	Gross	2004-05	Net	Gross	2003-04	Net
	£000	Income	£000	£000	Income	£000
		£000			£000	
Operations	938,449	(268)	938,181	1,236,721	(3,566)	1,233,155
Other military tasks	1,849,803	(86,019)	1,763,784	1,733,706	(74,893)	1,658,813
Contributing to the community	457,294	(62,328)	394,966	419,977	(59,784)	360,193
Helping to build a safer world	479,778	(187,152)	292,626	427,868	(198,752)	229,116
Total	3,725,324	(335,767)	3,389,557	3,818,272	(336,995)	3,481,277

Costs are identified as follows:

- *Operations* comprises the additional costs incurred deploying the armed forces in military operations, e.g. in Iraq, over and above the costs of maintaining the units involved at their normal states of readiness;
- *Other military tasks* include ongoing military commitments, e.g. to security in Northern Ireland and Overseas Commands, and the costs of identifying and countering the threat of terrorist attack on the UK mainland, and of maintaining the integrity of UK waters and airspace;
- *Contributing to the community* includes ongoing support activities, e.g. search and rescue, administration of cadet forces. In addition, it includes the costs of assistance to other Government Departments and agencies, e.g. in counter drugs operations; and
- *Helping to build a safer world* includes the costs of defence diplomacy undertaken to build confidence and security with our allies. It also includes the Department's support of wider British interests.

Objective 2: Being ready to respond to the tasks that might arise

The costs of delivering the military capability to meet this objective are analysed among force elements of the front line commands, including joint force units where these have been established, and a small number of centrally managed military support activities.

In addition to the direct operating costs of the front line units, they include the attributed costs of logistical and personnel support, identified by reference to the output costs of supplier Management Groupings.

In common with all objectives, these also contain a share of the costs of advising Ministers and accountability to Parliament, and apportioned overheads for head office functions and centrally provided services. The total comprises the full costs, including support services, of force elements grouped under the following headings:

	Gross £000	2004-05 Income £000	Net £000	Gross £000	2003-04 Income £000	Net £000
Royal Navy						
Aircraft carriers	362,268	(15,507)	346,761	299,679	(6,880)	292,799
Frigates and Destroyers	1,614,503	(66,014)	1,548,489	1,744,387	(35,195)	1,709,192
Smaller warships	509,040	(22,819)	486,221	293,095	(9,139)	283,956
Amphibious ships	348,724	(8,594)	340,130	344,496	(5,581)	338,915
Strategic sealift	40,097	(1,929)	38,168	2,691	(70)	2,621
Fleet support ships	413,254	(5,150)	408,104	360,029	(12,507)	347,522
Survey and other vessels	106,285	(3,797)	102,488	160,030	(3,249)	156,781
Naval aircraft	1,224,695	(31,763)	1,192,932	1,429,942	(37,403)	1,392,539
Submarines	2,351,571	(45,064)	2,306,507	4,904,164	(42,492)	4,861,672
Royal Marines	552,325	(12,555)	539,770	617,431	(13,078)	604,353
	<u>7,522,762</u>	<u>(213,192)</u>	<u>7,309,570</u>	<u>10,155,944</u>	<u>(165,594)</u>	<u>9,990,350</u>
Army						
Field units	7,683,884	(166,992)	7,516,892	6,585,112	(212,672)	6,372,440
Other units	1,927,205	(191,669)	1,735,536	2,519,327	(169,006)	2,350,321
	<u>9,611,089</u>	<u>(358,661)</u>	<u>9,252,428</u>	<u>9,104,439</u>	<u>(381,678)</u>	<u>8,722,761</u>
Royal Air Force						
Strike/attack and offensive support aircraft	2,424,992	(76,478)	2,348,514	2,464,139	(57,067)	2,407,072
Defensive and surveillance aircraft	2,303,701	(75,409)	2,228,292	2,140,241	(28,380)	2,111,861
Reconnaissance and maritime patrol aircraft	512,340	(23,002)	489,338	370,066	(19,639)	350,427
Tankers, transport and communications aircraft	1,064,852	(36,427)	1,028,425	1,079,959	(40,135)	1,039,824
Future capability	14,908	(314)	14,594	345,722	(6,515)	339,207
Other aircraft and RAF units	764,418	(48,798)	715,620	784,155	(30,982)	753,173
	<u>7,085,211</u>	<u>(260,428)</u>	<u>6,824,783</u>	<u>7,184,282</u>	<u>(182,718)</u>	<u>7,001,564</u>
Centre Grouping						
Joint and multinational operations	544,794	(21,333)	523,461	341,411	(193,658)	147,753
Centrally managed military support	437,110	(148,012)	289,098	310,388	(73,987)	236,401
Maintenance of war reserve stocks	749,333	(15,055)	734,278	700,089	(21,470)	678,619
	<u>1,731,237</u>	<u>(184,400)</u>	<u>1,546,837</u>	<u>1,351,888</u>	<u>(289,115)</u>	<u>1,062,773</u>
Total Objective 2	<u>25,950,299</u>	<u>(1,016,681)</u>	<u>24,933,618</u>	<u>27,796,553</u>	<u>(1,019,105)</u>	<u>26,777,448</u>

Most groupings are self explanatory. The following however should be noted:

- *Smaller warships* includes mine hunting and offshore patrol vessels;
- *Amphibious ships* includes assault ships providing platforms for landing craft and helicopters, and Royal Fleet Auxiliary landing support ships;
- *Strategic sealift* is the Roll-On Roll-Off ferry facility supporting the Joint Rapid Reaction Force;
- *Fleet support ships* includes Royal Fleet Auxiliary ships providing tanker and replenishment support to warships;
- *Survey and other vessels* includes ocean and coastal survey and ice patrol ships;
- *Naval aircraft* include Sea King, Lynx and Merlin helicopters deployed in anti-submarine, airborne early warning, Royal Marine support, and reconnaissance and attack roles;
- *Submarines* includes the operating costs of submarines and support of nuclear propulsion and weapons systems, including nuclear decommissioning;
(the costs of submarines reported in 2003-04 included the increased cost incurred by lowering from 6.5% to 3.5% in that year the discount rate applied to the Department's provisions for nuclear decommissioning).
- *Army – Field units* includes 1 (UK) Armoured Division, 3 (UK) Division, Joint Helicopter Command and Theatre troops;
- *Army – Other units* includes Regional Divisions and Land support and training;
- *Strike/attack and offensive support aircraft* includes Tornado GR1/GR1A/GR1B/GR4/GR4A, Joint Force Harrier and Jaguar aircraft deployed in strike/attack and offensive support roles;
- *Defensive and surveillance aircraft* includes Tornado F3 and Sentry AEW1 aircraft deployed in UK air defence, and NATO and UN peacekeeping commitments;
- *Reconnaissance and maritime patrol aircraft* includes Canberra and Nimrod R1 aircraft deployed on reconnaissance, and Nimrod MR2 aircraft on maritime patrol. (Tornado GR1A/4A included in *strike/attack and offensive support aircraft* also undertake reconnaissance roles);
- *Tankers, transport and communications aircraft* includes C17, Hercules, Tristar and VC10 aircraft providing air transport and air to air refuelling, and smaller transport aircraft (BAe 125/146 and Squirrel helicopters) used in a rapid communications role;
- *Future capability* includes primarily the preparatory costs for the introduction of the Typhoon aircraft;
- *Other aircraft and RAF units* includes ground forces (e.g. the RAF Regiment) and miscellaneous aircraft not included elsewhere;
- *Joint and multinational operations* includes Chief of Joint Operations HQ and the costs less receipts of UK participation in NATO;
- *Centrally managed military support* includes intelligence operational support and Special Forces; and
- *Maintenance of war reserve stocks* includes the holding costs and charges of munitions and other stocks, above the levels required for planned consumption.

Objective 3: Building for the future

This objective comprises the following elements:

	Gross £000	2004-05 Income £000	Net £000	Gross £000	2003-04 Income £000	Net £000
Research	996,421	(318)	996,103	1,007,082	(75)	1,007,007
Equipment programme	2,045,379	(64,041)	1,981,338	2,204,899	(56,131)	2,148,768
Total	3,041,800	(64,359)	2,977,441	3,211,981	(56,206)	3,155,775

- *Research* comprises the costs, including capital charges, of the Research Building Block, and research expenditure incurred by other TLBs; and
- *Equipment Programme* refers to the administration and programme costs, primarily of the Defence Procurement Agency, associated with specifying requirements for and procurement of fighting equipment and other assets. The values of fixed asset additions are shown in Note 9.

Attribution to Objectives

Gross expenditure of £24,626M (72.8%) (2003-04 – 75.6%) and Operating Income of £791M (55.8%) (2003-04 – 49.0%) were allocated to tasks, force elements or activities directly supporting the Objectives. The rest was apportioned in one of two ways:

- by means of cost attributions to “customer” Management Groupings, using local output costing systems to identify the full local costs of services provided. Cost attributions from suppliers are analysed onward to final outputs on advice from the recipients. If specific advice is not given, attributed costs are assumed to follow the same pattern as locally incurred expenditure:
- as an element of central overhead, shared among objectives in proportion to all other attributions. The force elements etc. described above receive a share of the expenditure and income components of these overheads, on the basis of their net costs. The central overheads comprised:

	Gross £000	2004-05 Income £000	Net £000	Gross £000	2003-04 Income £000	Net £000
Support for Ministers and Parliament	15,830	(43)	15,787	18,971	(33)	18,938
Departmental corporate services	1,686,358	(263,904)	1,422,454	1,356,300	(91,033)	1,265,267
Strategic management	353,073	(2,214)	350,859	207,188	(11,911)	195,277

- *Support for Ministers and Parliament* includes provision of advice to Ministers and the costs, wherever incurred in the Department, of dealing with Parliamentary business;
- *Departmental corporate services* comprises internal support functions, e.g. payment of bills, payroll administration, housing and medical care for service personnel, and costs of Departmental restructuring; and
- *Strategic management* comprises Departmental Head Office policy making functions in strategic, personnel, scientific and medical matters.

Capital employed

The deployment of the Department's capital in support of its objectives does not follow the pattern of operating costs. Net assets totalling £68,312M (79.8%) support the military capability required to meet Objective 2. The remainder comprises assets wholly attributable to tasks within Objective 1 (£3,844M – 4.4%), and intangible assets, fighting equipment and other assets under construction, and assets related to equipment procurement within Objective 3 (£13,513M – 15.8%), and payment of War Pensions and Allowances (-£24M).

27 Segmental Analysis of Net Resource Outturn by Top Level Budget (TLB) Holders

	Other Current Expenditure	Grants	Operating Appropriation -in-Aid	2004-05 Total Net Resource Outturn	Total Net Resource Estimate	Outturn Compared With Estimate	2003-04 Total Net Resource Outturn
	£000	£000	£000	£000	£000	£000	£000
TLB HOLDER							
Commander-in-Chief Fleet	3,588,386	—	(17,365)	3,571,021	3,542,918	(28,103)	3,366,534
General Officer Commanding (N Ireland)	627,845	—	(1,418)	626,427	642,754	16,327	653,341
Commander-in-Chief Land Command	5,540,794	100	(200,334)	5,340,560	5,418,502	77,942	4,862,103
Air Officer Commanding-in-Chief RAF Strike Command	3,545,793	—	(42,880)	3,502,913	3,674,690	171,777	3,469,096
Chief of Joint Operations†	546,865	—	(47,413)	499,452	459,723	(39,729)	535,485
Chief of Defence Logistics	7,765,414	—	(352,777)	7,412,637	7,621,944	209,307	7,950,588
2nd Sea Lord/Commander-in-Chief Naval Home Command	805,237	205	(42,918)	762,524	717,142	(45,382)	696,635
Adjutant General	1,812,799	—	(24,727)	1,788,072	1,742,886	(45,186)	1,757,136
Air Officer Commanding-in-Chief RAF Personnel & Training Command	1,282,773	—	(155,636)	1,127,137	1,001,861	(125,276)	1,004,269
Central	3,499,827	158,758	(507,064)	3,151,521	3,044,064	(107,457)	2,648,786
Defence Procurement Agency	2,098,843	2,369	(27,149)	2,074,063	3,186,742	1,112,679	4,817,605
SIT (Science, Information,Technology)	502,952	3,157	—	506,109	495,036	(11,073)	419,767
Total (RfR 1)	31,617,528	164,589	(1,419,681)	30,362,436	31,548,262	1,185,826	32,181,345
Total (RfR 2) (Note 2)	938,181	—	—	938,181	949,884	11,703	1,233,155
Total (RfR 3) (Note 1)	1,109,521	—	—	1,109,521	1,161,221	51,700	1,116,047
Total	33,665,230	164,589	(1,419,681)	32,410,138	33,659,367	1,249,229	34,530,547
Income netted off against operating expenditure between TLB holders	(2,874)		2,874				
Items netted off against other operating costs but treated as Appropriation-in-Aid for Schedule 1 (note 4)	71,603		(71,603)				
Excess Operating Appropriation-in-Aid (RfR 1)			215,889	215,889		(215,889)	85,315
Items treated as CFERs to be allocated (RfR 1)	304		14,212	14,516		(14,516)	35,364
	33,734,263	164,589	(1,258,309)	32,640,543	33,659,367	1,018,824	34,651,226

Note 1: War Pensions and Allowances – Programme Costs

The Chief Executive of the Veterans Agency is not a Top Level Budget Holder, but exercises all the responsibilities for the programme costs.

Note 2: Conflict Prevention (RfR2)

The analysis of the Conflict Prevention costs is as follows:

Operating Costs	
£000	
Operation	
Balkans	84,677
Afghanistan	57,937
Iraq	747,068
	<hr/>
Programme Expenditure	889,682
	48,499
	<hr/>
Total	938,181
	<hr/>

The Department's cost of operation in Iraq (Operation TELIC) forms the main component of the above costs. Further details and assumptions used in arriving at the Operation TELIC figures are as set out below:

General

1. The MoD had £0.975Bn (2003-04: £1.539Bn), including £219M (2003-04: £334M) for capital expenditure, in voted provision for Operation TELIC in the Spring Supplementary Estimates 2004-05.
2. The resource outturn in 2004-05 for the operation was £0.747Bn (2003-04: £1.051Bn), which reflects the costs for the period to 31 March 2005.
3. The capital expenditure for Operation TELIC paid and accrued in the financial statements amounted to £163M (2003-04: £260M)
4. Full details of the Department's aims and performance assessment for Operation TELIC are provided in the Departmental Performance Report.

Assumptions

The following assumptions have been used in arriving at the net resource Outturn figures for Operation TELIC:

1. In accordance with the accounting principles agreed with HM Treasury, the Department has identified the costs of Operation TELIC on the basis of net additional costs. Expenditure such as wages and salaries are not included as they would have been incurred in any event, and the costs of activities such as training and exercises, which have been cancelled because of the operational commitment, have been deducted;
2. There have been no fixed asset impairments resulting from the operation in Iraq, though cost of equipment destroyed in the conflict is included. It is likely that repair and refurbishment costs will need to be incurred in the future in order to bring the equipment back into full operational use; these costs will be reflected in the Operating Cost Statement in the year in which they are incurred;
3. Stock consumption is charged at a gross cost and the related stock provision movements are shown under the stock provision line in the Operating Cost Statement.
4. Write offs of fighting equipment and GWMB, charged in the financial statements, are based on actual records.

28 Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government Departments are financed, the Department is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

Liquidity risk

The Department's revenue and capital resource requirements are voted annually by Parliament and are therefore not exposed to significant liquidity risks.

Interest rate risk

A significant proportion of the Department's financial assets and liabilities carry nil or fixed rates of interest. The exposure to interest risk is therefore not significant.

Foreign currency risk

The Department enters into forward purchase contracts annually with the Bank of England to cover the majority of its foreign exchange requirements for the following year. The details of the outstanding foreign currency contracts were as follows:

Currency	Foreign currency US\$/Euro 000	Weighted average exchange rate (=£1)	31 March 2005 Sterling £000	31 March 2004 Sterling £000
2005-06 delivery (2004-05 delivery)				
US Dollar	1,558,000	1.7463	892,182	969,581
Euro	1,379,000	1.4323	962,769	947,173
2006-07 delivery (2005-06 delivery)				
US Dollar	1,566,000	1.8713	836,864	892,182
Euro	1,374,000	1.3869	990,699	891,949
Total			3,682,514	3,700,885

The 31 March 2005 mid-market closing rates for US Dollar and Euro were £/\$ 1.8896 and £/Euro 1.4540 respectively.

Fair Values

Financial assets

The Department's financial assets include investments and loans made in Trading Funds, MoD agencies funded through a Trading Fund and QinetiQ, a Self Financing Public Corporation. The net assets of these bodies (excluding MoD loans) and the interest rates applicable to these loans are shown in note 10. Other financial assets fair values approximate to their book values.

Financial liabilities

The Department's liabilities include loans from National Loans Fund, Obligations under finance leases and PFI contracts and a loan from Atomic Weapons Establishment amounting in total to £794.9M (2003 – 2004: £368.9M). The fair values of these liabilities will be different from their book values but since these represent only 4.8% of the gross liabilities and provisions, the impact on the Department's net assets will not be material. The fair values of provisions for liabilities and charges are not materially different to their book values which are stated after discounting at the Treasury rate of 3.5%. Other liabilities fair values approximate to their book values.

29 Losses and Special Payments

CLOSED CASES: these comprise losses and special payments which have been formally signed off to date subsequent to a satisfactory completion of all the case work relating to the loss or special payment. Closed cases would, therefore, include some cases which in the previous year were shown under Advance Notifications.	Arising in 2004-05	Reported in 2003-04 as Advance Notifications
	£000	£000
Total (excluding gifts, special payments and War Pensions Benefits) under £100,000 each: 14,167 cases	4,620	
Total (excluding gifts, special payments and War Pensions Benefits) over £100,000 each: 36 cases (detailed below)	75,892	321,820
Cash Losses		
British Defence Staff Washington: net write off to regularise the various control accounts used to manage US Government Foreign Military Sales to the UK. This was reported under Advance Notification in 2003-04. (Central)		8,332
A loss, as a result of an accounting error, of £567,000 occurred in July 1993 on a control account, set up during the Anglo/French agreement on the production of the Jaguar aircraft. An investigation has concluded that the balance on the account could not be supported. A loss of £199,000 reported in 2003-04 under Advance Notification represented the net loss on 4 control accounts relating to this agreement. (DLO)		567
A review of the Overseas Leave Travel Scheme and of the Welfare Warrants Scheme allowances has shown that an overpayment has arisen at a MoD establishment abroad. In 2003-04, the amount of the loss was estimated at £850,000 and included under Advance Notification. (PTC)		500
Bookkeeping losses and adjustments		
Clearance of obsolete balances for old, completed projects: Amounts written off. (DPA)	5,310	
Clearance of obsolete balances relating to earlier restructuring of account grouping. (DPA)	5,131	
Write-off balance relating to prior year deliveries of low value stock items previously classified as Assets Under Construction. (DPA)	121	
Claims waived or abandoned		
A claim for £160,000 has been abandoned against a company that went into liquidation in 2002. The claim arose from the subsequent deterioration of work completed by the company on the watertight hatches on a Royal Maritime Auxiliary Service Vessel. The MoD has sought re-dress through the Receivers' solicitors, but there is little in the way of company assets remaining to meet the MoD's legitimate claim. (DLO)	160	
Amounts owed by the Defence Evaluation and Research Agency (DERA), a MoD Trading Fund until 2001, in respect of postal services provided by the MoD during the period 1999-2000, was written off on the disestablishment of DERA and the establishment of Qinetiq, a self-financing public corporation and Dstl, a MoD Trading Fund. (DLO)	129	
Renegotiations in respect of the Hydrographic and Oceanographic Survey Vessels contract have resulted in a claim abandoned. In 2003-04, the loss was estimated at £1,034,000 and reported under Advance Notification. (DPA)		978
Stores and other losses		
In moving to a training camp in preparation for an exercise, 2 Warrior vehicles were involved in a collision. The accident was fully investigated and the findings resulted in the vehicle driver and commander being disciplined. (LAND)	500	
Defence Fire Service vehicle (RU 83 AA) was involved in an accident on its way to a fire in the Eastern Sovereign Base Area in Cyprus. Further investigation into the incident established that no negligence was involved. (CJO)	172	
Loss as a result of a fire on an AS90 (self-propelled artillery gun) during Ex Saif Sareea 2 (Oman). In 2003-04, the loss was estimated at £2,202,000 and shown under Advance Notification. (LAND)		1,942
Part of an accommodation block in Clive Barracks, Tern Hill was destroyed as a result of arson. The offender has been prosecuted and sentenced accordingly. In 2003-04, the loss was estimated at £500,000 and shown under Advance Notification. (LAND)		698
Communication equipment located on a remote site was stolen in 2001-02. A Board of Enquiry was held and the asset was written off. A contribution of £190,750 towards the loss was received from the Dutch Government. In 2003-04, the loss was estimated at £573,000 and included under Advance Notification. (CJO)		382
Accidental damage caused by fire to miscellaneous equipment during Op TELIC. In 2003-04, the case was still ongoing and the loss was estimated at £375,000 and reported under Advance Notification. (LAND)		373
Although no physical loss occurred, incomplete documentation on ammunition movements during an Operation in Afghanistan resulted in paper deficiencies in stock holdings. This loss was reported under Advance Notification in 2003-04. (LAND)		241
A fire involving stores, fuel products and munitions destroyed buildings, tents and other property during Operation TELIC. Investigations concluded that the accident was not attributable to a single individual or specific act of negligence. This loss was reported under Advance Notification in 2003-04. (LAND)		104

