Ministry of Defence

Ministry of Defence

Annual Report and Accounts

2011-2012

Ministry of Defence Annual Report and Accounts 2011-12

For the year ended 31 March 2012

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Preface

i. The Ministry of Defence's (MOD) Annual Report and Accounts is an overview of UK Defence and how the MOD has used the resources authorised by Parliament from 1 April 2011 to 31 March 2012.

Part One: Annual Report

ii. 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. The *MOD Business Plan 2011-15* was originally published in November 2010 and has since been refreshed and published on the 31 of May 2012. It lists the Department's priorities as:

- to succeed in Afghanistan;
- to continue to fulfil our standing commitments;
- to succeed in other operations we are required to undertake;
- to transform Defence by:
  - restructuring the Armed Forces and their capabilities;
  - implementing the new Defence Operating Model;
  - delivering Defence in the most effective, efficient and sustainable way.

The MOD Business Plan splits this list into 'Structural Reform Priorities' and 'Departmental Responsibilities'. Although this report contains information on the six priorities contained in the current Business Plan, it is based on the structure of the previous business plan, which was in force for all of the financial year. This includes a separate chapter on defence exports plus an additional chapter for the Covenant, reflecting the importance that the Government places on our Service personnel.

Further information on the MOD Business Plan is available at:
http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/BusinessPlans/ModBusinessPlans/management

Further details of the Strategic Defence and Security Review (SDSR), Defence Reform and Transparency are available at: http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/PolicyStrategyandPlanning/DefenceReform/ and http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Transparency/

iii. Performance against the actions articulated in the Structural Reform Plan, as well as other Defence priorities, is assessed and managed by the Defence Board through the Defence Performance Framework. The Framework involves a quarterly performance and risk report that is focused on the Defence Board's strategic objectives. It also involves an annual performance and risk report that allows the Board to assess whether strategy needs to be adjusted and provides oversight of performance in individual areas. The performance section of this report is set out against the priorities articulated in the MOD Business Plan and informed by reporting generated by the Defence Performance Framework.

Part Two: Annual Accounts 2011-12

iv. The MOD prepares accounts for each financial year detailing the resources acquired, held, or disposed of during the year and the way in which the Department has used them. Accounts are prepared in accordance with directions issued by HM Treasury including the accounting instructions in the Government Financial Reporting Manual. The accounts are audited by the Comptroller and Auditor General who provides an opinion as to whether: the financial statements give a true and fair view and have been properly prepared; the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded; expenditure and income has been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Part One – Annual Report

Foreword by Secretary of State for Defence

The primary purpose of Defence is protecting this nation and our dependent territories against those who threaten our security and our national interests. My highest priority as Defence Secretary is success on operations: standing operations, such as defending the skies above Britain, protecting our trade routes or maintaining our continuous nuclear deterrent; helping to deliver a safe and secure Olympics, as our Armed Forces have been doing this summer; high intensity interventions as in Libya to extract our own citizens from a war zone and then to impose the will of the international community; and, of course, enduring operations to protect Britain's national security such as are being undertaken in Afghanistan.

Over the last financial year we had 9,500 military personnel continuously deployed in Afghanistan, with Task Force Helmand led first by 3 Commando Brigade, and then by 20 Armoured Brigade. The MOD, together with partners in Government and our Allies, has made real progress in combating the insurgency and developing the capability of the Afghan National Security Forces. By the end of March 2012, over 50% of the Afghan population were living in areas where Afghan forces are in charge. We recognise the debt we owe to the 44 servicemen and women who were killed in Afghanistan between April 2011 and March 2012. Our combat role in Afghanistan will soon be coming to an end, but we owe it to all those who have given so much, over the decade since operations began, to make sure that as we draw down, we do so achieving our central aim – preventing Afghanistan from again being used as a safe haven for international terrorists.

After a decade of high tempo operations, we have to ensure Britain's Armed Forces are re-structured and re-equipped in line with the Strategic Defence and Security Review (SDSR), to protect our national security against the threats we will face in the future. We have also had to tackle an equipment programme that had been allowed to grow beyond the resources available at a time when the overriding strategic requirement is to bring order to the public finances.

So this is a time of great change in Defence, and we are making great progress. But we still have a long way to go to complete the project of Transforming Defence, and delivering the vision set out in the SDSR – a vision of formidable, adaptable and well-equipped armed forces backed by disciplined processes and an efficient and effective Department.

Defence rests on three pillars: the Armed Forces themselves, both Regular and Reserves; the MOD civilians who work alongside them; and, increasingly, the Defence contractors who provide support, both at home and on operations. Succeeding on operations, while simultaneously driving through the most radical transformation of the MOD in a generation, is a huge task. I know that as we move forward we can count on the commitment, dedication and skill of the people – both military and civilians – who deliver Defence.

Introduction by Chief of Defence Staff and Permanent Secretary

Last year, we reported that 2010-11 had been a very challenging year. 2011-12 has been no less so. The priorities have remained the same – to succeed in Afghanistan, on current operations, and on our standing tasks and to transform Defence – but the tempo of delivery has increased. In Afghanistan the move to the third stage of transition to Afghan control means that three quarters of the population and all the provincial capitals will have ANSF taking the lead security responsibility. In Libya, our armed forces responded at pace and with courage to the challenge of brutal suppression of a struggle for freedom. We can all be rightly proud of what we achieved together. At home, the Defence team has worked together to bring the budget into balance and to create a new operating model for the Department with much sharper emphasis on authority, responsibility, and accountability.