CLOSED CASES (continued)	Arising in 2004-05	Reported in 2003-04 as Advance Notifications
	£000	£000
Constructive Losses		
Constructive loss following a change in procurement strategy for the BOWMAN battlefield communications system. A change in the supplier resulted in nugatory expenditure of £51,000,000 which had to be written off. (DPA)	51,000	
Additional costs incurred resulting from the UK's decision in 2003 to withdraw from the Multi Role Armoured Vehicle programme. The total amount written off on the programme is £56,910,000, which includes £48,000,000 written off in 2003-04. (DPA)	8,910	
Cancellation of a classified programme on C130J as a savings measure. (DPA)	1,791	
There was a project delay as a result of defective GPS chips supplied by US Contractor Trimble Navigation in respect of the Storm Shadow missile project and hence a Variation of Price (VOP) clause was triggered resulting in the Agency incurring additional contract costs. The Agency is attempting to recover costs from the contractor (DPA)	1,763	
Loss in respect of expenditure associated with the implementation of an IT based output costing system, Metify Enterprise. The system could not be made to perform as expected and as the output costing processes developed it became clear that the design would no longer meet the DLO's evolving requirement for output costs or, subsequently, the emerging central requirement for pan MoD costing of Defence outputs. (DLO)	491	
Loss arose in respect of expenditure incurred in the development of a tool to further automate the DLO output costing process. This IS project was cancelled because it was not compatible with the centrally driven policy to simplify and improve financial processes. (DLO)	168	
The sum of £143,972 has been written off as a constructive loss, being food stocks disposed off as a result of the late cancellation of the annual winter deployment of the Royal Marines to Norway, who were required for initial deployment to Operation TELIC. (DLO)	144	
The programme to install a Control & Reporting Centre at RAF Neatishead was cancelled following the rationalisation of the Defence Estate (DPA)	102	
The loss case results from a settlement payment to Elonex as a result of a technical breach of contract. As part of the settlement with Elonex, it was agreed that the sum paid to them would not be disclosed. In 2003-04, the case was still ongoing, and the amount provided for was estimated to be £600,000 and was reported under Advance Notification. The amount cannot be disclosed due to legal reasons. (DLO)		
The Defence Stores Management Solution (DSMS) and two associated IT projects, Delivering The Requirement for Unit Material Management (DRUMM) and In-Transit (ITV), formed part of the DLO Business Change Programme. During development of DSMS, doubts surfaced about the programme's ability to deliver the expected benefits and its affordability leading to the programme and its associated projects, DRUMM and ITV, being suspended in 2002 to permit better solutions to be developed. Costs of £144,500,000 have now been formally written off for the three related projects: DSMS, DRUMM and ITV. In 2003-04, the DSMS loss alone of £118,000,000 was reported as an Advance Notification. (DLO)		144,500
Re-negotiation of a contract to reduce the number of Nimrod MRA4 required from 21 to 18 has resulted in a constructive loss. In 2003-04, an amount of £75,000,000 was reported under Advance Notification. (DPA)		74,880
The decision to cancel the Remote Ammunitioning Facility Tamar at Devonport Naval Base has resulted in a constructive loss of £25,000,000. The project was suspended in May 2002 following a Defence Ordnance Group study showing that the effects of potential ammunition explosions would be more localised than originally predicted and that a safe facility could be provided at the submarines' current berths within the Naval Base, without the need to construct a remote facility. The project was formally cancelled in December 2004 once Devonport had established confidence that the existing facilities could be used and the full costs of cancellation had become clearer. (DLO)		25,000
The Aircraft Computerised Equipment Support System project (Project ACCESS) was initiated, in 1996, to provide an on-aircraft logistics information system to analyse fleet support costs and activities for Army aircraft. The project was subsequently descoped to cover the Apache helicopter only. A Strategic Options Study, involving all stakeholders, concluded that a more convergent Information System (IS) was required. It was therefore agreed by the Systems Management Board that further development of Project ACCESS should be cancelled, incurring a constructive loss. (DLO) In 2003-04, an amount of £18,000,000 was reported as an Advance Notification.		18,960
Cancellation of contract to deliver High G Force Centrifuge training project, due to the contractor's inability to deliver RAF Requirements. (DPA)		14,383
A loss of £12,896,000 was incurred as a result of the cancellation of the Harrier Night Bombing System (HNBS) project. With the introduction of Precision Guided Weapons, the appropriate authorities agreed that HNBS was no longer required and that further development should be cancelled. The gross value of the loss was £13,818,000 offset by a recovery of £922,000, resulting in a net loss of £12,896,000. (DLO)		12,896

CLOSED CASES (continued)	Arising in 2004-05 £000	Reported in 2003-04 as Advance Notifications £000
Increased development costs, payable to the contractor, relating to the Brimstone project arising from the non-availability of trial platforms because of increased operational priorities arising from operations in Iraq . This loss was reported under Advance Notification in 2003-04. (DPA)		9,165
The loss was incurred through the procurement of new aircraft lifts that were to be fitted to Royal Naval Aircraft Carriers. A more cost effective solution was found as a result of increased technical knowledge and the lifts were therefore not required. There have been various expressions of interest in buying the aircraft lifts from the MoD, but none of these has resulted in a sale. In 2003-04, the loss was estimated at £6,500,000 and included as an Advance Notification. (DLO)		6,221
A loss has been incurred by the cancellation of the Oasis Stores and Engineering Enhancement (OSEE) Project. The development of the IT project was subject to delays and was not deemed fit for purpose in its current form when trials were undertaken in mid 2002. At the same time, a review of DLO projects found that OSEE did not meet the new recommended criteria for the continuation of IT projects. The project was therefore cancelled. There has been some mitigation of the loss through an arrangement to purchase licences for a different product in use in the MoD. In 2003-04, the loss was estimated at £1,500,000 and included as an Advance Notification. (DLO)		1,255
This loss is a result of the MoD's decision to terminate a contract in respect of project PASCO: a project intended to provide a Defence Messaging Handling System for the Navy. This loss was reported under Advance Notification in 2003-04 and covers the training costs incurred.(DLO)		290
A stores loss was incurred between the end of September and the beginning of October 2002, as a result of the incorrect scrapping of 45 Lynx Metal Rotor Blades which, although they have subsequently been recovered, has left the blades beyond economical repair. In 2003-04, the case was still ongoing and the loss was estimated at £151,000 and reported under Advance Notification. (DLO)		153
Gifts		
Total: 29 cases amounting to £35,967,000		
Military equipment to the Iraqi Interim Government, of which some equipment is deliverable after 31 March 2005.	27,300	
Non-lethal military equipment to the Government of Sierra Leone. Delivery of equipment started in 2004-05 and is due to complete in 2006-07.	4,476	
Non-lethal military equipment to the Government of Nepal	3,530	
Non-core MoD site in Aldershot to the English Churches Housing Group	350	
Messerschmitt 163B-1 (KOMET) formally gifted to the Imperial War Museum. The Messerschmitt was captured equipment, previously on permanent loan to the Imperial War Museum.	120	
International Courtesy Rules		
Supplies and services provided on a reciprocal basis to Commonwealth and Foreign Navy vessels during visits to British Ports at Clyde, Portsmouth, Devonport and Gibraltar (Central)	1,511	
Transfer of properties below Market value		
Defence Munitions Dean Hill Salisbury was closed down. Certain properties at this site were purchased by sitting tenants under the provisions of the 1985 Housing Act; the remaining properties with sitting tenants were sold to a Housing Association.	919	
Special Payments		
Total : 199 cases amounting to £16,860,000		
Ex gratia payments as approved by HM Treasury arising as a consequence of the cancellation of the Airfield Support Service Project. (DLO)	9,637	
Extra-Contractual payment to contractor following cancellation of a construction contract for accommodation of personnel at a MoD establishment. The payment represents additional costs incurred by the preferred bidder prior to the cancellation of the contract. (STC)	987	
Ex-gratia payments were made on account to British Nuclear Fuels plc and the United Kingdom Atomic Energy Authority towards the cost of treating and disposing of nuclear wastes and decommissioning plant at British Nuclear Fuels plc sites. Total paid to date is £1.503Bn. (DPA)		162

CLOSED CASES (continued)	Arising in 2004-05 £000	Reported in 2003-04 as Advance Notifications £000
War Pensions Benefits (WPB):		
Claims Abandoned-WPB		
Irrecoverable overpayments of war pensions relating to 2,147 cases amounting to £836,000 (2003-04: 1836 cases amounting to £613,680) were written off. These represent overpayments of pension which occur due to a number of reasons outside of the Agency's control; this represented 0.1% of the total war pension payments budget of £1.1Bn. All overpayments are recorded as amounts outstanding and action is taken to recover these amounts. In the 2004-05 financial year over £1.3M of overpayments were recovered. However, where the overpayment was found to be irrecoverable, the decision was taken to waive the amount owed. Included in the total figure of claims abandoned was an overpayment amounting to £132,000 due to failure in advising the Department of change in marital status of a war widow. The claim was abandoned after review of the circumstances of the case.	836	
Special Payments-WPB		
Total number of payments made during the year were 1,626 (2003-04: 1,029) and amounted to £12,120,619 (2003-04 £5,496,146). These payments comprise payments of war Disability Pension which were made under the authority of Treasury dispensing Instruments but outside the scope of the Service Pension order, These relate to the following payments:		
(a) Far Eastern Prisoners of War Ex-gratia payments.		
In the 2000 pre-budget speech, the Chancellor of the Exchequer announced that ex-gratia awards of £10,000 would be paid to surviving members of British groups held prisoner by the Japanese during the Second World War or their surviving spouses.		
Following a Judicial Review, announced in November 2003, the scheme was expanded to allow payments to qualifying Ghurkhas in Nepal. In the 2004-05 financial year, 500 successful claims were processed totalling £5,000,000. A further £3,000,000 was charged to the Operating Cost Statement by way of provision to reflect the likely payments in the 2005/06 financial year.	8,000	
Although the large majority of cases have been paid in previous financial years 181 claims were processed and paid in the 2004-05 financial year. The total payment amounted to £1,810,000.	1,810	
(b) Empire Air Training Scheme Pensions		
These Payments relate to members of the Royal Australian Air Force who were trained under the Empire Air Training Scheme and were subsequently selected for service in the RAF. The British Government agreed in June 1942 that it would contribute towards pensions in respect of disablement or death due to the service with the RAF.	1,626	
In 2004-05, there were 380 cases (2003-04: 420 cases) and the cost amounted to £1,625,924.00 (2003-04: £1,625,926)		
(c) Noise Induced Sensorineural Hearing Loss pensions		
In 2004-05, 246 cases (2003-04: 260 cases) were paid under the Dispensing Instruments and the total amount payable was £558,470 (2003-04: 551,826). The figure was arrived at through a scan of the War Pensions Computer System.	558	
(d) Crown Agents Supplementation payments		
Crown Agents Financial Services, make payments to ex-members of the colonial forces who are resident in the UK and who have been awarded a disablement pension by the colonial government. The payment is a supplementation amount that increases the disablement pension to the rate equivalent to a UK war pension.		
The Veterans Agency re-imburses Crown Agents Financial Services for these payments. In 2004-05, there were 19 cases (2003-04: 28 cases) and the amount payable was £126,224 (2003-04: 108,395).	126	

ADVANCE NOTIFICATIONS: these comprise losses and special payments, which arose during 2004-05 and prior years, but where the cases have not yet been formally signed off to date. A formal sign off cannot take place until all the work necessary to establish the validity of the loss or special payment, and the exact amount thereof, has been satisfactorily concluded. The amounts shown below are, therefore, only the best estimates, and are reflected in these accounts where appropriate. It is likely that in many instances the final value of these losses and special payments will differ from the estimates below when they are reported as closed in future years. Should the final value be less than £100,000 they will not be separately identified.

Arising in
2004-05
Reported
and arising
in prior
years

£000 £000

Notified in prior years

This constructive loss arose from the UK Government decision not to proceed into production for either long range or medium range anti-tank guided weapons system. (DPA)

314,000

The value of 8 Chinook Mk3 helicopters has been written down by £205m under prudent accounting practices while the MoD establishes a way forward for the programme. The write down has arisen because, although the terms of the contract had been met, the helicopters do not currently meet the operational requirement and could not acquire Military Aircraft Release. (DPA)

205,000

A loss of £65,000,000 has been incurred following the impairment of an Operational building. (DPA)

65,000

Slippage in the construction programme for two Landing Ship Dock (Auxiliary) caused delay in supplying design information and equipment to a contractor. This resulted in a claim on the MoD relating to the associated delay and dislocation costs. In 2003-04, an amount of £40,000,000 was included in Advance Notification as an estimate of the likely amount of the claim. (DPA)

63,800

The extended range ordnance/ modular charge system (ERO/MCS) was cancelled because the contractor encountered technical difficulties with the MCS that could not be resolved. This produced an estimated constructive loss. In 2003-04, the loss was estimated at £34,540,000. (DPA)

32,798

A delay in the production of helicopter training course materiel has resulted in a potential write-off. The loss was estimated at £8,500,000. (DPA)

8,369

This loss relates to a settlement payment made to a service provider as a result of a termination of contract due to technical reasons relating to Defence Information Infrastructure requirements. (DLO)

850

The relocation of HMS OSPREY to RNAS Yeovilton involved the construction of a new office block for 847 Squadron. The roof of the building, which was completed in 1999, obscured the view of the end of the runway from the Aircraft Control Tower, causing a potential flight safety hazard. Re-design and construction of a new roof was required to address this. Previous year estimate amount was £618,000, actual value is £584,000. (FLEET)

584

Loss of £515,000 on disposal by sale of Scammell Commander assets to the Jordanian Armed Forces. This figure includes the net loss of approximately £162,000 disclosed in 2003-04. which related to the assets transferred at that time.(DLO)

515

Metropole Building re-wire project (fraud), an alleged fraud during 1990-1995 which is in the process of being settled. (Central)

500

A constructive loss arose in respect of the Voice Monitoring and Analysis Facility due to several factors including a limited capability and a change in policy placing the onus on contractors to provide their own capability testing. (DLO)

434

A stores loss of £148,000 occurred in February 2001 and has resulted in the write-off of two C130J right-hand main undercarriage shock struts. The faulty struts were mislaid between the unit staffs and the Contractor Interim Logistics Support Team at RAF Lyneham. A Unit Inquiry (UI) was convened between January and April 2002. (DLO)

148

ADVANCED NOTIFICATIONS (continued)	Arising in 2004-05 £000	Reported in 2003-04 as Advance Notifications £000
Notified during the year		
Cash Losses		
Uncleared balances in respect of Income Tax and National Insurance balances written off in the books of the Armed Forces Personnel Administration Agency. (Central)	1,479	
A cash loss of £166,000 has been incurred as the result of the Navy Days 2004 Event which took place in Devonport Naval Base during August 2004. A forecast of income and expenditure for Navy Days 2004 assumed a break-even position with 60,000 visitors attending. Although good control of expenditure against budget was exercised, income was lower than anticipated mainly due to reduced visitor numbers (46,000). (DLO)	166	
Claims waived or abandoned		
A claim arising against EDS, under a Service Provision Agreement between the company and the Armed Forces Personnel Administration Agency, waived during the year (Central).	660	
Stores and other losses		
A food component was withdrawn from Operational Ration Packs (ORP) following discovery in tests that deterioration of the product's packaging could over time compromise the safety of the contents. The Contractor accepted liability in principle for this defect and agreed to supply a replacement product utilising an alternative packaging arrangement, at no cost to MoD, subject to being able to develop a replacement product that could be warranted fully fit for purpose. This development work is continuing and if successful will substantially mitigate the overall loss to the Department brought about by a combination of loss of use of the original product and the cost of its removal/destruction. (DLO)	1,400	
Tornado engine spares destroyed by fire, caused by short circuit in cabling in module repair bay at RAF Marham. (STC)	352	
Constructive loss		
A loss of £82,000,000 has been incurred in respect of plant and equipment. (DPA)	82,000	
A potential loss following the termination of a contract for 4.5kw generators as a result of contractor non-performance. (DPA)	306	
Special Payments		
HM Treasury has agreed an ex-gratia payment of up to £84,500,000 to Swan Hunter subject to completion of certain contractual conditions relating to the construction of two landing Ship Dock (Auxiliary) LSD(A). Total paid to date is £38,000,000. (DPA)	38,000	
Containers carrying supplies in support of Exercise Torpedo Focus (ETP) were found to be contaminated on arrival at the US port of disembarkation. Entry to the US was refused until bio-diversity standards were met by isolating the containers and fumigating them. (STC)	212	

30 Non-Operational Heritage Assets

The Department owns a range of non-operational heritage assets from historically significant defence equipment, through archive information, to museum and art collections. In accordance with HM Treasury policy non-operational heritage assets are normally valued except where:

- a) The cost of the valuation outweighs the benefits that the knowledge of the valuation would deliver; or
- b) it is not possible to establish a sufficiently reliable valuation.

On the above basis, no non-operational heritage assets, except land, were valued at the year-end.

30.1 The scope and diversity of the holdings of non-operational heritage assets which are not valued is illustrated by the examples detailed in the table below:

Item	Location	Description
HMS Victory	Portsmouth	HMS Victory is a 100 gun, first rate ship of the line, most famous for her role as Lord Nelson's Flagship at the Battle of Trafalgar. Victory was commissioned into the fleet in 1778 and serves today as flagship to 2nd Sea Lord/Commander-in-Chief Naval Home Command. Open to the public since 1928, Victory now attracts around 400,000 visitors a year.
Army Historic Aircraft Flight	Middle Wallop	Formed in the late 1980s, the flight consists of 7 aircraft and makes about 15 public appearances between May and September.
Historic Gun Collection	DSDC Donnington	The museum currently holds a collection of 749 small arms of British and foreign origin together with a small number of larger weapons.
Battle of Britain Memorial Flight	RAF Coningsby	Formed in 1973 the Memorial Flight operates 11 mainly World War II aircraft that appear at several hundred airshows, public events and state occasions each year. Memorial Flight aircraft can also be viewed by the public at their hangar at RAF Coningsby.
MoD Art Collection	Various locations	The MoD Art Collection comprises approximately 800 works of fine art and 250 antiques such as clocks and furniture. Many other miscellaneous items, such as photographs and manuscripts are contained in the archive. At the core of the collection are works commissioned by (and bequeathed to) the Admiralty during the 19th century, and those given to the Admiralty and to the War Office by the War Artists Commission at the end of the Second World War. Items from the MoD art collections are displayed in conference rooms and senior officers' accommodation throughout the defence estate. The most important items are on permanent public display in the National Maritime Museum and on temporary loan to many other public museums and galleries.
Records and artworks	London, Taunton	The Admiralty and Institute of Naval Medicine Libraries and the Air Historical Branch (London) comprise text and records of historical and research items. Although not open to the public, access is available on application.
Artefacts, records and artworks	Various locations	Over one hundred Regimental and Corps Museums and collections exist across the country. Ownership of the buildings and contents of the museums varies between the MoD, local authorities and regimental associations. The museums, which are open to the public, trace the history of the regiments and comprise displays of uniforms, weapons, medals and records.

31 Entities within the Departmental Boundary

The entities within the boundary during 2004-05 were as follows:

Executive Agencies

Armed Forces Personnel Administration Agency
Army Training and Recruitment Agency
British Forces Post Office
Defence Analytical Services Agency
Defence Bills Agency
Defence Communication Services Agency
Defence Dental Agency
Defence Estates
Defence Geographic and Imagery Intelligence Agency
Defence Intelligence and Security Centre
Defence Medical Education Training Agency
Defence Procurement Agency
Defence Storage and Distribution Agency
Defence Transport and Movements Agency
Defence Vetting Agency
Disposal Services Agency
Duke of York's Royal Military School
Medical Supply Agency
Ministry of Defence Police and Guarding Agency
Naval Recruiting and Training Agency
Pay and Personnel Agency
Queen Victoria School
RAF Training Group Defence Agency
Service Children's Education
Veterans Agency
Warships Support Agency

Advisory Non-Departmental Public Bodies

Advisory Committee on Conscientious Objectors
Advisory Group on Medical Countermeasures
Animal Welfare Advisory Committee
Armed Forces Pay Review Body
Central Advisory Committee on War Pensions
Dartmoor Steering Group
Defence Nuclear Safety Committee
Defence Scientific Advisory Council
National Employers' Liaison Committee
Nuclear Research Advisory Council
Review Board for Government Contracts
War Pensions Committees
Independent Monitoring Board
Independent Board of Visitors for Military Corrective Training Centre

Other Entities

The Reserve Forces and Cadet Associations (formerly TAVRA)

32 Votes A Statement – Statement of Approved Maximum Armed Forces Numbers

32.1 Votes A Statement is presented annually to Parliament to seek authority for the maximum numbers of personnel to be maintained for service with the Armed Forces for the year and is audited by the National Audit Office.

32.2 Maximum numbers of personnel to be maintained for service with the Armed Forces:

	Numbers voted by the House of Commons	Maximum numbers maintained	Peak Dates
Officers, Men & Women for NAVAL SERVICE	45,325	40,882	1 April 2004
Officers, Men & Women for ARMY SERVICE	128,195	120,278	1 April 2004
Officers, Men & Women for AIR FORCE SERVICE	57,415	53,957	1 April 2004

32.3 Maximum numbers of personnel to be maintained for service with the Reserve Forces:

	Numbers voted by the House of Commons	Maximum numbers maintained	Peak Dates
Reserve Naval and Marine Forces	18,000	15,334	1 April 2004
Special Members of the Reserve Naval Forces	300	177	1 January 2005
Reserve Land Forces	84,000	69,825	1 May 2004
Special Members of the Reserve Land Forces	6,000	111	1 March 2005
Reserve Air Forces	23,050	15,424	1 April 2004
Special Members of the Reserve Air Forces	550	86	1 March 2005

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ANNEXES



ANNEX A

2004 Spending Review Targets

PUBLIC SERVICE AGREEMENT 2005-06 to 2007-08

Aim

Deliver security for the people of the United Kingdom and the Overseas Territories by defending them, including against terrorism, and act as a force for good by strengthening international peace and stability.

Objectives and Performance Targets

Objective I: Achieve success in the military tasks we undertake at home and abroad.

1. Achieve the objectives established by ministers for operations and military tasks in which the United Kingdom's Armed Forces are involved, including those providing support to our civil communities.

2. By 2008, deliver improved effectiveness of UK and international support for conflict prevention by addressing long-term structural causes of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction, where the UK can make a significant contribution, in particular in Africa, Asia, the Balkans and the Middle East. (Joint with the Foreign and Commonwealth Office and the Department for International Development.)

Objective II: Be ready to respond to the tasks that might arise.

3. Generate forces which can be deployed, sustained and recovered at the scales of effort required to meet the Government's strategic objectives.

4. Play a leading role in the development of the European Security Agenda, and enhance capabilities to undertake timely and effective security operations, by successfully encouraging a more efficient and effective NATO, a more coherent and effective European Security and Defence Policy (ESDP) operating in strategic partnership with NATO, and enhanced European defence capabilities. (Joint with the Foreign and Commonwealth Office.)

5. Recruit, train, motivate and retain sufficient military personnel to provide the military capability necessary to meet the Government's strategic objectives.

Objective III: Build for the future.

6. Deliver the equipment programme to cost and time.

Who is Responsible for Delivery?

The Secretary of State for Defence is responsible for the delivery of this PSA. The Secretary of State for Foreign and Commonwealth Affairs is jointly responsible for delivery of target 4 and, together with the Secretary of State for International Development, target 2. The Secretary of State for Defence is also responsible for delivering the agreed efficiency target set out in the Ministry of Defence chapter of the 2004 Spending Review White Paper.

EFFICIENCY TARGET 2005-06 TO 2007-08

The Ministry of Defence will realise total annual efficiency gains of at least £2.8 billion by 2007-08, of which three-quarters will be cash releasing, to be re-invested in defence capability and further modernisation initiatives.

ANNEX B:

Accountability to Parliament

1. Ministers have accounted to Parliament during 2004-05 on all aspects of the Department's business. 4,583 Parliamentary Questions were tabled, Defence Ministers led 14 debates on defence issues in the House of Commons and 7 in the House of Lords, responded to 22 Adjournment Debates and one urgent question in the House of Commons, and made 10 oral statements to the House of Commons and 5 to the House of Lords. They also made 144 written statements to the House of Commons and the House of Lords. Details are published in Hansard, and a full list of defence debates and oral and written statements is available on www.mod.uk.

Evidence to House of Commons Defence Committee

2. Since 1 April 2004 the Ministry of Defence has also given evidence to the House of Commons Defence Committee on a number of occasions covering a wide range of issues, and the Government has responded to a number of the Committee's reports. All Committee publications, including published evidence given to the Committee, are available at www.parliament.uk/parliamentary_committees/defence_committee.cfm.

SESSION 2004/05

Reports (Government Responses are listed in brackets after the report they relate to)

First Report HC 290	<i>Work of the Committee in 2004</i>	<i>published 10th February 2005</i>
Second Report HC 64 (Cm6619)	<i>Tri-Service Armed Forces Bill</i>	<i>published 14th March 2005</i>
Third Report HC 63-i, & ii (Cm6620)	<i>Duty of Care</i>	<i>published 14th March 2005</i>
Fourth Report HC 45-i & ii (Cm6616)	<i>Future Capabilities</i>	<i>published 17th March 2005</i>
Fifth Report HC 145	<i>Strategic Export Controls – HMG's Annual Report for 2003, Licensing Policy and Parliamentary Scrutiny</i>	<i>published 24th March 2005</i>
Sixth Report HC 65-i & ii (HC 436)	<i>Iraq: An Initial Assessment of Post-Conflict Operations</i>	<i>published 24th March 2005</i>

SESSION 2003/04

Fourth Report HC 390	<i>Strategic Export Controls: Annual Report for 2002, Licensing Policy and Parliamentary Scrutiny</i>	<i>published 18th May 2004</i>
Fifth Report HC 465-i & ii (HC 1048)	<i>The Defence White Paper 2003</i>	<i>published 1st July 2004</i>
Sixth Report HC 572-i & ii (Cm 6338)	<i>Defence Procurement</i>	<i>published 28th July 2004</i>

3. The Defence Committee also undertook a number of visits to military establishments both in the UK and overseas as part of its inquiries, as shown in the table below.

Table 22: Defence Committee visits to military establishments

Date of Visit	Establishment	Related Inquiry
29 Apr 04	Fleet Command	Defence White Paper
11 May 04	Upavon and RAF Halton	Duty of Care
16-21 May 04	Iraq	Iraq: An Initial Assessment of Post-Conflict Operations
22 Jun 04	RAF Halton	Duty of Care
28 Jun 04	RSC Glencorse	Duty of Care
29 Jun 04	ATR Lichfield	Duty of Care
5-6 Jul 04	HMS Raleigh and CTC RM Lympstone	Duty of Care
2-13 Jul 04	AFC Harrogate and ITC Catterick	Duty of Care
26-27 Jul 04	RAF Halton	Duty of Care
19 Oct 04	DLC Deepcut & School of Defence Catering, St Omer Barracks	Duty of Care
9 Nov 04	HMS Sultan & HMS Collingwood	Duty of Care
15-16 Nov 04	Armour Centre, Bovington & DCCIS, Blandford	Duty of Care
25 Nov 04	AFCC Ampport House	Duty of Care
30 Nov 04	DCAE Cosford	Duty of Care
7-20 Jan 05	Cyprus	
25-25 Jan 05	N. Ireland	

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

4. Since 1 April 2004 the Ministry of Defence has also given written and oral evidence on various issues to the following Select Committees of the House of Commons and House of Lords: All Committee publications, including published evidence given to the Committee, are available at: http://www.parliament.uk/parliamentary_committees/parliamentary_committees16.cfm

SESSION 2004/05

ODPM: Housing, Planning, Local Government and the Regions Committee

Third Report
HC 61-i & ii
(Cm 6490) **Homelessness** *published 27th January 2005*

Lords EU Committee
Ninth Report
HL 76 **European Defence Agency** *published 16th March 2005*

Constitutional Affairs and ODPM: Housing, Planning, Local Government and the Regions Committee
First Joint Report
HC 243-i, ii & iii **Electoral Registration** *published 24th March 2005*

Lords EU Committee
Thirteenth Report
HL 96 **Preventing Proliferation of Weapons of Mass Destruction: The EU Contribution** *published 5th April 2005*

SESSION 2003/04

ODPM: Housing, Planning, Local Government and the Regions Committee

Seventh Report
HC 400-i & iii
(HC 973) **Postal Voting** *published 20th May 04*

Lords Science and Technology Committee
Fourth Report
HL 126-i & ii **Renewable Energy: Practicalities** *published 15th July 2004*

Environment, Food and Rural Affairs Committee
Fourteenth Report
HC 475
(HC 1255) **Sites of Special Scientific Interest: Conserving the Jewels of England's Natural Heritage** *published 15th July 2004*

Welsh Affairs Committee
Fourth Report
HC 759
(HC1252) **Draft Transport (Wales) Bill** *published 19th July 2004*

Evidence to Public Accounts Committee and Reports

SESSION 2004/05

Reports (Government Responses are listed in brackets after the report)

Eighth Report
HC 386

Ministry of Defence: Battlefield Helicopters

MoD Evidence

Major Projects Report 2004

HC 294-i

Oral Evidence given by Sir Peter Spencer KCB, Chief of Defence Procurement and Lieutenant General Robert Fulton, Deputy Chief of Defence Staff Equipment Capability, Ministry of Defence.

The Rapid Procurement of Capability to Support Operations

HC 70-i

Oral Evidence given by Sir Kevin Tebbit, KCB, CMG, Permanent Under Secretary of State and Lieutenant General Robert Fulton, Deputy Chief of Defence Staff Equipment Capability, Ministry of Defence.

SESSION 2003/04

Reports (Government Responses are listed in brackets after the report)

Thirty-ninth Report
HC 273
(Cm 6355)

Operation TELIC: United Kingdom military operations in Iraq.

Forty-third Report
HC 383
(Cm 6416)

Ministry of Defence: Major Projects Report 2003

ANNEX C:

Organisation and Management of Defence

Secretary of State and Ministers

1. The Secretary of State for Defence is responsible for the formulation and conduct of defence policy. He is supported by a Minister of State for the Armed Forces, and two Parliamentary Under-Secretaries of State (one for Defence Procurement and one for Veterans).

Strategic Control

2. Beneath Ministers lies the top management of the MoD, comprising eleven senior officials and Service officers. The Secretary of State has two principal advisers: the Permanent Under Secretary of State (PUS), and the Chief of the Defence Staff (CDS). They share responsibility for much of the Department's business, reflecting the input that both military and civilian personnel make to political, financial, administrative and operational matters. The PUS has primary responsibility for policy, finance and administration in the Department. He is the MoD's Principal Accounting Officer and is personally accountable to Parliament for the expenditure of all public money voted for Defence purposes. CDS is the professional head of the Armed Forces and the principal military adviser to the Secretary of State and the Government. PUS and CDS each have a deputy; the Second Permanent Under Secretary of State (2nd PUS), and the Vice Chief of the Defence Staff (VCDS). They jointly head the Central Staff or Head Office.

3. Defence is managed through a system of high level boards and committees that provide corporate leadership, with strategic control and direction flowing from the Defence Council, the Defence Management Board (DMB) and the Chiefs of Staff Committee. This

ensures that the Department operates as one entity.

The Defence Council

4. The Defence Council is the senior Departmental committee. It is chaired by the Secretary of State, and comprises the other Ministers, the PUS and CDS, and eight other senior Service officers and officials. It provides the formal legal basis for the conduct of defence in the UK through a range of powers vested in it by statute and Letters Patent.

The Defence Management Board

5. The DMB is the highest, non-ministerial committee in the MoD. Chaired by PUS, it is essentially the main corporate board of the MoD, providing senior level leadership and strategic management of Defence. Its role is to deliver the Defence aim set out in the Public Service Agreement; it also owns the Defence Vision. The Board is made up of the non-Ministerial members of the Defence Council, the Department's Finance Director and two external, independent members. The DMB is responsible for:

- the role of Defence – providing strategic direction, vision and values;
- objectives and targets – establishing the key priorities and defence capabilities necessary to deliver the MoD's Departmental objectives;
- resource allocation and strategic balance of investment – to match Defence priorities and objectives; and
- performance management – managing and driving corporate performance.

The Chiefs of Staff Committee

6. The Chiefs of Staff Committee is chaired by CDS and is the main forum in which the collective military



Members of the Defence Council May 2005

advice of the Chiefs is obtained on operational issues, and through which CDS discharges his responsibility for the preparation and conduct of military operations.

The Service Boards

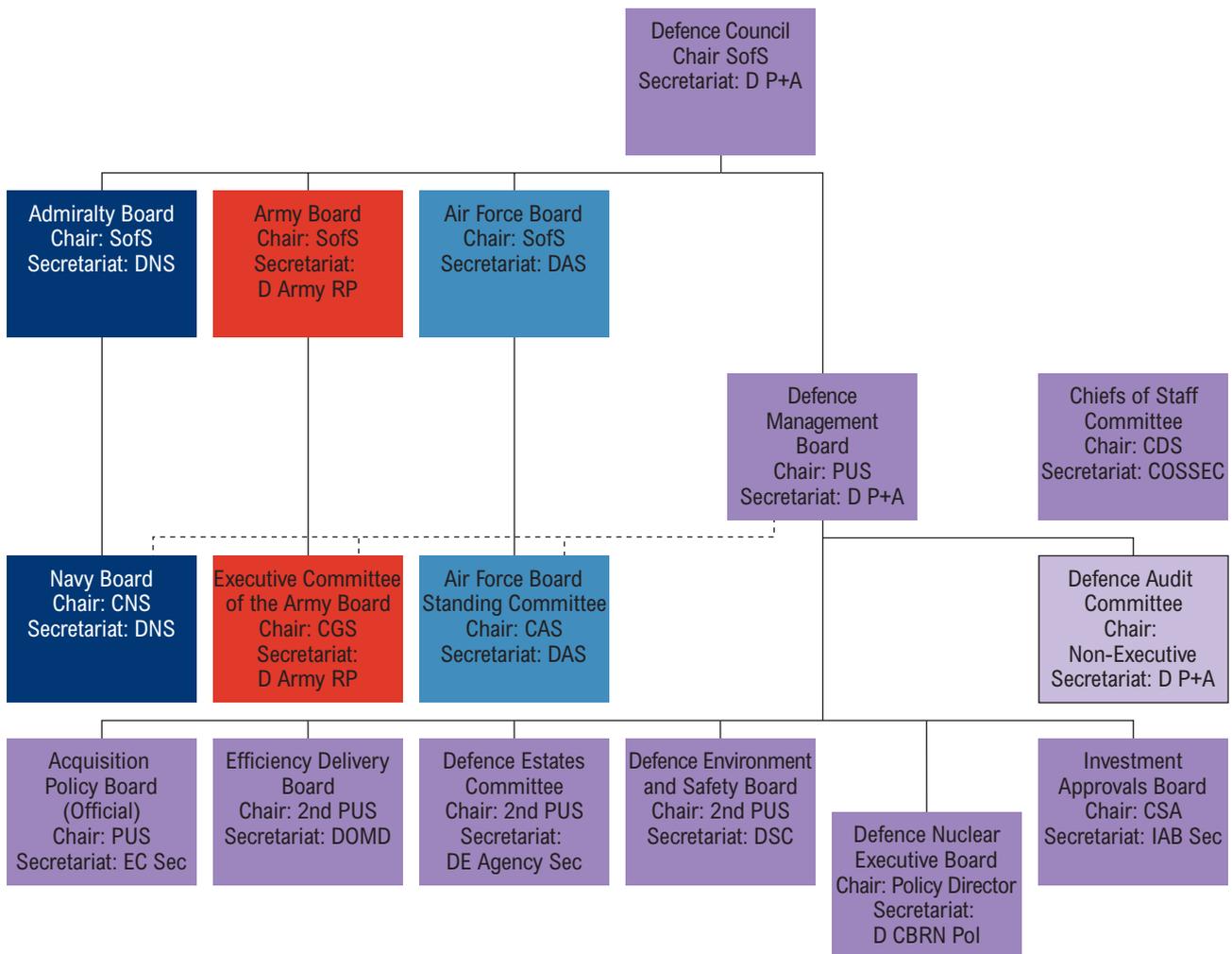
7. Whilst the DMB is responsible for managing the delivery of key Departmental outputs, the administration of the single Services and their personnel is delegated to the Service Boards (the Admiralty, Army and Air Force Boards) from the Defence Council. The Service Boards are chaired by Ministers and monitor Service performance as well as exercising quasi-judicial functions, such as discipline and redress of grievance.

Service Executive Committees

8. Service Executive Committees (SECs) assist their Service Chiefs in their roles as members of the DMB and in their operational and management advisory roles within the Department. The Committees bring together, under their respective single Service Chief of Staff, the operational and personnel commanders for each service, and are responsible for translating defence wide objectives into priorities and targets for each Service. The Committees are:

- the Navy Board;
- the Executive Committee of the Army Board; and
- the Air Force Board Standing Committee.

Figure 13: Top level committee structure



The Head Office

9. The Head Office is responsible for leading the Defence contribution to the development of the Government's foreign and security policy and wider HMG objectives, and for translating those objectives into departmental policy and the defence capability needed to deliver it. The Head Office has four main roles:

- advising government on defence
- making policy and setting departmental strategy
- planning and resource allocation
- management of defence

Top Level Budgets and Agencies

10. Most defence activity takes place outside the MoD Head Office and is managed through twelve Top Level Budget (TLB) holders (thirteen from 1 April 2005), (shown in figure 14) and five Trading funds not included in the TLB structure. PUS grants each TLB holder extensive delegated powers over personnel, infrastructure and budget. The Navy, Army and Air Force each have two separate TLBs for their Operational and Personnel commands, and the Army has a third TLB for Northern Ireland.

11. The other TLBs are Defence rather than single Service organisations. These are:

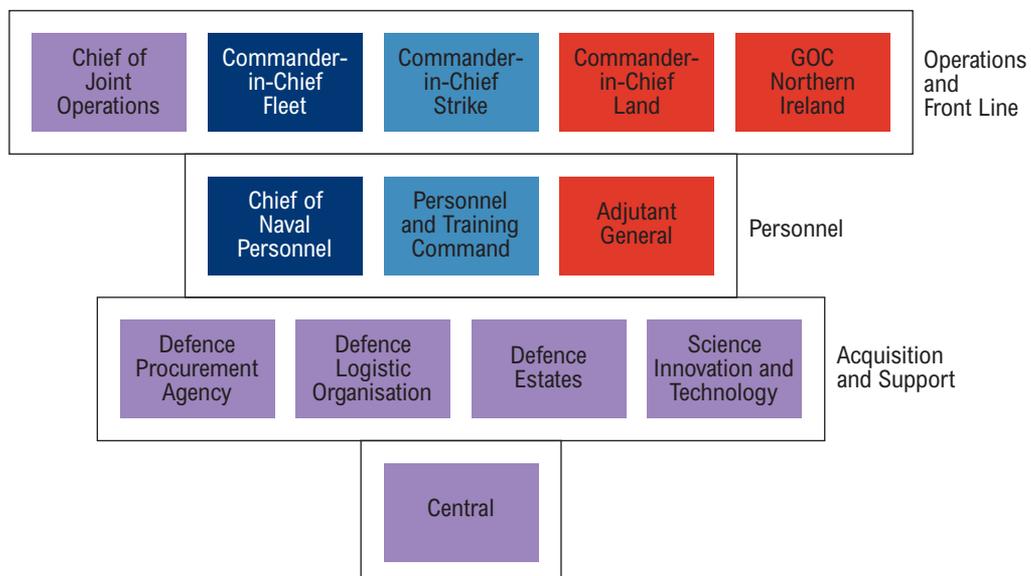
- Chief of Joint Operations, who is responsible for the planning and execution of joint (tri-Service) operations, and for the management of Permanent

Joint Operating Bases in Cyprus, Gibraltar, the Falkland Islands and Diego Garcia;

- the Defence Procurement Agency, which procures equipment for all three Services;
- the Defence Logistics Organisation, the sole authority for providing logistics support to the armed forces;
- the Central TLB, including the MoD Head Office and providing corporate services to other TLBs;
- the Science, Innovation and Technology TLB, headed by the Chief Scientific Adviser, who is responsible for delivering expert advice and developing scientific and technological solutions to satisfy MoD's needs and problems; and,
- Defence Estates, which delivers estate maintenance, works and services, and manages service housing.

12. Each TLB holder has a 'contract' with MoD Head Office, known as a Service Delivery Agreement, which specifies the outputs required of that TLB, the resources they are given to deliver these outputs, and the authority delegated to TLB holders by the PUS. Within the TLB structure are a range of agencies, spanning the bulk of Defence support activity, including logistics, training and corporate services such as bill paying and policing (see Annex C). The Secretary of State owns and is ultimately accountable for the performance of Defence agencies and Trading Funds.

Figure 14: Top Level Budget structure of the Ministry of Defence



ANNEX D

Performance Management Systems

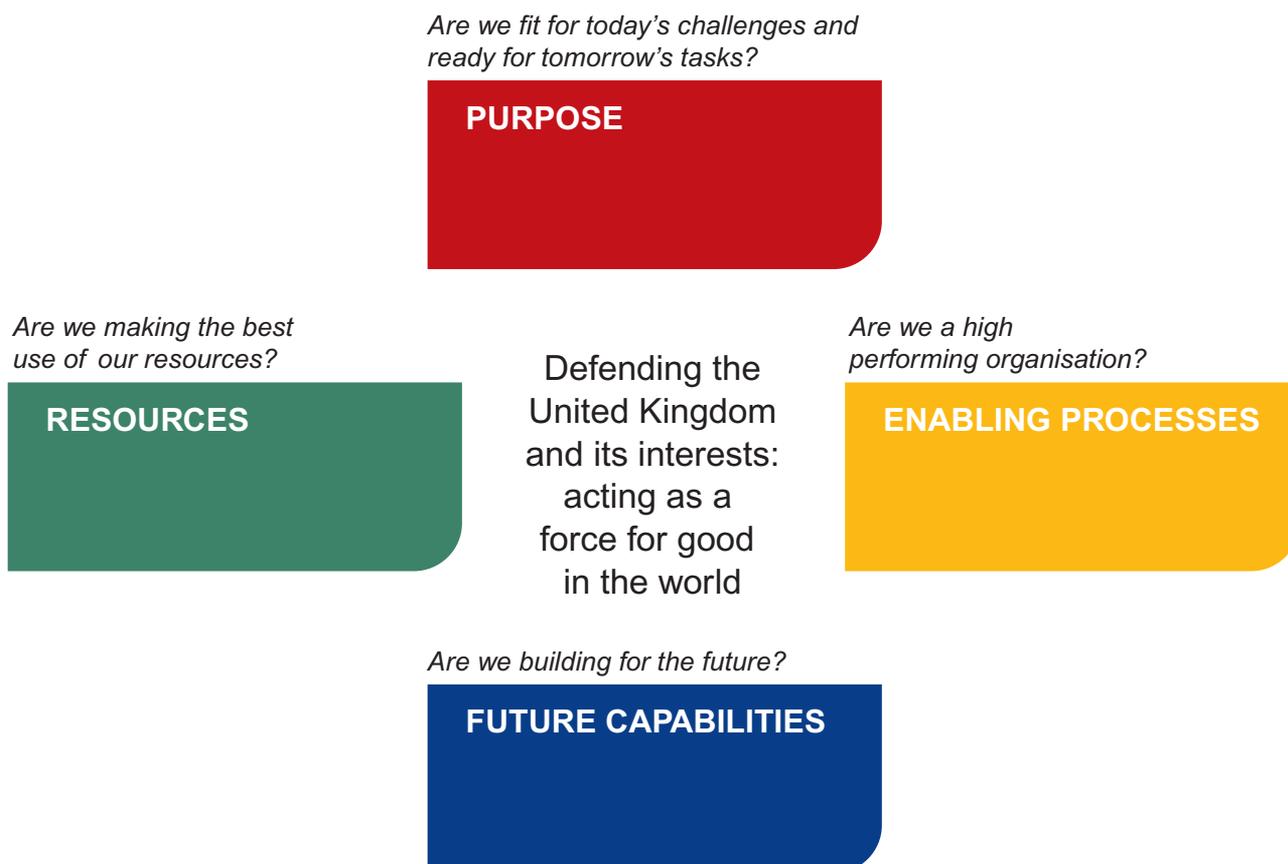
1. Performance management in the MoD continues to be based on the balanced scorecard approach. The Defence Balanced Scorecard sets out the department's top level strategic objectives, including our PSA targets. It enables the Defence Management Board (DMB) to monitor performance, both current and forecast, in pursuit of these objectives. The scorecard approach has formed the basis of performance management in MoD for around five years. During this time, it has evolved into a highly sophisticated and well-regarded management tool, providing the DMB with an extremely reliable insight into the department's ability to achieve the Defence Vision.

2. The balanced scorecard is based on a management theory expounded by Professor Robert Kaplan and Dr David Norton of the Harvard Business School. Following detailed studies, they argued that a characteristic of failing organisations is a tendency

to focus too much management attention on a narrowly confined set of objectives, most commonly associated with maximising short-term financial gain. By contrast, successful organisations concentrate their attention across a balanced range of key strategic activities, thereby safeguarding their long-term health. Kaplan and Norton's balanced scorecard approach provides a systematic framework in which to achieve this. It encourages management boards to view their business from a number of different perspectives which, when allied to a systematic performance reporting process, ensures that boards can keep track of how well the organisation is translating its high-level strategy into action.

3. The original Kaplan and Norton scorecard was devised with the needs of private sector organisations in mind. As a public sector organisation, we have adapted their model so that it better serves our own requirements. The Defence Balanced Scorecard has the four perspectives of Purpose, Resources, Enabling Processes and Future Capabilities as shown in Figure 15.

Figure 15: Top level 2004 Defence Balanced Scorecard



4. There are four key strategic objectives in each perspective. Looked at collectively, they cover the whole of the MoD's principal areas of business. Performance against each of the objectives is assessed on a quarterly basis. To allow this process to operate to best effect, targets setting out required levels of performance, primarily over the coming four years, are agreed with those in the department who are responsible for achieving the objectives. A series of detailed performance indicators and metrics, the means by which we measure performance, is also agreed. The performance indicators we use are a mixture of lag indicators (which inform the Board about actual achievements) and lead indicators (where the focus is on assessing the effectiveness of current progress). The metrics we use are tailored to provide the best available information about performance levels. In some cases, this means drawing on factual and statistical data, for others it may mean using written assessments, either provided by objective sources or subjected to lower level scrutiny and audit. Agreeing the objectives, targets, performance indicators and metrics is the subject of an annual exercise, conducted prior to the publication of the Departmental Plan.

5. The DMB receives a detailed performance report four times a year. The report uses a four colour traffic light coding system to illustrate which objectives are on track and where weaknesses of varying significance lie. In general, the report will include an assessment of actual performance from the previous and current quarter, and a forecast of performance against planned activity over the coming three to four years. High level strategic analysis of the issues underpinning the performance assessments also features in the report, together with an assessment of the key risks that could jeopardise the achievement of objectives. The information they receive is used to inform board discussion and decision – it may, for example, lead to adjustments in strategic direction and priorities, or the reallocation of resources. And as the department's performance against PSA targets is assessed in the Defence Balanced Scorecard, the data collected is also used to inform reports to Parliament, No 10, HM Treasury and the Cabinet Office.

6. Our performance management approach has been subject to thorough review over the last three years, first in 2002 by the department's internal auditors and then in 2003-04 by the NAO, who conducted an external review of our PSA reporting arrangements. Both reviews provided favourable assurance. During 2004-05, the NAO conducted a further review, this time looking specifically at our systems for assessing and reporting military readiness. They concluded that the Department has good system for reporting readiness levels that is continuously

improving. They also noted that recent operations have largely validated the accuracy of the readiness reporting system.

7. Our performance reporting approach continues to attract interest from wider audiences, including other Government departments, local authorities and international Defence departments. MoD performance management experts are regularly invited to address performance management events. And the work we have been conducting to explore the potential for selling our performance management tool into the wider commercial market is now at an advanced stage.

ANNEX E:

Defence Agency Performance

Table 22: Defence Agency Performance

Agency	Key Targets 2004-05						Key Targets 2003-04	
	Targets Met/ Targets Set	Proportion Met	Marginal Miss	Better Performance	Significantly Better Performance ⁴	Targets not directly comparable to 2003-04 ⁵	Targets Met/ Targets Set	Proportion Met
Armed Forces Personnel Administration Agency	7/7	100%	0	1	0	3	9/9	100%
ABRO Trading Fund	4/5	80%	0	0	0	0	5/5	100%
Army Training and Recruiting Agency	3/5	60%	0	0	0	3	4/5	80%
British Forces Post Office	5/6	83%	0	0	0	5	10/11	91%
Defence Analytical Services Agency	7/7	100%	0	3	0	2	7/8	88%
Defence Aviation Repair Agency (Trading Fund)	4/4	100%	0	2	0	2	4/4	100%
Defence Bills Agency	6/6	100%	0	3	1	1	6/6	100%
Defence Communication Services Agency	6/7	86%	1	2	1	1	6/7	86%
Defence Dental Agency ⁶	4/6	67%	1	1	2	0	3/6	50%
Defence Estates	10/15	67%	3	5	4	1	10/11	91%
Defence Geographic and Imagery Intelligence Agency ⁶	9/15	60%	0	0	2	7	6/8	75%
Defence Intelligence and Security Centre ⁶	4/4	100%	0	4	0	0	2/4	50%
Defence Medical Education and Training Agency	5/7	72%	0	0	0	2	7/7	100%
Defence Procurement Agency	5/6	83%	1	1	2	2	2/5	40%
Defence Science and Technology Laboratory(Trading Fund)	7/7	100%	0	4	0	3	7/7	100%
Defence Storage and Distribution Agency	6/6	100%	0	1	0	1	2/6	33%
Defence Transport and Movements Agency	5/6	83%	0	0	0	1	3/3	100%
Defence Vetting Agency	6/12	50%	1	0	4	1	8/17	47%
Disposal Services Agency	4/5	80%	0	0	0	1	4/4	100%
Duke of York's Royal Military School ⁶	7/8	88%	1	2	1	0	5/8	63%
Medical Supplies Agency ⁶	3/4	75%	0	0	2	0	1/5	20%
Met Office (Trading Fund)	4/7	57%	0	1	2	4	6/7	86%
MoD Police and Guarding Agency ⁷	4/8	50%	3	3	1	2	2/8	25%
Naval Recruiting and Training Agency	5/8	63%	1	3	0	0	4/7	57%

Table 22: Defence Agency Performance *continued*

Agency	Key Targets 2004-05			Key Targets 2003-04				
	Targets Met/ Targets Set	Proportion Met	Marginal Miss	Better Performance	Significantly Better Performance ⁴	Targets not directly comparable to 2003-04 ⁵	Targets Met/ Targets Set	Proportion Met
Pay and Personnel Agency	6/6	100%	0	3	0	3	5/6	83%
Queen Victoria School ⁶	5/5	100%	0	0	2	0	5/5	100%
RAF Training Group Defence Agency	2/6	33%	1	0	0	1	5/7	71%
Service Children's Education	15/29	52%	9	0	0	26	5/16	31%
UK Hydrographic Office (Trading Fund)	8/9	89%	0	4	2	2	9/11	82%
Veterans Agency	7/7	100%	0	2	2	1	5/6	83%
Warship Support Agency ⁶	5/11	45%	0	1	0	1	5/8	63%
Total		78%						71%⁸

Notes:

- [1] Where there are multiple elements to a Key Target these have been counted separately.
- [2] Where a target is judged to be narrowly missed eg by a shortfall of under 2%.
- [3] Where outturn against a measure, or commentary on performance, indicates improvement over the previous year. Only applicable to Key Targets that have remained the same since 2003-04.
- [4] Where there were large changes in possible performance against comparable measures for the previous year. These have generally been taken as at least a 5% increment in performance.
- [5] Since the formation of the Directorate of Business Delivery in 2003, Agencies have been encouraged to re-assess key targets in order to make them more relevant/challenging.
- [6] De-agencified 1 April 05
- [7] Renamed Ministry of Defence Police and Guarding Agency in April 2004 after merging with the Ministry of Defence Guarding Service.
- [8] The total % figure for all agencies for 03/04 was given as 72% in the Defence Performance Report 03/04. The above table gives a figure of 71% because it excludes the three service manning agencies – they lost their agency status from 1 April 04.

Background

1. Despite continuing pressures caused by Op Telic and other commitments, Defence Agencies performed well in 2004-05, with 78% of the key targets being met – 6% better than 2003-04. Ten Agencies met all their key targets.

Organisational Changes

2. On 1 April 2004, the number of on-vote Defence Agencies reduced from 30 to 26 as a result of the merger of the **Defence Housing Executive Agency** with **Defence Estates** and the removal of agency status from the three single service manning agencies (**the Naval Manning Agency, the Army Personnel Centre and the RAF Personnel Management Agency**). From 1 April 05 agency status was removed from a further six on-vote agencies. These were the **Warship Support Agency, the Medical Supplies Agency, the Defence Dental Agency, the Queen Victoria School, the Defence Geographic and Imagery Intelligence Agency and the Defence Intelligence and Security Centre**.

3. In addition **Defence Estates** took on dual status as both an agency and a Top Level Budget. The **Disposal Services Agency** merged with the DLO's Head of Specialisation (Disposal Sales) and the enhanced organisation moved from under the ownership of MoD Centre to the Defence Logistics Organisation from 1 April 05.

4. An Agency Business Review in 2004 confirmed the **Defence Vetting Agency's** continuing status as an Agency, with aspirations and the ability to take on more government vetting work in the future. The **Armed Forces Personnel Administration Agency** assumed responsibility for the new Joint Casualty and Compassionate Centre and the tri-service MoD Medal Office.

On-Vote Agencies

Logistics

6. Ongoing operations continued to have a significant impact on many of MoD's agencies. For example demand for services provided by the **Defence Storage and Distribution Agency** increased by 3%. This equated to an additional 14,000 receipts which

were completed within the original budget and performance criteria.

7. Similarly the primary focus of the **Defence Transport and Movements Agency** has continued to be the provision of transport and movements services to emerging and enduring operations. The period was punctuated by a number of extremely short notice tasks including Op GARRON in support of the Indonesian Tsunami disaster. Whilst it marginally missed its average cost of output target, the agency has championed the use of electronic internet based Reverse Auctions as part of the procurement process. For example £6M of savings have been realised through the five year life of the European Freight Transportation Service contract.

8. The **Warship Support Agency** delivered the agreed number of vessels that were materially fit to meet their current operational tasking. They also exceeded target improvements in the quantity and standard of Single Living Accommodation and efficiency. However targets relating to vessels and readiness criteria were missed due to a mixture of one off system failures and persistent equipment problems. A number of unforeseen incidents also impacted on the quality of services provided at the Naval Bases.

9. The **Medical Supplies Agency** continued to support the considerable operational demands placed upon it. Whilst the organisation missed its target relating to the operational build programme, the Medical Support Agency Transformation Programme is on track to generate a £15M saving and a reduction in manpower of 60%. It has also developed the direct delivery of Health Care, Pharmaceuticals and Dental Products.

10. The **British Forces Post Office** missed its efficiency target although a reduction in manpower levels was achieved. All output related targets were met and the agency continued to deal with a wide range of operational areas including a free Christmas packet service for all service personnel deployed on operations.

Recruiting and Training

11. Despite significant efforts by the **Naval Recruiting and Training Agency** Royal Naval Reserve and Royal Marine recruiting targets were not met. Although key target 1 (Outputs from Initial Training) was also missed, the performance was the best achieved since 1999-2000. The Defence College of Electromechanical Engineering stood up on 1 April 04 incorporating Army and RAF Training establishments at Bordon, Aborfield and RAF St Athan. Performance marginally improved over that achieved under single service management.

12. The **Army Training and Recruiting Agency** met the majority of its key targets. Nevertheless it suffered a 10.3% shortfall against its soldier recruiting targets mostly in the more technically demanding trades as well as short falls in officer recruiting. Output of soldiers from phase 2 training to the Field Army was 100% of target. There have also been improvements in first time pass rates and Churn compared to previous years. Wastage (loss to the Army) at phase 1 and 2 training has risen to 25.2% from last year's low of 22.4%. However this is still a reduction of 3% against the average wastage figures for all previous years. Low recruiting inflow coupled with current numbers in training means this trend will continue to have an impact on targets in future years.

13. The **RAF Training Group Defence Agency** met its RAF pilot output in full and generally overall pass rates were achieved or exceeded by four out of the five training streams improving pipeline efficiency. There have however been recruiting difficulties relating to airman aircrew which impacted on training targets. More generally work into the reduction in size of the RAF introduced uncertainty and difficulties in relation to recruiting and training targets.

14. The **Defence Medical Education and Training Agency** missed their target relating to individual military training due to lack of local service facilities. Plans to develop a stand alone output costing system were stopped part way through the year in order to de-conflict with several emerging Departmental level initiatives. The agency continued to meet 100% of the requirement placed upon it for secondary care medical personnel for operational deployment and exercise commitments.

15. The **Defence Intelligence and Security Centre** met all its key targets. The agency delivered some 152,000 Trainee Training days, completed the construction of 300 new Single Living Accommodation rooms, established the Defence College of Intelligence and engaged with the Defence Training Review Bidders at Invitation to Tender stage.

Personnel Administration

16. The **Armed Forces Personnel Administration Agency** met or exceeded all its key targets including those relating to accuracy, timeliness of payments and unit cost. The Joint Personnel Administration modernisation project was developed successfully, enabling a contract to be signed for the system to enter service in 2006.

17. The **Pay and Personnel Agency** also met all its key targets. It successfully achieved Charter Mark accreditation, the government's national standard for excellence in customer service. Performance relating to average timeliness, accuracy and customer

satisfaction rates all improved and the agency achieved reductions in unit cost targets for payments and awards.

18. The Defence Vetting Agency's performance in completing the higher level Developed Vetting clearances significantly improved due to better case management and smarter working. Performance in completing the routine lower level Counter Terrorist and Security Checks was held back during the year due to ongoing staffing and retention problems, together with delays in obtaining Security Service checks.

19. The Veterans Agency met all its key targets with the average clearance time for claims to war pension reduced by 6.6% and for claims from war widows by 12%. Sick absence rates amongst staff reduced to an average of 8.88 working days per member of staff compared to 13.96 working days in June 2003. The agency was re-accredited against both the new Investors in People and Charter Mark standards in 2004. They were also the first Civil Service organisation to achieve the new IIP Leadership and Management model in March 2005.

Specialist Service Provision

20. The Defence Analytical Services Agency met all its key targets and achieved an overall rating of 97% for customer satisfaction. The merger with the Directorate of Economic Advice has strengthened the agency's quest to link more closely and have more impact on central policy making within the MoD.

21. The Ministry of Defence Police and Guarding Agency achieved a crime solving rate of 67% for Primary Crime against a target of 50% as well as consistently providing agreed levels of security at stations using its security contribution index. It also significantly reduced sickness and overtime rates. Despite strenuous efforts to encourage the recruitment of more women and ethnic minority community officers, the agency was unable to meet related targets.

22. The Defence Geographic and Imagery Intelligence Agency continued to provide support to a range of operations (Imagery Intelligence, Geographic information and Deployed Force Elements). The Agency also achieved a 36% increase in Geographic product outputs especially satisfying customer demand for digital products and made significant improvements in Imagery Exploitation Programme outputs against 03/04. There were geographic information shortfalls for Contingency and Strategic Planning due to resource pressures.

23. The Defence Dental Agency achieved the majority of its key targets – the attainment of Individual Training directives improved significantly

and the treatment needs index of the RN reduced by 13%. Against this the treatment needs index of the RAF rose by 7% and the percentage of Service personnel assessed as high dental risks rose by 1%.

24. The Disposal Services Agency exceeded its gross cash receipts target of £20M to achieve some £22M.

Children's Education

25. The Service Children's Education agency achieved or marginally missed 24 out of 29 individual targets. There is a high level of pupil mobility within SCE schools and the extended Military deployment of parents on Op TELIC has continued to have an impact on results. Notwithstanding this however SCE's notional position in the English Local Education Authority league tables remains high (ninth at key stage 1, twenty-fourth at Key Stage 2 and eighteenth at Key Stage 3 of 150 LEAs). Academic results for the **Duke of York's Royal Military School** and **Queen Victoria School** continued to improve year on year with both schools generally scoring well above the national average.

Defence Estates and Defence Procurement Agency

26. Further details relating to **Defence Estates** and the **Defence Procurement Agency** can be found in the body of the MoD Annual Report and Accounts.

Trading Funds and QinetiQ

27. An account of MoD's policy as a business owner towards its five Trading Fund Agencies and QinetiQ (a company formed from a former Trading Fund) is given at page 58. The following sections give an overview of the purpose, objectives, and performance of each business, and a survey of the current issues they face.

ABRO

28. ABRO is a defence engineering business that provides repair, re-manufacture and engineering of land based equipment in support of the UK Armed Forces, together with the provision of services to a number of fleet services and rail businesses.

29. ABRO has the following objectives:

- service to MoD customers. To provide a responsive, flexible and highly competitive service to the UK Armed Forces.

- grow the value of the business. Subject to delivering against its contractual obligations to the MoD, ABRO is required to extract maximum long-term value from its assets and capabilities by generating profitable revenue from customers outside Government.

30. ABRO continued its excellent operational performance in 2004/05, including the delivery of 600 unprogrammed urgent operational requirements. It exceeded its revenue target of £150M (2003/04: £150M), and delivered the required reductions in average equipment repair price (9% in 2004/05). However, overall financial performance was disappointing. Net income fell from £11.9M in 2003-04 to a loss of £5.3M in 2004-05, and the ROCE fell from 16.7% to -5.3%. The main reason behind the fall in profitability was a £10M provision for obsolete and surplus stock, which resulted from a programme to take control of ABRO's supply chain, including the implementation of a new materials-handling IT system.

31. New governance arrangements were also implemented in 2004-05, with a new independent chairman being appointed to the ABRO Board.

32. During 2004-05, the MoD conducted a review of ABRO which concluded that to improve its future prospects, ABRO needed to become significantly more competitive and diversify its revenue base. The challenge for the new Chief Executive will be to:

- improve the efficiency of the business;
- pursue, incrementally, profitable non-defence business streams that build on ABRO's core capabilities;
- make significant progress towards achieving a more arm's length contractual arrangement with ABRO's MoD customers;
- continue to make substantial progress towards improving the effectiveness and efficiency of ABRO's supply chain management.

DARA

33. DARA provides deep-level maintenance, repair and overhaul services for military aircraft, systems and components. The MoD defence related work accounts for the vast majority of DARA's revenue, either directly from the MoD or as a sub-contractor to defence Original Equipment Manufacturers.

34. The objective of DARA is to provide a responsive, flexible and highly competitive service to the UK Armed Forces.

35. Against the background of a year in which DARA's future prospects became considerably more uncertain, the business performed well. It continued to deliver the key requirements of its MoD customers. There were only two major DARA attributable customer concerns. DARA also consolidated its St Athan facilities into the new Red Dragon superhanger. Despite revenue falling £19M to £171M in 2004-05, DARA cut costs more quickly such that net income increased from £6.5M to £7.5M in 2004-05. ROCE performance increased from 5.7% to 6.7%.

36. There are a number of factors impacting on DARA's future prospects:

- the End to End Review of Defence Logistics, announced in November 2004, concluded that maintenance, repair and overhaul work on DARA's most important platform, the Tornado GR4, should be transferred to RAF Marham. This followed the earlier decision to transfer Harrier work to RAF Cottesmore.
- DARA has secured additional contracts on VC10 and the Chinook, Lynx and Sea King rotary platforms. These are in the process of rolling back from Main Operating Bases to DARA Fleetlands.
- the Strategic Review of DARA conducted by the MoD in 2004-05 concluded that, in principle, there was no strategic imperative for DARA to remain in MoD ownership. Morgan Stanley was commissioned to consider the potential market interest in acquiring some or all of the DARA business units.

37. These changes have major implications for DARA, particularly its employees. The MoD recognises that on-going uncertainty is unwelcome, particularly for the DARA workforce, and is endeavouring to reach a properly considered decision on the future of DARA as soon as possible; this will be on the basis of an impartial assessment of what offers the best value for defence.

38. The challenge for DARA going forward is to maintain its professional and world class service despite the on-going uncertainty. It will also need to manage efficiently and effectively the implementation of any future decisions on corporate structure.

Defence Science and Technology Laboratory

39. The Defence Science and Technology Laboratory's core role is to provide independent and objective, high-quality scientific, analytical, technological and engineering advice and services to the MoD and UK Armed Forces. Its mission is to create the winning edge for UK Forces and Government through the best use of science and technology.

40. The overall objective of the Dstl Trading Fund is to create and deliver value to the taxpayer by using its assets and capabilities to deliver timely advice and solutions to the Government's most important defence and national security related problems in the most efficient and effective manner.

41. Value is created and delivered to the taxpayer in the following areas:

- meeting the requirements of MoD;
- meeting the defence and national security-related requirements of other Governmental customers; and
- exploiting Dstl's intellectual property, in line with Government policy for technology transfer in order to generate value for money for the taxpayer.

42. To fulfil its role Dstl is expected to:

- maintain a high level overview of science and engineering;
- be world leading in areas such as systems and capability engineering advice;
- actively engage with industry, government laboratories and academia.

43. Turnover fell slightly in 2004-05, although Dstl has actually performed better than budgeted in terms of profit. Although ROCE has fallen from 11.9% to 9.4%, it is still well above target. Manpower charge-rates were maintained below target for the fourth consecutive year indicating a reduction in real terms of the cost to customers. Dstl has also continued to demonstrate improvements in terms of customer satisfaction targets and technical benchmarking.

44. During 2004-05 MoD has been developing new top-level-objectives with Dstl and a non-executive chairman has been recruited as part of the development of new corporate governance arrangements. Dstl has restructured its senior executive management team to align better the responsibilities of Dstl's directors with its major change programmes – introducing an Operations Director, a Director Future Business and two Programme Director posts. In April 2005 it set up a new wholly owned company Ploughshare Innovation Ltd to pursue Dstl's technology transfer agenda.

45. Dstl is undertaking a major change programme to create an integrated laboratory for the future known as "i lab". This links a number of strategic improvement programmes. A key challenge in

relation to this over the next three years will be to rationalise the Dstl estate to a small number of sites in order to:

- Reduce fragmentation of Dstl's science and technology base, thus maximising coherence, synergy and integration;
- Sustain Dstl's long-term future by minimising overheads and reducing unnecessary duplication;
- Rationalise the sourcing of facilities management services to one contract.

Met Office

46. The Met Office provides the official national meteorological service for the UK, and is a world-leading provider of environmental and weather-related services in the UK and around the world.

47. The overall objective of the Met Office is to deliver value to the UK taxpayer in three distinct senses, which are reflected in its main objectives:

- services to the Public. To deliver efficiently, effectively and with value-for-money, a Public Met Service including free-at-point-of-use services to the public; and the underpinning capability to sustain and develop this in the future, including the science base and investment in key infrastructure.
- services to Central Government. To use weather-related information to assist government departments in achieving their objectives, in ways which do not lend themselves to direct competition. Key Customer departments include MoD and DEFRA.
- services provided on a commercial basis. Consistent with achieving the objectives above, the Met Office is to maximise the return to the taxpayer by drawing in profitable revenue from sources not directly funded by the Exchequer, including local government organisations, public bodies overseas, and private sector customers.

48. A reasonable trading performance in 2003-04 was overshadowed by the financial impact of its move from Bracknell to Exeter in 2004-05. Results were much more encouraging in 2004-05, however, reflecting some of the benefits of the relocation. Turnover increased by 3% to £165.6M in 2004-05 and there was a healthy operating profit of £9.5M. ROCE performance at 7.6% was respectable for an organisation the majority of whose services are delivered on an uncompleted basis to government customers and with constrained profit margins.

49. During 2004-05 the Met Office has been refining and refocusing its aims and the way it delivers its business. It has refreshed its vision, developed new top-level objectives and refocused its strategy and Corporate Plan. A new top-level Executive structure has also been put in place to drive the business forward. Over the coming year and beyond, the key challenges facing the Met Office are:

- improving its performance in generating commercial revenue. New strategies, management and organisational structures are being put in place to deliver this and reinforce compliance with competition law.
- improving the efficiency with which services are provided to Central Government.
- developing a stronger sense of customer-focus across the organisation as a whole.

United Kingdom Hydrographic Office

50. The UKHO exists to help preserve life and safety at sea. The hydrographic information it provides is crucial to support operations by the Royal Navy around the world. The UKHO also plays a central role in discharging the UK's treaty obligations to provide hydrographic services for waters of UK national responsibility, as required under international convention.

51. The objectives of the UK Hydrographic Office are to deliver:

- operational Support to the Royal Navy. The UKHO provides value to Defence by delivering the hydrographic services which enable the Defence customer (principally the Royal Navy) to meet current and potential future operational tasks.
- support to 'Safety at Sea' Treaty Obligations. In support of the Maritime and Coastguard Agency, to discharge efficiently and effectively those actions required in order to support the UK's obligations under the United Nations International Convention for the Safety of life at Sea, and to promote hydrographic services.
- profitable Business Streams. Subject to maintaining the capability to deliver against the two objectives above, the UKHO is required to extract maximum value from its assets and capabilities by generating profitable revenue from customers outside Government.

52. Turnover increased in 2004-05 by 6.3% to £68M. Growth in commercial sector sales was particularly strong with a rise of 8.2% to £57M. ROCE performance remained strong with a return

of 16.2% from an organisation that generates some 84% of its revenue from the commercial sector. The financial strength of the organisation was such that a Special Dividend of £16.3M was paid to the MoD in addition to the agreed annual dividend of £4.3M.

53. During 2004-05 MoD has been developing new top-level objectives for the UKHO and the process to recruit a new non-Executive Chairman was initiated. A new strategy is being refined to enable the UKHO to fulfil the business objective by becoming more market facing, actively and closely engaged in determining and fulfilling the changing needs of marine customers for hydrographic information. A significant investment is being made in new technology to provide the UKHO with the scope and flexibility to develop new digital products and value added services. The major challenges facing the UKHO in the coming years are:

- supporting the plan for the Royal Navy to become fully digital.
- the delivery of the Production Systems Programme in order to improve the efficiency of gathering and assessing hydrographic data and compiling charts and publications.
- the incremental roll-out of the new strategy for the UKHO.
- re-orientating the UKHO to become more outward looking.
- ensuring that the UKHO continues to bring together international data and expertise to provide a seamless variety of safety-critical digital products and services for the mariner.

QinetiQ

54. QinetiQ is a company incorporated under the Companies Act and is jointly owned by the MoD, The Carlyle Group and the employees of QinetiQ. It provides technological advice and services to MoD, other government departments, the US Department of Defence, and non-government customers.

55. The overall objective of QinetiQ is to deliver value to its shareholders. It aims to do this in two main directions as follows:

- services to customers. To grow the core business by continuing to deliver high quality services, advice and technologies to its customers.
- acquisitions. To deliver further profitable growth by acquiring profitable companies which fit strategically with QinetiQ's business, predominantly in the US but not exclusively so.

56. The results highlighted in QinetiQ's audited consolidated accounts and directors' report for 2004/05 reflect the further development of QinetiQ, with continued successful delivery in the core defence business, realisation of benefits from the commercialisation of intellectual property and growth in the key North American market through two successful acquisitions. Group turnover for the year grew 9.7% with acquisitions contributing £78.4M in the year; 10% of group turnover was derived from customers in North America (up from 2.1% the previous year). Operating margin increased from 6.6% to 8.0%, reflecting strong delivery performance from the growing volume of fixed price contracts in the UK business and the addition of higher margin product business in North America. This helped the operating profit grow 15% to £72M.

57. During 2004/5, QinetiQ undertook a major restructuring into three new sectors reflecting its three key areas of business: UK defence business, with responsibility for delivery to the MoD and the broader UK defence market; UK business activities in the commercial markets, including business in security and intelligence, space, energy, materials, and optronics; and its new North American Sector including Westar Aerospace and Defense Inc and Foster Miller Inc, companies acquired during the year, together with QinetiQ Inc, the Group's US focussed sales and marketing operation.

58. QinetiQ is now well-placed to grow its commercial defence and civil business while continuing to deliver value to its primary customer the MoD. The acquisitions of Westar and Foster Miller are intended to provide a springboard for further expansion in the North American markets.

Non-Departmental Public Bodies

59. The Department currently has six Executive and twelve Advisory NDPBs. Further details on their purpose, size and funding can be found on the MoD website at www.mod.uk. The Oil and Pipelines Agency (previously listed as both an NDPB and public corporation) is now formally classified as a public corporation only for Government purposes.

60. The Department's sponsored Executive NDPBs are museums and charities but retain close links with the Armed Forces. For example the RAF Museum has helped promote the RAF brand through a new range of RAF merchandising and the Royal Marines Museum has established a new Heritage Centre at the Commando Training Centre Royal Marines in Lympstone which will be used by all new recruits to learn about the history of the Corps.

61. The museums also contribute to the broader government agenda relating to heritage, education, veterans and social inclusion. For example the Royal Naval Museum has been a key contributor, nationally and locally to the planning of the Trafalgar Bicentenary celebrations and the National Army Museum ran a series of special programmes to mark the 90th Anniversary of the outbreak of the First World War. The Royal Navy Submarine Museum participated in the Museums and Libraries Association South East regional hubs schools project "Exploring Science" whilst the Fleet Air Arm Museum completed a forensic examination of a 1944 Chance Vought Corsair aircraft, developing techniques which have prompted world wide interest in the innovative nature of the project.

62. The Royal Marines Museum maintained its status as a Quality Assured Visitor Attraction. It also introduced free admission for children under 16 dramatically increasing child visits by 164%. The RAFM site at Hendon was nominated for European Museum of the Year.

Further Information

63. Further details on agencies can be found in individual agency reports.

ANNEX F

Government Standards

Fraud

1. The deterrence and detection of irregularity, fraud, theft and corruption continued to derive benefit from the 2003 re-launch of the joint Defence Fraud Analysis Unit (DFAU) and MoD Police Fraud Squad awareness programme. This prompted a 50% increase over 2003-04 in line management requests for awareness training and 154 presentations were undertaken during the year supported by the introduction of an interactive electronic learning module. This initiative helped to sustain a rising volume of whistleblowing disclosure which contributed significantly to the total of 374 cases of suspected irregularity, fraud, theft and corruption recorded in 2004-05 with an estimated value of £5.01M. Suspected contract fraud accounted for 60 cases but there was a decline in the volume of reported theft cases over the previous year. The recruitment of additional staff by the DFAU to support a proactive role and wider interaction with all business areas was completed during the year enabling the unit to investigate increased volumes of suspicions while undertaking a programme of 13 'spot checks' of business areas.

Bill Payment

2. The table below shows the targets and performance achieved in settling bills relating to Defence.

	2004-05		2003-04	
	Target	Achieved	Target	Achieved
Defence Bills Agency	99.98% ¹ Within 11 days	99.98% 5,210,131 invoices representing £19.16Bn	99.90%	99.98%
ABRO	100%	96.00% 75,332 invoices representing £108.1M	100%	91.00%
Defence Aviation Repair Agency	100%	95.41% 17,108 invoices representing £203.8M	100%	98.00%
Defence Science and Technology Laboratory	98.00%	98.30% 40,906 invoices representing £225.3M	100%	99.79%
Met Office	99.00%	98.73% 13,396 invoices representing £52.471M	100%	99.10%
UK Hydrographic Office	100%	98.70% 12,226 invoices representing £51.646M	100%	99.10%

¹DBA's target is to pay 99.98% of correctly presented bills within 11 calendar days of receipt as part of the Department's 30 day payment target.

Open Government

3. Work continued throughout 2004-05 to prepare staff for full implementation of the Freedom Of Information (FOI) Act on 1 January 2005. This included participation by most management areas in an exercise to test their ability to handle requests in accordance with the Act. As well as reinforcing the understanding of core requirements, this provided useful experience in retrieving information, assessing the balance of public interest, interpreting the exemptions in the Act, and testing the utility of prototype guidance. Overall, the dry run proved to be valuable and some useful learning points emerged. These were shared through regular meetings with FOI practitioners and, where appropriate, reflected through amendments to the guidance issued for department-wide use.

4. Work to develop the Access to Information "Toolkit" was also a priority in the final count-down to full implementation of the FOI Act. Roll-out of this logging, management and performance monitoring system was completed in time for January. Some 850 staff are now using the system. General training on FOI was delivered through a 2 day course developed specifically for MoD staff. Some 900 staff attended this course between October and February with more sessions planned for new staff. More targeted training events were also arranged to address specific requirements. In particular it was decided that action should be taken to raise understanding of the responsibilities of senior managers: seminars targeted at this key group were held in October and November 2004.

5. Work has continued to raise the profile of record keeping across MoD in parallel with FOI awareness. Apart from the ongoing process of review and transfer of important records for public release at The National Archives (TNA), considerable effort was made in 2004 to re-consider and clear for early opening in Jan 2005 some 3,100 files which had already been transferred to TNA with later opening dates. Following FOI requests received by TNA since January, MoD has also considered the release of a significant number of records which remained closed on sensitivity grounds. As a result around 1,400 files in this category have been cleared for release by TNA.

6. Considerable progress has been made towards re-establishing access to the information in records sealed and removed from the archive of Top Secret and sensitive files in the Old War Office Building which have been seriously contaminated with asbestos. A purpose built facility has been established in compliance with health and safety asbestos regulations and a successful pilot project has been run to test possible processes for accessing these records. During this pilot it was possible to retrieve and produce clean copies of a number of documents urgently required for Departmental business. The Top Secret archive has now been re-opened for new deposits of records.

Table 24: Requests in 2004 for information under the Code of Practice on Access to Government Information (1)

Category	01/01/2004–31/12/2004	01/01/2003-31/12/2003
Number of Code requests dealt with over the period	1,630	1,941
Number of Code requests answered within twenty working days	1,621	1,867
Number of Code requests for which charges were made	1,534	1,324
Number of Code requests where some information was withheld	15	67
Number of internal reviews completed	8	3
Number of internal reviews completed within twenty working days	1	1
Number of internal reviews where the original decision was upheld (2)	5	0
Number of internal reviews where additional information was disclosed (2)	6	3
Number of investigations completed by the Parliamentary Ombudsman (3)	9	3
Number of Ombudsman investigations where MoD's decision was upheld (4)	9	0
Number of Ombudsman investigations where additional information was disclosed (4)	3	3

Notes:

(1) These figures include MoD agencies, Trading Funds and Non-Departmental Public Bodies for the calendar year 2004.

(2) In three cases the decision was upheld, but a small amount of further information was disclosed.

(3) In four cases, the Ombudsman's final report was not received until January or February 2005.

(4) In three cases some further information was disclosed. The Ombudsman fully upheld MoD's decision in two of these cases, and partially upheld the third.

Ministerial Correspondence

7. The table below shows Departmental and agency performance in replying to correspondence from Members of Parliament, Members of Devolved Legislatures, Members of the European Parliament, and Peers during 2004-05.

	Target set for despatch (working days)	Number of letters received for answer	Percentage of replies within target
Ministry of Defence (excluding Defence Agencies)	15	6224	62
Defence Agencies			
ABRO	15	1	100
Armed Forces Personnel Administration Agency	15	148	99
Army Training and Recruiting Agency	15	—	—
British Forces Post Office	15	6	83
Defence Analytical Services Agency	15	—	—
Defence Aviation Repair Agency	15	3	100
Defence Bills Agency	10	2	100
Defence Communication Services Agency	15	—	—
Defence Dental Agency	15	4	100
Defence Estates	15	12	92
Defence Geospatial Intelligence	15	2	100
Defence Intelligence and Security Centre	15	1	100
Defence Medical Education and Training Agency	15	—	—
Defence Procurement Agency	15	—	—
Defence Science and Technology Laboratory	15	—	—
Defence Storage and Distribution Agency	15	—	—
Defence Transport and Movements Agency	15	3	100
Defence Vetting Agency	7	4	75
Disposal Services Agency	15	2	50
Duke of York's Royal Military School	15	—	—
Medical Supplies Agency	15	2	100
Ministry of Defence Police	15	5	60
Naval Recruiting and Training Agency	15	2	100
Pay and Personnel Agency	10	7	100
Queen Victoria School	15	2	100
RAF Training Group Defence Agency	15	2	100
Service Children's Education	15	—	—
The Met Office	15	—	—
UK Hydrographic Office	15	2	100
Veterans Agency	15	272	99
Warship Support Agency	15	20	95

Notes:

- (1) Army Personnel Centre and RAF Personnel Management Agency de-Agencified on 1 April 2004.
- (2) Defence Geospatial Intelligence formerly named the Defence Geographic and Imagery Intelligence Agency.
- (3) Defence Housing Executive merged into Defence Estates on 1 April 2004.

Sponsorship

Table 26: Sponsorship between 1 Apr 2004 and 31 March 2005

Activity	TLB	Individual Sponsors	Company Contribution £ VAT EX
Royal Naval Presentation Team	Fleet	Jaguar	25,532
RNAS Culdrose Air Days		Lockheed Martin	19,500
Yeovilton Air Day		Rolls Royce	12,500
		Westlands Helicopters	17,000
		Aerosystems	5,000
Trafalgar 200	2SL	Lockheed Martin	18,000
		BP Shipping Ltd	25,000
		Trinity House Maritime Charity	58,500
		Fujitsu	10,000
		Anonymous Benefactor	500,000
ASPT	AG	Technogym	10,000
RRW Regimental Promotion	Land	Brains Brewery	12,766
Exercise Cambrian Patrol		Red Bull	11,915
The Rheindahlen & Elmpt Bulletin		Mitsubishi Motors Bruggen	15,915
Exercise Rhino Caterer 04		ESS Support Services Worldwide	9,489
Exercise Ocean Guardsman		BAe Systems plc	25,532
Exercise Spartan Hike		NAAFI	21,277
RAF Aerobatic Display Team	PTC	BAE Systems	24,000
		Breitling	12,170
		Total/Fina/Elf	8,850
		BP Air	18,000
RAF Falcons Parachute Display Team	STC	AVIA Match Company	10,222
		MG Rover	22,956
		Sonic Communications	5,000
Battle of Britain Memorial Flight		MG Rover	7,658
Navy Days 2004	DLO	Interserve plc	20,000
DESO Symposium	Centre	Barclays Capital	10,000
60th Anniversary WW2		Royal British Legion	13,000
Commemoration Event July 2005		CBI	15,000
		Beacon Millennium ltd	5,000
Veterans Agency 60 th Anniversary Booklets		Big Lottery Fund	100,000
Veterans Agency Helpline		Big Lottery Fund	100,000

Advertising

8. Over the course of the year, the three services have spent money on marketing and advertising. The total RAF marketing spend for FY04/05 was £9,365,099 and included within this amount is £3.2M spent on advertising. Marketing and advertising undertaken included a National TV Campaign, Local Marketing, Sponsorship, Exhibitions and Events, and Specialist Branch Marketing. The Army Recruiting Group marketing and advertising spend in FY 04/05, including costs associated with Territorial Army recruit marketing (responsibility for which was transferred from LAND in FY 01/02) was £85.381M. This figure encompasses the entire range of recruiting activity: marketing (national and local advertising, exhibitions, specialist advertising and market research), personnel (associated costs of recruiting staff), infrastructure (maintenance and rents/leases etc of Armed Forces Career Offices) and outreach activities (cost of face to face recruiting). Finally, the spend on marketing activity for the RN during the year was £11.693,334 in respect of advertising, events, sponsorship, local activity and promotional material.

Better Regulation

9. There was no MoD sponsored legislation during 2004-05. The Department held one public consultation, on amendments to the schemes for financial assistance awards for Reservists and their employers during periods of mobilised service. It ran from 22 July – 15 October 2004, complying with the required 12 week consultation period. Copies of consultation documents are published on www.mod.uk. Following the successful conclusion of the consultation, on 26 January 2005 the Department published a Regulatory Impact Assessment of the effect of the proposed new regulations.

Safety, Health, Environment and Fire

10. MoD is committed to ensuring the health, safety and welfare of all members of HM Forces, civilian employees of the MoD, contractors and the public, and to protecting the environment. It recognises that the effective delivery of sustainable defence capability requires excellence in safety and environmental performance to provide a safe and healthy workplace and protect defence assets. Delivering excellence in safety, health and environmental performance is critical to the delivery of our core task to produce battle-winning people and equipment.

11. 2nd PUS chairs a Defence Environment and Safety Board which provides direction, sets objectives, monitors, reviews and reports to the DMB on safety and environmental performance. 2nd PUS appoints

specific individuals to chair Functional Safety Boards to assist in the development of policy, the setting of standards, and ensuring that suitable scrutiny and, where appropriate, regulation is applied to all defence activities.

12. A risk-based Annual Report on Safety and Environmental Protection in the MoD is agreed by the Defence Environment and Safety Board (DESB) and the Defence Audit Committee, and will be published in Autumn 2005. For the first time in 05/06, the DESB Annual Report will be considered in-committee by the Defence Management Board reflecting the importance which the Department attaches to health, safety and environmental protection. Moreover, roles and responsibilities have been clarified and authority for implementing safety and environmental policy is now delegated by PUS to Top Level Budget Holders through their Service Delivery Agreements, and to Chief Executives of Trading Fund Agencies through their Trading Fund Agreements.

13. Following extensive consultation within Government, the decision was taken by Minister (AF) in September 2004 to cancel the competitive elements of the Airfield Support Services Project and to opt for an in-house solution for the restructuring of the Defence Fire Services by implementing Fire Study 2000. This is aimed at delivering a single, totally integrated and regionally based service with significant attendant efficiency savings over the present Single Service-based arrangements. The efficiencies will extend to the front line, ensuring a more focused and effective service. Implementation is well underway, and regionally based operations will commence in September 2005, with the new organisation coming under the custody of Commander Regional Forces.

14. Three Crown Censures¹ were taken out by HSE against MoD in the reporting year. The first was for breaches of the Health and Safety at Work etc Act 1974 and Electricity at Work Regulations 1989 which resulted in the fatal electrocution of a contractor in MoD Main Building. The second was for breaches of the Health and Safety at Work etc. Act and the Management of Health and Safety at Work Regulations 1999, resulting in the death of a diver at the Defence Diving School in Portsmouth. The third was for breaches of the Health and Safety at Work etc Act, which resulted in the death of an Army recruit in a caving incident during Leadership training. All three censures were accepted by MoD and have resulted in improvements to systems, processes and working practices.

¹Crown censure is an administrative procedure, whereby HSE may summon a Crown employer to be censured for a breach of the Act or a subordinate regulation which, but for Crown immunity, would have led to a prosecution with a realistic prospect of conviction.

15. Key initiatives and achievements over the last year were:

- completing audits of several MoD management areas (RAF, Army Land Command, Met Office, Army Base Repair Organisation and Defence Procurement Agency), all of which were able to demonstrate a high level of compliance with MoD policy and legislative requirements, and improved performance from their respective previous audits.
- completing a major study into the Control of Contractors on MoD Property. This revealed weaknesses in implementing MoD policy on communication and co-ordination with contractors working on MoD sites, which could and have led to serious accidents. Recommendations have been incorporated into an Implementation Plan and are being closely monitored.
- completing a joint Environment Agency/MoD Best Practice Review into the management and control of radioactive materials in MoD's non-nuclear areas. The main recommendations were aimed at improving accounting and movement control of radioactive materials.
- continuing work with the HSE to support and contribute to their 10-year Revitalising Health and Safety initiative.
- undertaking 14 exercises to test the capability of the MoD's nuclear accident response organisations.
- further developing the links between safety and claims to better align the risk-incident-claim cycle and ultimately reduce the cost of claims within MoD (currently running at around £100M per year)
- setting up of a Project to rationalise MoD's extensive documentation on safety and environmental protection, aimed at making the requirements on front-line Commanders far simpler and less onerous.
- enhancing MoD's reputation by providing swift and informative replies to FOI queries
- setting challenging targets for reducing injuries and ill health to enable more resources to be available to enhance operational capability
- continuing to promote joint working and best practice by liaison with other Government departments and agencies, NATO and other nations' Defence Departments, both in Europe and US/Canada/Australia.

- commencing a project to update and improve the existing MoD-wide accident reporting system, aimed at providing more accurate and relevant statistics for assessing performance.
- producing and issuing a detailed Sustainable Development report for the Department (www.mod.uk).

Civilian Recruitment

16. The MoD has a legal obligation to the Civil Service Commissioners to publish summary information about our recruitment processes and the use of permitted exceptions to the principles of fair and open competition and selection on merit. The minimum information which must be published is set out in the Civilian Manning Table (see Table 27). The Department's recruitment figures for 2004/05 can be found at Page 66 of this report and include figures for permanent and temporary (casual) recruitment. The following information on the use of permitted exceptions has been collated separately and does not include figures for temporary (casual) recruitment. Table 27 contains information about the MoD's recruitment in the last 12 months; it includes details of the number of individuals that were appointed, their background and their appointment circumstances. The MoD is required to recruit under various Government initiatives such as New Deal. This scheme was introduced to give long term unemployed people the opportunity to be able to apply for a job without the minimum qualifications. The New Deal campaigns are run for New Deal candidates only.

17. The MoD also operates a Guaranteed Interview Scheme for disabled people. Applicants with a disability who apply for a vacancy in the Department have the opportunity to declare their disability on their application form, providing they meet the minimum entry requirements, they are able to claim a Guaranteed Interview.

18. All permanent recruitment campaigns are subject to fair and open competition; exceptions to this are short term casual staff that will not be eligible to apply for a permanent post or be established in their temporary role. Exceptions also apply to individuals with specialist knowledge of PPP/PFI which the Department needs to utilise.

Table 27: Civilian Recruitment^[1]

	2004/05		2003/04		2002/03	
	Non-Industrial	Industrial	Non-Industrial	Industrial	Non-Industrial	Industrial
Appointments of less than 12 months in respect of those posts specified in Annex A of the CSCRC.	0	0	0	0	0	0
Extensions up to a maximum of 24 months, of appointments originally made for a period of less than 12 months (with reasons). ^[2]	28	3	21	1	15	4
Recurrent short term appointments.	31	60	21	40	0	0
Short term appointments where highly specialised skills are required. ^[3]	16	0	4	0	0	0
Appointments under Government programmes to assist the long term unemployed. ^[4]	1	0	5	0	8	0
Secondments. ^[5]	4	0	20	1	13	1
Extensions to secondments (with reasons). ^[6]	4	0	1	0	2	0
Re-appointments of former civil servants.	95	28	110	11	102	35
Transfers of staff with their work (not under TUPE).	20	1	28	3	0	0
Transfers of staff from other public services without work (excluding public bodies staffed exclusively by civil servants). ^{[7][8]}	78	0	95	0	38	2
Appointments of surplus acceptable candidates to shortage posts.	3	0	7	0	0	0
Appointments of disabled candidates under modified selection arrangements.	11	2	9	1	17	0
Supported employment appointments.	3	0	0	3	0	0
Number of exceptions reserved for the Commissioners' use.	0	1	0	0	0	0
Any appointments exceptionally approved by the Commissioners under the Orders in Council, outside the terms of the Code.	0	0	0	0	0	0

Notes:

[1] Figures for all years exclude Locally Employed Civilians and Royal Fleet Auxiliary. Figures for 2004/05 do not include ABRO. Historical data is provided where possible.

[2] Figures are compiled from questionnaires returned by individual recruits.

[3] The majority of these extensions were to meet short-term requirements to whilst permanent replacements were sought. Fair and open competition has been used wherever possible.

[4] This shows the number of staff recruited where the requirement was short term and required specialist skills and where holding an open competition would not have identified any further candidates.

[5] An exception approved by the Commissioners following the launch of the Governments Welfare to Work – New Deal Programme. Figures exclude those New Deal candidates recruited through normal open and fair competition.

[6] Excludes other Government departments, but includes for example, local authorities, hospitals, etc.

[7] Extensions owing to a requirement to utilise one individual's knowledge of PPP/PFI.

[8] Figures for 2002/03 include 32 MDP Police officers transferred from Home Office Police Forces. Figures for 2003/04 include 82 MDP Police officers transferred from Home Office Police Forces.

ANNEX G:

Defence Equipment Programme and Collaborative Procurement

1. The following tables show key performance information of Major Projects. Major Projects are defined as the 20 largest equipment projects that have passed their main investment decision point (Main Gate) and the 10 largest equipment projects that have passed their initial investment decision (Initial Gate), by value of forecast spend remaining. The list of Major Projects was set at 1 April 2004, and the list below includes information for the end of the financial year, 31 March 2005. The precise definition of in service date varies with different equipment although, in general terms, it can be taken to refer to the date on which the equipment is expected to be available and supportable in service

in sufficient quantity to provide a usable operational capability. The dates quoted for ships and submarines are based on the acceptance date from the contractor of the First of Class, not the date by which the equipment (or specified number of pieces of equipment) will contribute to the operational capability of the Royal Navy.

Battlespace Manoeuvre

2. The Battlespace Manoeuvre area incorporates capabilities designed to provide direct battlefield engagement, tactical mobility, expeditionary logistics support, nuclear, biological and chemical defence, battlefield engineering, special projects and combat service support. While most of the equipment will be utilised by the Army, it also covers other Services and joint organisations, for example assets that will belong to the Joint Helicopter Command.

Table 28: Capability Manager Battlespace Manoeuvre Equipment Programme

Post Main Gate Projects

Equipment	Description	Current Forecast Cost (£millions)	Current Forecast ISD	Quantity Required Current
Ground Manoeuvre				
C Vehicle PFI	Commercial provision of 'C' Class vehicles	710	2006	n/a
Terrier	Armoured earthmoving vehicle	299	2008	65
Light Forces Anti-Tank Guided Weapon System	Anti-armour firepower system	310	2005	378
Next Generation Light Anti-armour Weapon (NLAW)	Short range anti armour weapon	356	2006	14002
Expeditionary Logistics & Support				
A400M	Heavy transport aircraft	2644	2011	25
Support Vehicle (Cargo and Recovery)	Cargo and recovery vehicles and trailers	1362	2008	4851 cargo 314 Recovery 69 Trailers
Theatre Airspace				
Beyond Visual Range Air-to-Air Missile (BVRAAM)	Air-to-Air missile	1204	2012	Note 1
Typhoon	Fighter Aircraft	Note 2	2003	232
Typhoon ASTA	Ground-based aircrew training equipment for Typhoon	211	2005	1

Notes:

(1) Weapon numbers are classified.

(2) Current forecast cost for Typhoon is classified due to commercial sensitivities.

Precision Attack

3. The Precision Attack area covers the above-water and under-water battlespaces, and deep target attack. It therefore contains programmes ranging from Storm Shadow stand off missile to the nuclear submarines to artillery systems. Although most programmes will subsequently be delivered to the Royal Navy, it also includes substantial Army and Royal Air Force equipment. The table below does not reflect several major equipment programmes where orders have not yet been placed – for example, the future aircraft carriers, Joint Combat Aircraft, additional Astute Class Submarines, and Future Surface Combatants.

Table 29: Capability Manager Precision Attack Equipment Programme				
Post Main Gate Projects				
Equipment	Description	Current Forecast Cost (£millions)	Current Forecast ISD	Quantity Required Current
Above-Water Effect				
Type 45 Destroyer	Anti-air warfare destroyer	5896	2009	6
Under-Water Effect				
Astute Class Submarine	Attack submarine	3492	2009	3
Nimrod Maritime and Reconnaissance Attack Mk4	Reconnaissance and attack patrol aircraft	3808	2010	12
Sting Ray Torpedo Life Extension	Life extension and capability enhancement for Sting Ray Lightweight Torpedo	599	2006	Note 1
Deep Target Attack				
Guided Missile-Launch Rocket System	Rocket weapon system	263	2007	6204
Future Joint Combat Aircraft	Fighter/attack aircraft	1914	Note 2	Note 2
Precision Guided Bomb		352	2007	2303

Notes:

(1) Weapon numbers are classified

(2) Joint Combat Aircraft Main Gate Business Case was tailored for development only to match the US procurement cycle. ISD and quantities required approval will be sought as part of Main Gate Production Business Case; not until at least December 2006

Information Superiority

5. This capability area covers intelligence, surveillance, target acquisition and reconnaissance, and command, control and information infrastructure. Most projects are inherently tri-service in nature.

Table 30: Capability Manager Information Superiority Equipment Programme				
Post Main Gate Projects				
Equipment	Description	Current Forecast Cost (£millions)	Current Forecast ISD	Quantity Required Current
Intelligence, Surveillance, Target Acquisition and Reconnaissance				
Airborne Stand-Off Radar (ASTOR)	Long range surveillance and targeting system	954	2006	5 aircraft 8 ground station
Command, Control and Information Infrastructure				
Bowman	Tactical voice and data communications	2007	2004	47000 radios
Common Battlefield Application Toolset, Infrastructure and armoured Platform Battlefield Information System Application	Bowman related hardware and software systems	338	2005	Not applicable
Skynet 5	Satellite communications systems	2775	2005	Not applicable

Collaborative Procurement

6. We continued to sustain progress on a number of collaborative procurement issues. Key achievements in 2004-05 were:

European Defence

- We continued to support the European Defence Agency (EDA) during its first full year of operation, primarily in a range of armaments and industry/market focussed tasks. In particular we contributed regularly to the EDA's efforts to establish a more effective, efficient and transparent defence equipment market in Europe.
- The European Commission issued its Green Paper on Defence Procurement on 23 September 2004, with the intention of prompting debate on how defence equipment procurement in the European Union could be improved. Following consultation with officials across the MoD and other Government Departments, we led on the preparation of the Government's response to the Green Paper which was submitted in February 2005 and broadly supported the Commission's aspirations.
- Defence Ministers decided in November 2004 to close the Western European Armaments Group (WEAG) by the end June 2005, following the transfer of useful WEAG activities to the EDA. We worked closely with other WEAG member states to influence the orderly transfer of WEAG outputs to the EDA.

OCCAR (Organisation Conjoint de Cooperation en matiers d'Armement)

- We played a leading role in ensuring that work was completed on implementing the OCCAR effectiveness review recommendations, and also in making improvements to management processes, such as corporate performance management.
- On OCCAR managed programmes, we received the first deliveries of the COBRA (Counter-Battery Radar) system and we completed negotiations for our withdrawal from the trilateral BOXER multi-role armoured vehicle programme.

Letter of Intent Framework Agreement (LoI)

- As part of the overall six nation LoI focus on recognising European industry's efforts to restructure we worked closely with our partners to secure agreement to the remaining Implementing Arrangement covering Export Procedures.

- Before and during the UK's chairmanship of the LoI Executive Committee we continued to pursue the assimilation of the LoI outputs into the EDA.

United States of America

- We played the pivotal role which led to the Secretary of State for Defence and the US Secretary for Defense renewing the US/UK Defence equipment co-operation Memorandum Of Understanding in December 2004 for a further 10-years. This MOU serves as the inter-governmental basis for US/UK co-operation in equipment acquisition and a key aspect is the benefit it provides to UK industry through the continuing exemption from certain US "Buy National" regulations.
- Through a number of fora, including the Bilateral Defence Acquisition Committee, we continued to press for improvements in information and technology exchange which are essential on a number of programmes, most notably the Joint Strike Fighter.

Collaborative Equipment Programmes

- We have continued to make progress across the wide range of collaborative equipment programmes (a list of collaborative programmes is published on the MoD website). Achievements included the signature of contracts for the second tranche of Typhoon aircraft (89 ordered for the Royal Air Force at a value of £4.3Bn in cash terms), and for a trilateral NATO Submarine Rescue System.

ANNEX H

Glossary of Terms and Abbreviations

1SL/CNS: First Sea Lord and Chief of the Naval Staff. Professional head of the Navy. Member of the Defence Management Board, the Admiralty Board and the Chiefs of Staff Committee and Chair of the Navy Board. Currently held by an officer of the rank of Admiral.

2nd PUS: 2nd Permanent Under Secretary. The Deputy to the Permanent Under Secretary. Member of the Defence Council and Defence Management Board, the Admiralty, Army and Air Force Boards and their executive committees, the Acquisition Policy Board, the Investment Approvals Board, the Defence Audit Committee, official chair of the Defence Environment and Safety Board, and joint head, with the Vice Chief of the Defence Staff, of the Central Top Level Budget organisation.

2SL/CNH: Second Sea Lord and Commander-in-Chief Naval Home Command.

a) The Royal Navy's Principal Personnel Officer, of the rank of Vice Admiral, and a member of the Admiralty and Navy Boards. Also known as the Chief of Naval Personnel. He has responsibility for maintaining operational capability by providing correctly trained manpower through recruitment into the Royal Navy and Royal Marines and individual training. He is also Commander in Chief Naval Home Command responsible for all non DLO Naval real estate.

b) The Top Level Budget (TLB) organisation managed by the Second Sea Lord. Being merged with the FLEET TLB into a single Royal Navy TLB from 1 April 2006.

A&DC: Assessment and Development Centre. The formal process used by the MoD to assess suitability of civil servants for promotion into junior management (Band D) and middle management (Band B) grades.

ABRO: Army Base Repair Organisation. A Trading Fund Agency of the MoD. ABRO provides engineering support (including complex repair and servicing, re-manufacture and assembly) and fleet management services to the MoD, the defence industry and other commercial businesses for land based equipment ranging from radios to main battle tanks.

ACPP: Africa Conflict Prevention Pool. The arrangements jointly run by the MoD, FCO and DfID to deliver the Government's conflict prevention objectives in Africa. The ACPP has an annual budget of £60M.

Activity levels. The proportion of regular military personnel deployed on operations and other military tasks.

Admiralty Board. The Admiralty Board is chaired by the Secretary of State for Defence and delegated by the Defence Council to administer the activities and personnel of the Royal Navy.

AFB: Air Force Board. The Air Force Board is chaired by the Secretary of State for Defence and delegated by the Defence Council to administer the activities and personnel of the Royal Air Force.

AFBSC: Air Force Board Standing Committee. The AFBSC conducts the day-to-day business of managing the Royal Air Force on behalf of the Air Force Board. It brings together, under the Chief of the Air Staff (CAS), the RAF operational and personnel commanders, and supports the CAS in his executive role, his management and operational advisory roles, and as the professional head of the RAF.

AFPS: Armed Forces Pension Scheme. The non-contributory defined benefits pension scheme covering all members of the Armed Forces.

AG: Adjutant General.

a) The Army's Principal Personnel Officer, of the rank of Lieutenant General, and a member of the Army Board and the Executive Committee of the Army Board. He has responsibility for providing trained army officers and other ranks through recruitment into the Army and individual training. He also provides education services to children of all members of the Services on long-term foreign postings.

b) The Top Level Budget (TLB) organisation managed by the Adjutant General.

ALI: Adult Learning Inspectorate. The ALI is a statutory non-departmental public body that inspects and reports on the quality of education and training for adults and young people funded by public money.

AME: Annually Managed Expenditure. Spending included in Total Managed Expenditure that does not fall within Departmental Expenditure Limits (DELs), such as nuclear provisions and War Pension Benefits. Expenditure in AME is generally less predictable and/or controllable than expenditure within DELs.

AMP: Air Member for Personnel. The RAF's principal personnel officer, of the rank of Air Marshal, a member of the Air Force Board and Air Force Board Standing Committee, and head of the RAF Personnel and Training Command. He is responsible for providing trained RAF officers and other ranks through recruitment into the RAF and individual training.

Anti-surface weapons. Weapons designed to attack targets on the surface of the land or sea.

APB: Acquisition Policy Board. The MoD's top level board, chaired by the Minister for Defence Procurement or, in his absence, the PUS. It oversees the development of defence acquisition policy and processes and defence industrial policy, and reviewing and monitoring the coherence of acquisition performance targets.

Apprentices. New entrants to the Armed Forces undertaking training in particular skilled trades.

Appropriations-in-aid. Receipts used to offset expenditure. They generally arise from the provision of repayment services, the sale of surplus goods or of equipment purchased on behalf of the Defence Sales Organisation.

Army Board. The Army Board is chaired by the Secretary of State for Defence and delegated by the Defence Council to administer the activities and personnel of the Army.

Army Reserve See **Regular Reserves.**

ASLC: Accruing Superannuation Liability Charge. An estimate of the cost of providing future superannuation protection for all personnel currently in pensionable employment.

Assets. Can be either financial or non-financial. Financial assets include monetary gold, bank deposits, IMF Special Drawing Rights, loans granted bonds, shares, accounts receivable, and the value of the government's stake in public corporations. Non-financial assets consist of fixed capital (such as buildings and vehicles); stock, land and valuables.

ASTA: Aircrew Synthetic Training Aids. A Full Mission simulator that replicates all aspects of a real flying mission, allowing pilots to match the aircraft and its weapons against interactive attacks, whilst experiencing the pressures and demands of high speed jet flight. A Cockpit Trainer, a lower level device, is primarily used to introduce the pilot to the cockpit environment and procedures.

ASTOR: Airborne Stand-Off Radar. A new capability which will provide a long range all weather theatre surveillance and target acquisition system capable of detecting moving, fixed and static targets. Has an In-Service Date of September 2005 and full Operational Capability is to be achieved by 2008.

AWE: Atomic Weapons Establishment. One of the largest high technology research, design development and production facilities in the UK. Its primary task is to produce and maintain the warheads for the UK's independent nuclear deterrent.

BAES: British Aerospace Systems. An international company engaged in the development, delivery and support of advanced defence and aerospace systems in the air, on land, at sea and in space. It designs, manufactures and supports military aircraft, surface ships, submarines, fighting vehicles, radar, avionics, communications and guided weapons systems.

Balance Sheet. A financial statement showing the assets, liabilities, and net worth of a business on a specified date.

Band B. A grade in the civilian rank structure immediately below the Senior Civil Service.

Battalion. An Army fighting unit, usually comprising around 650 personnel, commanded by a Lieutenant Colonel. See Regiment.

Berlin Plus arrangements. Arrangements negotiated between the European Union and NATO to allow for the EU to have access to NATO's assets and capabilities so that NATO can support the EU, so that there's full transparency between the two organisations and so that we cooperate with the most efficient, the most effective mechanisms possible so that resources are used in the most efficient way.

BOWMAN. A tri-Service tactical communications and information system.

BNFL: British Nuclear Fuel plc. An international nuclear energy business, involved in fuel manufacture, reactor design and services, as well as decommissioning and environmental services; cleaning up the legacy of the Cold War.

Brigade. An Army Brigade is a collection of units that have been formally grouped together for a specific purpose, commanded by a Brigadier. A fighting Brigade will contain a mix of Infantry, Cavalry, Tank and Artillery units together with supporting specialist capabilities. The composition of a Brigade will differ depending on its responsibility but usually contains about 5,000 soldiers.

BTEC. Vocational qualifications to prepare students for employment or for progression to higher education, often taken as an alternative to A-levels.

BVRAAM: Beyond Visual Range Air-to-Air Missile. The next generation air-to-air weapon, also known as Meteor, which will provide Typhoon with the capacity to combat projected air-to-air threats throughout the life of the aircraft and contribute to the superiority requirements of UK and NATO operations.

CAS: Chief of the Air Staff. Professional head of the Royal Air Force, member of the Defence Council and Defence Management Board, the Air Force Board and the Chiefs of Staff Committee, and Chair of the Air Force Board Standing Committee. Currently held by an officer of the rank of Air Chief Marshal.

CBRN: Chemical, Biological, Radiological and Nuclear materials. Unconventional materials potentially capable of use in weapons of wide area impact, often collectively known as Weapons of Mass Destruction.

CBW: Chemical and Biological Warfare. The use of chemical and biological weapons in conflict. Possession and use of Chemical and Biological Warfare is illegal under the Chemical Weapons Convention and the Biological and Toxin Weapons Convention.

CDL: Chief of Defence Logistics. Head of the Defence Logistics Organisation TLB. Member of the Defence Council and Defence Management Board, Acquisition Policy Board and Investment Approvals Board.

CDP: Chief of Defence Procurement. Head of the Defence Procurement Agency TLB and member of the Defence Council and Defence Management Board, Acquisition Policy Board and Investment Approvals Board.

CDS: Chief of Defence Staff. The professional head of the UK Armed Forces and principal military adviser to the Secretary of State for Defence and the Government. Member of the Defence Council and Defence Management Board, and Chairman of the Chiefs of Staff Committee.

CFE: Conventional Armed Forces in Europe. The Conventional Armed Forces in Europe (CFE) Treaty is a treaty (widely regarded as the linchpin of European security) signed by NATO and Warsaw Pact representatives in November 1990 (and revised at the summit of the OSCE in November 1999) reducing the number of tanks, missiles, aircraft and other forms of non-military hardware held by signatory states.

CFER: Consolidated Fund Extra Receipt. Receipts realised in excess of amounts authorised as Appropriations in Aid of the supply Estimates, or of kinds which HM Treasury does not allow Departments to use in aid of expenditure. Such receipts are surrendered to the Consolidated Fund as Extra Receipts.

CGS: Chief of the General Staff. Professional head of the Army, member of the Defence Council and Defence Management Board, the Army Board and the Chiefs of Staff Committee, and Chair of the Executive Committee of the Army Board. Currently held by an officer of the rank of General.

CJO: Chief of Joint Operations.

a) the senior joint military operational commander, of the rank of Vice Admiral, Lieutenant General or Air Marshal, responsible for running all military operations other than those so large that a more senior officer is required, or those undertaken predominantly by one Service such that it makes sense for the operation to be commanded by the operational TLB led by that Service (CINCFLEET, Land Command, or Strike Command). Military assets are assigned to CJO only for the duration of the operation.

b) the Top Level Budget organisation managed by the CJO, including the Permanent Joint Headquarters, the Sovereign Base Areas in Cyprus and British forces in Gibraltar and the Falkland Islands.

CINCFLEET: Commander-in-Chief Fleet.

a) The Royal Navy's principal operational commander, of the rank of Admiral, and a member of the Admiralty and Navy Boards.

b) Top Level Budget Organisation managed by CINCFLEET responsible for delivery of warships and trained crews to CJO at agreed readiness states. Being merged with the 2SL/CNH TLB into a single Royal Navy TLB from 1 April 2006. CINCFLEET also maintains an operational command and control capability, in particular for the nuclear deterrent force.

CINCLAND: Commander-in-Chief Land.

a) The Army's principal operational commander, of the rank of General, and a member of the Army Board and Executive Committee of the Army Board.

b) Top Level Budget Organisation managed by CINCLAND responsible for the delivery of trained expeditionary armed forces to CJO at agreed readiness states.

CINCSTRIKE: Commander-in-Chief Strike.

a) The Royal Air Force's principal operational commander, of the rank of Air Chief Marshal, and a member of the Air Force Board and Air Force Board Standing Committee.

b) Top Level Budget Organisation managed by CINCSTRIKE responsible for the delivery of trained expeditionary air power to CJO at agreed readiness levels.

CIS: Communication and Information Systems.

Civil Contingencies Act. The Act, and accompanying non-legislative measures, will deliver a single framework for civil protection in the United Kingdom capable of meeting the challenges of the twenty-first century. The Act is separated into two substantive parts: local arrangements for civil protection and emergency powers. It became an Act of Parliament on 18 November 2004.

Clutter. Collection of objects that prevent the full extent of visibility of RADAR.

CMS: Common Military Skills. [Core military skills in which recruits are trained in the first stages of their training].

CNP: Chief of Naval Personnel. See 2SL/CNH.

CNS: Chief of the Naval Staff. See 1SL/CNS.

COBRA: Counter-Battery Radar. A 3-D phased radar system designed to locate enemy artillery at very long ranges.

Commission. The legal authority of an Officer's appointment to the Armed Forces. Precise terms vary according to Service and specialisation within each Service.

Conflict Prevention. Early warning, crisis management, conflict resolution, peacemaking, peacekeeping, and peace-building activity and an associated strengthening of international and regional systems and capacity.

Corps:

a) An organised collection of Regiments or groupings of soldiers that share a common area of specialist expertise to ensure common practice and that common interests can be catered for efficiently.

b) An Army fighting unit comprising two or more divisions with associated specialist supporting units, commanded by a Lieutenant General.

COS: Chiefs of Staff Committee. The Chiefs of Staff Committee is chaired by the Chief of the Defence Staff. It is the main forum in which the collective military advice of the Chiefs of Staff is obtained on operational issues. The PUS attends the COS Committee.

Cost of Capital Charge. An annual non-cash charge applied to each department's budget. It is 6% of the net assets of the department and is used to make departments aware of the full cost of holding assets.

CSA:

a) **Chief Scientific Adviser.** The Ministry of Defence's senior expert scientific advisor, recruited externally, Head of Science Innovation and Technology TLB, member of the Defence Council and Defence Management Board and Chair of the Investment Approvals Board.

b) **Customer Supplier Agreement.** An agreement, usually between TLBs, detailing in terms of quality, quantity and timeliness the outputs required from the supplier to enable the customer to meet its defence outputs.

CSP: Civil Service Pension scheme.

CTLB: Central TLB. The Central Top Level Budget organisation has responsibility for the MoD Head Office, covering Defence policy as well as Departmental policy on the equipment programme, resources, finance, personnel and security, as well as a range of non-Head Office functions. The Central TLB provides a diverse range of corporate services for the MoD as a whole. These include pay, estate management, bill payment, consultancy services, accountancy, some training, statistical analysis, central IT systems, public relations, defence exports and policing. The Central TLB's remit also encompasses the management of Service housing and the provision of medical services.

CTP: Career Transition Partnership. A partnering arrangement between Right Management Consultants and the Ministry of Defence to successfully deliver enhanced resettlement services to all ranks from the Armed Forces.

Current expenditure on goods and services is the sum of expenditure on pay, and related staff costs, plus spending on goods and services. It is net of receipts from sales. It excludes capital expenditure, but includes expenditure on equipment that can only be used for military purposes since that is counted as current expenditure. It differs from final consumption in that capital consumption is not included.

Current prices. Prices prevailing at the time.

CVR(T): Combat Vehicle Reconnaissance (Tracked). A light tank used for reconnaissance.

DAC: Defence Audit Committee. The Defence Audit Committee is a subcommittee of the Defence Management Board, chaired by an independent non-executive member of the DMB. It reviews and constructively challenges the adequacy of internal controls, risk management and assurance processes within the Ministry of Defence. In particular it reviews the Department's assurance arrangements and Statement on Internal Control contained within the Departmental Resource Accounts (the DRAc) annually and reports on these to the Accounting Officer.

DARA: Defence Aviation Repair Agency. In 1999, DARA brought together the RAF Maintenance Group Defence Agency (MGDA) and the Naval Aircraft Repair Organisation (NARO). It is the largest Government owned aerospace repair facility within Europe, delivering one-stop-shop aerospace support to the MoD, overseas governments and Industry. DARA became a Trading Agency of the MoD in April 2001.

DASA: Defence Analytical Services Agency. DASA was created in July 1992 and provides National Statistics on Defence and other corporate information, forecasting and planning and consultancy, advice and research services to the MOD.

DBA: Defence Bills Agency. Primarily responsible for paying bills submitted to the Ministry of Defence by defence contractors.

DCSA: Defence Communications Service Agency. Provides telecommunications and related services to the MoD and is part of the DLO. Not to be confused with the DSCA.

DE: Defence Estates. Manages and maintains the MoD's estates in the UK and abroad. Previously part of the Central TLB, but from 1 April 2005 a Top Level Budget Organisation in its own right.

Defence Aim. The Defence Aim is set out in the MoD's Public Service Agreement. It is to deliver security for the people of the United Kingdom and the Overseas Territories by defending them, including against terrorism, and act as a force for good by strengthening international peace and security.

Defence Budget. Under Cash Accounting, the amount of money planned to be spent during a financial year. Under Resource Accounting and Budgeting (RAB), the sum of resources planned to be consumed during a financial year. See Resource budgeting.

Defence Council. The Defence Council is the senior Departmental committee. Chaired by the Secretary of State it provides the formal legal basis for the conduct of Defence in the UK through a range of powers vested in it by statute and Letters Patent.

Defence Estate. The Defence estate comprises over 4,000 built and rural sites in the UK covering some 240,000 hectares. It includes 21 major Armed Forces training areas, 39 minor training areas, 289 Sites of Special Scientific Interest (SSSI), 48 special protection areas, over 650 statutorily protected buildings and almost 1,300 scheduled monuments.

Defence Mission. The objectives of the Ministry of Defence are to provide the capabilities needed: to ensure the security and defence of the United Kingdom and Overseas Territories, including against terrorism; to support the Government's foreign policy objectives particularly in promoting international peace and security.

Defence Vision. The Defence Vision set out by the Defence Management Board, is: *Defending the UK and its interests; Strengthening international peace and stability; A Force for good in the world. We achieve this aim by working together on our core task to produce battle-winning people and equipment that are: Fit for the challenge of today; Ready for the tasks of tomorrow; Capable of building for the future.*

DEFRA: Department for Environment, Food and Rural Affairs. DEFRA is the Government Department responsible for all aspects of the environment, rural matters, farming and food production.

DEL: Departmental Expenditure Limit. DELs are firm plans for three years for a specific part of a department's expenditure. In general the DEL will cover all running costs and all programme expenditure except, in certain cases, spending is included in departmental AME because it cannot be reasonably be subject to close control over a three year period. DELs are divided into current and capital budgets.

Depreciation. Also termed capital consumption. The measure of the wearing out, consumption or other loss of value of a fixed asset whether arising from use, passage of time or obsolescence through technological and market changes.

DERA: Defence Evaluation and Research Agency. On 2 July 2001 DERA was split into two parts: QinetiQ, and the Defence Science and Technology Laboratory (Dstl).

DESB: Defence Environment and Safety Board. Chaired by the Under Secretary of State or, in his absence, the 2nd PUS, provides direction, sets objectives, monitors, reviews and reports on performance with regard to the environment and safety in defence.

Devolved Administrations. The devolved administrations of Scotland, Wales and Northern Ireland have responsibility for certain defined areas of domestic Government in their parts of the UK.

DFAU: Defence Fraud Analysis Unit. A dedicated unit within the Defence Internal Audit organisation to evaluate suspected irregularities, support police authorities, promote risk awareness, record reported fraud and theft, liaise with the Treasury and provide advice on procedures and policy.

DfES: Department for Education and Skills. Government Department responsible for setting education and skills policy in England.

DfID: Department for International Development. Government Department responsible for the UK's development aid and work to get rid of extreme poverty.

DH: Department of Health. Government Department responsible for setting health and social care policy in England, and sets standards and drives Modernisation across all areas of the NHS, social care and public health.

DIA: Defence Internal Audit. The MoD's principal Internal Auditing body, whose primary role is the provision of independent and objective advice on the economy, efficiency and effectiveness of systems and controls at all levels of the Department. It reports directly to the Defence Audit Committee.

DII: Defence Information Infrastructure. A fully networked and managed information system being acquired to support Defence worldwide, underpinning much of the defence Change Programme.

Direct Entry Officers. Army officers (previously called Mainstream officers) who either come direct from civilian life or from the ranks of the Army, commissioned on completion of the 11 month Royal Military Academy Sandhurst (RMAS) Commissioning Course. They will normally be under the age of 29 on entry to RMAS.

Division. An Army Division made up of two or more Brigades depending on the specific role it is to undertake and is configured in a similar fashion to a Brigade but on a larger scale, commanded by a Major General. 1 (UK) Division and 3 (UK) Division are fighting Divisions. 2, 4 and 5 Division are responsible for administrative support of specific geographical areas within the UK.

DLO: Defence Logistics Organisation. The Top Level Budget organisation formed on 1 April 1999 to bring together the logistics support organisations in the Royal Navy, Army and Royal Air Force and Centre staff. It contains a number of specialist Defence Agencies.

DLTP: Defence Logistics Transformation Programme. A single coherent programme of work incorporating all logistic transformation activities across Defence to achieve improved operational effectiveness, efficiency and flexibility.

DMB: Defence Management Board. The Defence Management Board (DMB) is the highest, non-ministerial committee in the MoD. Chaired by PUS, it is essentially the main corporate board of the MoD, providing senior level leadership and strategic management of Defence. Its role is to deliver the Defence aim set out in the Public Service Agreement. It comprises the ten non-ministerial members of the Defence Council together with the MoD Finance Director and two non-executive members. It is responsible for the role of Defence, providing strategic direction, vision and values; for Objectives and targets, establishing the key priorities and defence capabilities necessary to deliver the MoD's Departmental objectives; for Resource allocation and strategic balance of investment to match Defence priorities and objectives; and for Performance management, managing and driving corporate performance.

DMS: Defence Medical Services. Comprises the Defence Medical Services Department and the three single Service medical directorates.

DOC: Directorate of Operational Capability. DOC provides an independent source of evaluation and audit within the Armed Forces on a range of issues, including operational lessons learnt studies and appraising the care and welfare of Armed Forces initial training establishments.

DPA: Defence Procurement Agency. The DPA is the Top Level Budget Organisation responsible for the procurement of equipment to meet new requirements. It is also a Defence Agency. It is located mainly at Abbey Wood, Bristol.

DRDL: Devonport Royal Dockyards Ltd. A company which runs and owns the Devonport Royal Dockyards in Plymouth.

DSDA: Defence Storage and Distribution Agency. The Defence Agency that provides the Armed Forces with storage and distribution services.

DSL: Debut Services Ltd. A joint venture between Bovis Lend lease Ltd and Babcock Infrastructure Services to provide property maintenance and capital works projects across Defence.

DSTL: Defence Science and Technology Laboratory. An agency and trading fund of the MoD created from part of DERA on 2 July 2001. It provides specialist scientific and technical support to the MoD.

DTC: Defence Technology Centre. A formal collaborative arrangement between industry and academic experts in a particular technology, funded jointly by participants and the MoD, who work together to generate and enhance the technology vital to the delivery of future UK Defence capabilities.

DU: Depleted Uranium. Uranium is a natural element found in soil, water and mineral deposits. It is a heavy metal, nearly twice as dense as lead, is radioactive and chemically toxic. DU is a waste product, (what is left after the removal of some of the more radioactive parts of natural uranium for use in the nuclear industry) and being a very dense and hard metal is an ideal core for tank shells designed to pierce armoured vehicles.

DUOB: Depleted Uranium Oversight Board. An independent panel of scientists and veterans' representatives appointed to oversee the MoD's depleted uranium (DU) screening programme.

DWR: Deep Waste Repository. A facility for the storage of nuclear waste deep underground.

ECAB: Executive Committee of the Army Board. ECAB conducts the day-to-day business of managing the Army on behalf of the Army Board. It brings together, under the Chief of the General Staff, the Army operational and personnel commanders, and supports the CGS in his executive role, his management and operational advisory roles, and as the professional head of the Army.

Environment Agency. The environmental regulator for England and Wales.

ERW: Explosive Remnants of War. Unexploded ordnance (such as bombs, missiles and artillery shells), which may be primed, fused, armed or prepared for use, and may have been abandoned.

ESDP: European Security and Defence Policy. The European Union has agreed on the establishment of a European Security and Defence Policy to ensure it has the tools to undertake crisis management operations, where NATO as a whole is not engaged, in support of its Common Foreign and Security Policy.

Ethnic Minority. A group within a community which differs ethnically from the main population.

EU: European Union. The framework for economic and political co-operation between 25 European countries. It began as a post-war initiative between six countries pooling control over coal and steel to guarantee a more peaceful future for Europe. It now manages co-operation on issues as wide-ranging as the environment, transport and employment, and has increasing influence in defence and foreign policy.

EUFOR. The EU-led peacekeeping force responsible for security in Bosnia-Herzegovina.

FCO: Foreign and Commonwealth Office. The Government department responsible for UK foreign and security policy.

Finance Director. The MoD's senior finance officer, responsible for all aspects of the Department's financial performance and a member of the Defence Management Board.

FOI: Freedom of Information. An Act giving a right of public access to recorded information held by public authorities subject to certain defined exemptions.

FRES: Future Rapid Effects System. A project to enhance the deployability of UK Land Forces by delivering a family of medium weight, network capable armoured vehicles, such as armoured personnel carriers, reconnaissance, command and control, and or ambulance vehicles. The project is currently in the Assessment Phase.

Full-Time Equivalent. A measure of the size of the workforce that takes account of the fact that some people work part-time.

Full-Time Reserve Service. Individuals on FTRS fill Service posts on a full-time basis while being a member of one of the reserve services, either as an ex-regular or as a volunteer. In the case of the Army and the Naval Service, these will be posts that would ordinarily have been filled by regular service personnel, in the case of the RAF, FTRS personnel also fill posts designated solely for them.

GDP: Gross Domestic Product. The sum of all output (or income or expenditure) in the economy, excluding net property income from abroad.

GOCNI: General Officer Commanding Northern Ireland.

a) The senior military officer in command of the Armed Forces in Northern Ireland, of the rank of Lieutenant General. He is responsible for military aid to the civil power and counter terrorist operations in Northern Ireland;

b) The joint-Service Top Level Budget organisation managed by GOCNI.

Gurkhas. Citizens of Nepal recruited and employed in the Army under the terms of the 1947 Tri-Partite Agreement. They remain Nepalese citizens but in all other respects are full members of HM Forces.

GWMB: Guided Weapons, Missiles and Bombs. Explodable munitions which incorporate guidance mechanisms.

HCDC: House of Commons Defence Select Committee. The Defence Committee is appointed to examine on behalf of the House of Commons the expenditure, administration and policy of the Ministry of Defence and any associated public bodies.

Heavy Equipment Transporter. A 120 tonne tractor and trailer unit tank transporter, capable of carrying battle tanks and fighting vehicles straight to the front line at speeds of up to 50 mph on road or off road over harsh terrain.

HMG: Her Majesty's Government.

HNBS: Harrier Night Bombing System.

HOME: Head Office Modern Environment. The HOME programme was a comprehensive Modernisation package using the redevelopment of MoD's Main Building as a catalyst for organisational and cultural change to make the MoD Head Office a better, more streamlined, organisation in which to work and enable it to provide more effective support and leadership for UK Defence capability.

HQ: Headquarters.

HR: Human Resources. Civilian personnel management, organisation and arrangements.

HSE: Health and Safety Executive. The Health and Safety Executive is responsible for regulation of risks to health and safety arising from work activity in Britain.

Hydrographic Office. See **UK Hydrographic Office.**

IAB: Investment Approvals Board. The Investment Approvals Board (IAB) is responsible for central scrutiny of equipment requirements, major capital works and Information Technology projects. It makes recommendations to Ministers on the procurement of major defence equipment. The IAB is chaired by the Chief Scientific Adviser and includes the Vice Chief of the Defence Staff, 2nd Permanent Secretary, Chief of Defence Procurement and Chief of Defence Logistics.

ICT: Information and Communications Technology.

ICT FS: Information and Communications Technology Fundamental Skills.

Industrial staff. Civilian staff paid in certain pay bands often performing manual work.

Insensitive munitions. Munitions incorporating design features to reduce the risk of inadvertent reaction to specified stimuli, such as heat, shock and impact.

In-Service Date. The date on which equipment being procured is expected to be available and supportable in service in sufficient quantity to provide a valuable operational capability.

ISAF: International Security Assistance Force. The NATO controlled peacekeeping force providing security in Kabul since the fall of the Taleban in 2001. More than 30 countries contribute troops.

IS: Information Systems.

Intake. Those entering the Armed Forces or Civilian workforce.

IT: Information Technology.

JPA: Joint Personnel Administration. A modern commercial information system enabling provision of pay, pensions and administration services for military personnel, JPA is being introduced in the RAF in late 2005, the RN in Spring 2006 and the Army in late 2006.

JRRF: Joint Rapid Reaction Forces. A substantial pool of capabilities, composed of all readily available forces, from which tailored force packages of up to Brigade level or equivalent for operations on land, sea and air can be assembled and deployed quickly.

KFOR: NATO Kosovo Force. The International NATO led peacekeeping force whose main role is maintaining a secure civilian environment.

LAN: Local Area Network. Two or more connected computers in a room or building.

Land Command. See CINCLAND.

Locally Entered/Engaged Personnel. Civilian personnel working for one of the Armed Forces or directly for the Ministry of Defence who are recruited at overseas MoD locations normally for work at those locations. Also includes Gurkhas.

LS: Large Scale. Operational deployments of division size or equivalent for warfighting or other operations.

Main Gate. The main investment point for a procurement project, comprising In-depth review timed to coincide with the most critical point of the project – the point at which the “Assessment” phase ends and user requirements, system requirements, time and cost can be set with confidence.

MAMBA weapon locating radar. Mobile Artillery Monitoring Battlefield Radar, a radar system that can instantly track incoming mortars, shells and rockets and will help troops pinpoint the enemy’s position for rapid counter attacks.

MANPADS: Man Portable Air Defence Systems. Systems designed for military air defence use, and are surface to air missiles, usually shoulder launched and fired by an individual or more than one individual acting as crew.

MDP: Ministry of Defence Police. The non-regional, national police force headed by a Chief Constable, responsible for providing effective policing of the Defence Estate.

Memorandum of Understanding. A formal signed agreement between partners setting out how they will work together in a process to achieve agreed goals.

MIDIT: Means of Identifying and Developing Internal Talent. The MoD's internal corporate development scheme for civilian personnel.

Military Tasks. The framework on which the MoD bases its detailed planning for the size, shape and capabilities of the Armed Forces, reflecting the broad types of tasks and operations in which they are likely to be involved.

MoD: Ministry of Defence.

MS: Medium Scale. Operational deployments of brigade size or equivalent for warfighting or other operations.

NAAFI: Navy, Army and Air Force Institutes. Official trading organisation of HM Forces, providing retail and leisure services to the Services and their families.

NAO: National Audit Office. The independent organisation responsible for scrutinising public spending on behalf of Parliament, reporting to the Public Accounts Committee. It audits the accounts of all government departments and agencies as well as a wide range of other public bodies, and reports on the economy, efficiency and effectiveness with which government bodies have used public money.

NATO: North Atlantic Treaty Organisation. A regional defence alliance formed in 1949 under the Washington Treaty. Its general aim is to "safeguard the freedom, common heritage and civilisation" of its members by promoting "stability and well-being in the North Atlantic area". Members agree that an armed attack against one shall be considered an attack against them all, and that they will come to the aid of each other. Currently there are 26 member countries with the headquarters in Brussels.

Naval Manning Agency. Created on 1 July 1996 and dissolved as an agency 1 April 2004. Its mission was: to ensure that sufficient manpower is available on the trained strength and deployed effectively in peace, transition to war or war.

Naval Service. The Royal Navy (including QARNNS) and the Royal Marines together.

Navy Board. The Navy Board conducts the day-to-day business of managing the Royal Navy on behalf of the Admiralty Board. It brings together, under the Chief of the Naval Staff, the Royal Navy's operational and personnel commanders, and supports the CNS in his executive role, his management and operational advisory roles, and as the professional head of the Royal Navy.

NCO: Non-commissioned officer. Ratings of Leading Hand and above in the Royal Navy, other ranks of lance corporal and above in the Army and other ranks of corporal and above in the Royal Marines and Royal Air Force.

NDA: Nuclear Decommissioning Authority. The body within the DTI responsible for nuclear clean-up issues.

NDPB: Non-Departmental Public Bodies. Public bodies carry out a wide range of functions on behalf of government. As part of the commitment to transparency and accountability, the Cabinet Office collects and publishes annually information about public bodies as a whole, to supplement information about individual bodies already contained in departmental annual reports.

NEC: Network Enabled Capability. A programme to enhance military capability through the exploitation of information. Implemented through the coherent and progressive development of Defence equipment, software, processes, structures and individual and collective training, NEC will enable the MoD to operate more effectively in the future strategic environment by more efficient sharing and exploitation of information within the UK Armed Forces and with our coalition partners.

NED: Non Executive Director. Non Executive Directors serve on various boards and audit committees within the Ministry of Defence, providing independent scrutiny and advice on defence business from their experience in Industry.

Net Cash Requirement. The amount of actual money that MoD requires from the government in order to fund its activities. The NCR takes account of the movements in working capital levels (debtors, creditors and stocks) but not non-cash costs.

NHS: National Health Service. Set up on 5th July 1948, the NHS provides healthcare for all citizens, based on need, not the ability to pay, and is funded by the tax payer and managed by the Department of Health, which has the responsibility to provide healthcare to the general public through the NHS.

Non-cash items in Annually Managed Expenditure include various notional transactions such as depreciation and cost of capital that appear in the operating cost statement under RAB and which are recorded in AME for the period of Spending Review 2000, rather than in DEL.

Non-industrial staff. All Civil servants who are not Industrial staff.

NRA: Net Recoverable Amount.

NRF: NATO Response Force. Giving NATO a significant crisis response capability, the NRF is a powerful multi national military force with land, air, maritime and command elements, designed to stand alone for up to 30 days. It is not a permanent or standing force.

NRTA: Naval Recruiting and Training Agency. The Defence Agency within the 2SL Top Level Budget Organisation responsible for recruitment and training of Royal Navy and Royal Marines personnel.

NRV: Net Realisable Value. The estimated disposal sale value of an item of materiel not expected to be used or sold in the ordinary course of business. The estimated disposal sale value may be nil or scrap in appropriate circumstances, and will be net of any costs incidental to the sale, e.g. agent's fees, to the extent that these are identifiable to individual items or sales contracts and are deducted from the sales proceeds on a net receipt basis.

Nursing Services. Queen Alexandra's Royal Naval Nursing Service, Queen Alexandra's Royal Army Nursing Corps, and Princess Mary's Royal Air Force Nursing Service.

OCCAR: Organisation Conjoint de Cooperation en matiers d'ARmement. An Administrative Arrangement established on 12th November 1996 by the Defence Ministers of France, Germany, Italy and the UK. Its aim is to provide more effective and efficient arrangements for the management of certain existing and future collaborative armament programmes.

OECD: Organisation for Economic Co-operation and Development. The OECD comprises 30 countries sharing a commitment to democratic government and the market economy. Its work covers economic and social issues from macroeconomics, to trade, education, development and science and innovation.

Officer. A member of the Armed Forces holding the Queen's Commission. Includes ranks from Sub-Lt/2nd Lt/Pilot Officer up to Admiral of the Fleet/Field Marshal/Marshal of the Royal Air Force. Excludes NCO's.

Officer cadet. An entrant from civil life to the officer corps of the Armed Forces.

OGC: Office of Government Commerce. An independent Office of the Treasury which aims to work with the public sector as a catalyst to achieve efficiency, value for money in commercial activities and improved success in the delivery of programmes and projects.

Operating Cost Statement. The statement in departmental resource accounts that shows the current income and expenditure on an accrual basis. It is similar to the profit and loss statement on commercial accounts. This is the Public Sector's equivalent of a commercial organisation's Profit and Loss Account.

Operational TLBs. The TLBs directly responsible for the planning and management of military operations and the delivery of front-line capability. They are CJO, CINCFLEET, STC, LAND and GOCNI. Operational personnel are those working in these TLBs plus some other small groups.

OPG: Office of HM Paymaster General. The Office of HM Paymaster General is part of HM Treasury. It is responsible for holding the working balances of Government Departments and other public bodies in accounts at the Bank of England and making them available to the National Loans Fund overnight to reduce the government's borrowing costs, and provides cash flow information to the Treasury.

OSCE: Organisation for Security and Co-operation in Europe. With 55 States drawn from Europe, Central Asia and America, the OSCE is the world's largest regional security organisation, bringing comprehensive and co-operative security to a region that stretches from Vancouver to Vladivostok. It offers a forum for political negotiations and decision-making in the fields of early warning, conflict prevention, crisis management and post-conflict rehabilitation, and puts the political will of the participating States into practice through its unique network of field missions.

Other Ranks. Members of the Royal Marines, Army and Royal Air Force who are not officers. The equivalent group in the Royal Navy is known as "Ratings".

Outflow Those leaving the Armed Forces or Civil Service for any reason. Those who rejoin and then leave again will be counted twice if the time period includes both exit dates.

Outturn and **estimated outturn** describe expenditure actually incurred, or estimated on the basis of actual expenditure to date.

Part-time. Civil servants working fewer than 37 hours a week (36 hours in London), excluding meal breaks.

PCPF: Parliamentary Contributory Pension Fund. The fund of the parliamentary pension scheme.

PFI: Private Finance Initiative. A system for providing capital assets for the provision of public services. Typically, the private sector designs, builds and maintains infrastructure and other capital assets and then operates those assets to sell services to the public sector. In most cases, the capital assets are accounted for on the balance sheet of the private sector operator.

PPA: Pay and Personnel Agency. Provides pay and personnel administration services for MoD's Civil Servants.

PPA: Performance Partnership Agreement. An agreement between the Cabinet Secretary (the Head of the Civil Service) and the Permanent Under Secretary of the Ministry of Defence which forms the single, agreed vision of how the Ministry of Defence needs to develop to meet the challenges it faces, and the priority actions that need to be taken to achieve that vision.

PPP: Public Private Partnership. An initiative through which the private sector is involved in the delivery of public services by providing management and service delivery expertise and sometimes the provision of assets. Improved value for money is the essential prerequisite, with better quality of service provision a highly desirable addition. It is delivered through several mechanisms including Private Finance Initiative, Partnering, Wider Markets Initiative and Contractor Logistic Support.

PSA: Public Service Agreement. An agreement between HM Treasury and each Government Department setting out each department's aim, objectives and key outcome-based targets. They form an integral part of the spending plans set out in Spending Reviews.

PSI: Proliferation Security Initiative. The Proliferation Security Initiative is a global effort that aims to stop shipments of weapons of mass destruction, their delivery systems, and related materials worldwide. It was announced by President Bush on May 31, 2003.

PSG: Professional Skills for Government. Professional Skills for Government is a key part of the Government's Delivery and Reform agenda. It is a major, long-term change programme designed to ensure that civil servants, wherever they work, have the right mix of skills and expertise to enable their Departments or agencies to deliver effective services.

PTC: RAF Personnel and Training Command. The Top Level Budget organisation managed by the RAF's Principal; Personnel Officer, the Air Member for Personnel. PTC provides trained personnel to Strike Command and other TLBs.

PUS: Permanent Under Secretary. PUS is the Government's principal Civilian advisor on Defence and has the primary responsibility for Policy, Finance, Management and Administration in the department. He is the MoD Accounting Officer reflecting his responsibility to the Secretary of State for the overall organisation, management and staffing of the department and financial procedures and other matters. He is personally accountable to Parliament for the expenditure of all public money voted for defence purposes and chairs the Defence Management Board.

PVR: Premature Voluntary Release. Those who leave the Armed Forces voluntarily before the end of their agreed engagement or commission period are said to leave on PVR or VR (Voluntary Release).

QARNNS: Queen Alexandra's Royal Naval Nursing Service. The Royal Navy's internal nursing service.

QinetiQ. A defence technology and security company, formerly part of DERA, partially owned by the MoD.

RAB. Resource Accounting and Budgeting.

RAF: The Royal Air Force.

Rank. Grade within the Military structure.

Ratings. Junior military personnel in the Royal Navy.

Real terms figures are amounts adjusted for the effect of general price inflation relative to a base year, as measured by the GDP market price deflator.

Regiment. A formed unit of personnel sharing a common identity and area of expertise, carrying the spirit of the people who have gone before.

Regular Reserves. Former members of the UK regular forces who have a liability for service with the Reserve forces. Includes the Royal Fleet Reserve, Army Reserve and Royal Air Force Reserve as well as other individuals liable to recall.

RES: Race Equality Scheme. The MoD Race Equality Scheme sets out how the Department is fulfilling its obligations under the Race Relations (Amendment) Act 2000.

Resource Accounting. The accounting system that will henceforth be used to record expenditure in the departmental accounts instead of cash accounting. It applies generally accepted accounting practice (GAAP) used in private industry and other Government departments to departmental transactions. Spending is measured on an accruals basis.

Resource Budget. The sum of a department's resource Departmental Expenditure Limit and resource Annually Managed Expenditure. It is the budget for current expenditure on an accruals basis.

Resource budgeting. The budgeting regime adopted for the spending plans set in the 2000 Spending Review. It is derived from resource accounting rules, but there are several differences in treatment between resource accounts and resource budgets.

RFA: Royal Fleet Auxiliary Service. The civilian manned fleet, owned by the Ministry of Defence. Its main task is to supply warships of the Royal Navy at sea with fuel, food, stores and ammunition which they need to remain operational while away from base. It also provides aviation support for the Royal Navy, together with amphibious support and secure sea transport for Army units and their equipment. Its employees are full-time civil servants, but who come under the Naval Discipline Act when deployed to sea under naval command.

RfR: Request for Resources. An accruals-based measure of current expenditure which forms part of a Resource Estimate. It represents the basic unit of Parliamentary control.

RM: Royal Marines. Sea-going soldiers who are part of the Naval Service.

RMR: Royal Marines Reserve. The volunteer reserve service of the Royal Marines. See **Volunteer Reserves**.

RN: Royal Navy. The sea-going defence forces of the UK, including ships, submarines, Naval aircraft and their personnel, and Queen Alexandra's Royal Naval Nursing Service, but excluding the Royal Marines and the Royal Fleet Auxiliary Service (RFA).

RNAS: Royal Naval Air Station. An air base operated by the Fleet Air Arm.

RNR: Royal Naval Reserve. The volunteer reserve service of the Royal Navy. See **Volunteer Reserves**.

RO-RO Shipping. Ships designed to allow cargo, such as vehicles, to be loaded by being rolled instead of lifted, often with a drive-through concept with bow and stern doors. It is commonly used in the in the ferry trades to transport cars and goods vehicles, but also used to transport military vehicles.

RPC: Regional Prime Contracts. Five regionally-based contracts for the provision of construction and maintenance services on the Defence Estate across Great Britain, where stand-alone arrangements are not appropriate. The objective of Regional Prime Contracting is to achieve better long-term value for money through improved Supply Chain Management, incentivised payment mechanisms, continuous improvement, economies of scale, and partnering.

RRUs: Regional Rehabilitation Units.

SALW: Small Arms and Light Weapons. Personal weapons, such as pistols, rifles and light machine guns.

SC: Supply Chain.

SCS: Senior Civil Service. The senior management of the Civil Service.

SDR: Strategic Defence Review. The Defence Review conducted in 1997-98 which reassessed Britain's security interests and Defence needs and set out objectives designed to enhance the Armed Forces.

SEC: Service Executive Committees. The three committees that conduct the day-to-day business of managing the Services on behalf of the Admiralty, Army and Air Force Boards. They bring together, under the Chief of Staff, the Service's operational and personnel commanders, to support the Chief of Staff in his executive role, his management and operational advisory roles, and as the professional head of his Service. See Navy Board, The Executive Committee of the Army Board; and The Air Force Board Standing Committee.

Senior Non-commissioned officer. Senior members of the Ratings/Other Ranks, including Warrant Officer (all classes), Charge Chief Petty Officer, Chief Petty Officer, Colour sergeant, Staff Sergeant, Flight Sergeant/Chief Technician, Petty Officer, Sergeant.

SFA: Service Family AccomMoDation. Housing for service personnel with families.

SFOR: NATO Stabilisation Force. The International NATO led peacekeeping force, responsible for security in the Balkans, before handing over to EUFOR in December 2004.

SIC: Statement of Internal Control. The formal statement in the resource Accounts by the Accounting Officer, that effective systems are in place for managing the organisation.

SIT: Science Innovation and Technology. The Top Level Budget organisation managed by the Chief Scientific Advisor providing science and technology advice and solutions.

SLAM: Single Living Accommodation Modernisation. A project to raise the standard of single living accommodation for service personnel by delivering over 30,000 new or refurbished bed-spaces from 2003-2013.

Smart Acquisition. Smart Acquisition is a policy which aims to acquire Defence capability faster, cheaper, better and more effectively integrated. The objectives of Smart Acquisition are to deliver and sustain defence capabilities within the performance, time and cost parameters approved at the time the major investment decisions are taken; to acquire defence capabilities progressively, at lower risk; to optimise trade-offs between military effectiveness, time and whole life cost are maximised; and to cut the time for (key) new technologies to be introduced into the frontline, where needed to secure military advantage and industrial competitiveness.

SNM: Special Nuclear Materials. Plutonium, uranium-233, or uranium enriched in the isotopes uranium-233 or uranium-235.

Sovereign Base Areas. The UK Overseas Territory in Cyprus, which is the joint responsibility of the Foreign and Commonwealth Office and the Ministry of Defence.

SS: Small Scale. Operational deployment of battalion size or equivalent.

SSRB: Senior Salaries Review Body. The independent body advising the Government on Senior Civil Service pay.

SSSI: Sites of Special Scientific Interest. Protected sites of particular environmental and scientific importance, including wetlands, rivers, heathlands, meadows, beaches, moorland and peat bog. The Defence Estate contains 289 SSSIs.

STC: Strike Command. The RAF's operational Top Level Budget organisation, providing aircraft and trained aircrews to CJO.

TLB: Top Level Budget. The major organisational grouping of the MoD. There are three types: "Operational", "Military Support" and "HQ and other support". Operational TLB's include, CINCFLEET, GOCNI, LAND COMMAND, STC, and CJO. Military Support TLB's comprise the PPO's of the three Services (2SL/CNH, AG, and PTC) and the DLO. Other TLB's are Central, Defence Estates, the DPA, Science, innovation and Technology.

TNA: The National Archives is responsible for looking after the records of central government and the courts of law, and making sure everyone can look at them.

Trading Fund. Trading Funds were introduced by the Government under the Trading Funds Act 1973 as a 'means of financing trading operations of a government department which, hitherto, have been carried out on Vote'. They are self-accounting units that have greater freedom, than other government departments, in managing their own financial and management activities. They are also free to negotiate their own terms and conditions with their staff and for this reason their grading structures do not always match that of the rest of the Ministry, and this is reflected in some of the tables. MoD Trading Funds are ABRO, DARA, DSTL, the Meteorological Office, and the UK Hydrographic Office.

UAV: Unmanned Aerial Vehicle.

UKAEA: United Kingdom Atomic Energy Authority. A non-departmental public body, responsible to the Department of Trade and Industry. Its primary task today is managing the decommissioning of its nuclear reactors and other radioactive facilities used for the UK's nuclear research and development programme in a safe and environmentally responsible manner and to restore its sites for conventional use.

UKHO: UK Hydrographic Office. A trading fund agency of the MoD responsible for surveying the seas around the UK and elsewhere to aid navigation.

UOR: Urgent Operational Requirement. Additional capability requirements for specific operations met using a streamlined version of the Department's normal procurement procedures. This provides speedy and flexible procurement of capabilities.

UNFICYP: The United Nations Mission in Cyprus

VAT: Value Added Tax.

VAW: Veterans Awareness Week. A week to raise the profile of veterans. The first took place in July 2005.

VCDS: Vice Chief of the Defence Staff. The deputy to the Chief of the Defence Staff. Joint head of the Central Top Level Budget organisation with the 2nd PUS, and a member of the Defence Council, Defence Management Board, Chiefs of Staff Committee and Investment Approvals Board.

Veterans Agency. Formerly the War Pensions Agency. Responsible for veterans' affairs, including war and service pensions, service records, military graves, medals and welfare issues.

VFM: Value for Money.

Voluntary Release. See **Premature Voluntary Release.**

Volunteer Reserves and Auxiliary Forces. Civilian volunteers who undertake to give a certain amount of their time to train in support of the Regular Forces. Includes the Royal Naval Reserve, the Royal Marines Reserve, Territorial Army and the Royal Auxiliary Air Force. Does not include Royal Fleet Auxiliary Service (RFA). Some Volunteer Reservists undertake (paid) Full-Time Reserve Service.

VOP: Variation of Price. A contractual provision providing for variation in contract prices if inflation over the period of the contract falls outside defined bands.

Vote. An individual Supply Estimate by Parliament. Replaced by Requests for Resources since the introduction of Resource Budgeting in 2001, except for Votes A setting maximum numbers of personnel to be maintained by the Armed Forces.

WAN: Wide Area Network. A computer network covering a large geographic area, such as the internet or a network of bank cash dispensers.

War Pensions Agency. See **Veterans Agency.**

WEAG: Western European Armaments Group. A group of European countries established in 1993 with the objective of more efficient use of resources through, inter alia, increased harmonization of requirements; the opening up of national defence markets to cross-border competition; to strengthen the European defence technological and industrial base; and cooperation in research and development. The group closed in May 2005 with many of its activities now undertaken by the European Defence Agency.

WPB: War Pensions benefits. A non-contributory financial benefit paid to people who have been disabled as a result of conflict, or to dependants of those killed in conflict.

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