This gives us confidence that the Ministry of Defence is ready to handle the operational challenges of the coming years, and the structural challenges of the next decade.

Beyond operations, delivering an affordable defence programme was a major priority. Success here was the culmination of two years' effort. We now know we can afford the major force elements we need to deliver our commitments in the Strategic Defence and Security Review (SDSR), with capacity in the budget to deliver new capabilities in future years. We now have the flexibility to respond to strategic shifts, to take advantage of developments in technology, and to manage risks in our major projects.

To make sure we are fit to deliver the challenges of the SDSR we continue to take forward the biggest organisational change programme Defence has seen in a generation. This year we launched two new support organisations – the Defence Infrastructure Organisation and Defence Business Services – and have established the new Joint Forces Command. The Defence Board has changed. Chaired by the Secretary of State it is more strategic, with a focus on providing clear leadership and prioritisation to the Department. We have also created the Armed Forces Committee to ensure that the Defence Board get the clear, unified military advice of the Armed Forces' Chiefs of Staff and senior civil service.

Over the next year we will be driving through a new relationship between the corporate head office and the rest of the Department. Instead of seeking to control budgets and business from the centre, the Head Office will set strategic direction, and hold budget-holders to account for delivery. Service Chiefs and other budget holders will be able to make choices within their budget, deciding how best to deliver Defence outputs from the equipment, training and manpower under their command. The next fiscal year will also see the publication of the Materiel Strategy, which will set out a radically new approach to the management of acquisition.

This is also the first year that Government accounts have been prepared under the 'Clear Line of Sight' accounting convention, which introduces some important changes. Clarifying how these changes should be implemented has taken considerable time and effort. Improving financial discipline is a priority for the Department and it was more important that we ensured the accounts were correct than that they were published before Parliamentary recess. The Defence Secretary therefore took the decision to delay the publication of this document. We expect this to be a one-off and to be able to publish before recess again next year.

The scale of operations overseas, and the pace of change at home, have required huge efforts from our personnel. This has come at a time when we have had to cut our costs to meet a tighter budget and have conducted a redundancy programme. Despite this, our Armed Forces and our Civil Servants continue to rise to the challenges thrown at them and demonstrate why people are, and will remain, our most important assets.

Again and again those both in uniform and in civilian roles continually surprise us with their imagination, tenacity, determination, courage and humour. We are immensely proud in knowing that we have the honour to lead this Department, and Her Majesty's Armed Forces.

David Richards

Jonathan Thompson

Performance and Key Facts – 2011-12

The Defence Vision:

Our vision is to deliver versatile, agile and battle-winning Armed Forces, working effectively with each other, directed and supported by a professional Ministry of Defence, with people ready to lead, accept responsibility and spend wisely, protecting our security in a changing world. The full Defence Vision can be found at: http://www.mod.uk/DefenceInternet/AboutDefence/Organisation/DefenceVision/TheDefenceVision.htm

The reporting format followed for performance this year is defined in the MOD Business Plan for 2011-15. The latest version of the MOD Business Plan can be found at http://www.number10.gov.uk/wp-content/uploads/MOD-Business-Plan1.pdf. This replaces the previous system of Public Service Agreements and central government targets. The Business Plan reflects the outcome of the Strategic Defence and Security Review (SDSR) and Spending Review 2010, and subsequent developments. It sets out the top level vision and priorities for Defence and informs the Strategy for Defence, Defence Strategic Direction and the Defence Board's strategic objectives. It is revised annually.

Key information about Defence is provided by a series of 'input' and 'impact' indicators. Input indicators show how the Department's resources are being deployed. Impact indicators provide information on key priorities. The data against these indicators is captured and reported through the Quarterly Data Summary. The indicators were revised when the Business Plan was refreshed in May 2012, but in accordance with Treasury guidance, we have used the indicators from the previous business plan in the table below. We have used a * to indicate where data is not included because systems were not already in place, and the indicators will no longer be used.

Indicators

Table 0.1 – Data against Business Plan Indicators

Spending		
Budget	**£million**	
	2011-12	**2010-11**
Total Departmental Expenditure Limit (DEL)	**See Core Table 1**	
of which Resource DEL (excl. Depreciation)		
Up to top 5 contributory elements		
Purchase of goods and services within Resource DEL		
Payroll within Resource DEL		
Grants within Resource DEL		
of which Capital DEL		
Up to top 5 contributory elements		
Total Annually Managed Expenditure (AME)		
Up to top 5 contributory elements		

Financial Indicators	2011-12	2010-11
Accuracy of Cash Forecasting (+/- %)	7.5	7.3
Working Capital Forecast (% variance of Actual v Forecast)	(3.97%)	0.28%
Net Book Value (% variance of Actual v Forecast)	2.8%	3.32%

Common Areas of Spend		2011-12	2010-11
Estate Costs	Total office estate (m^2)	1	261,125
	Total cost of office estate (£M)	1	71.5
	Cost per FTE (£)	1	4,065
	Cost per m^2 (£)	1	274
Procurement	Total Procurement Spend (£M)	20,204	22,100
	Price of standard box of A4 white copier paper (£/2500 sheets)	10.48	7.70
	Average price of energy (£/KWH)	0.038	0.026
IT	Total 3rd Party ICT Cost (£M)	811	961
	Cost of desktop provision per FTE (£)	1,439	1,661
Corporate Service Cost	Human Resources (£M)	45.6	84.6
	Finance (£M)	147.4	167.6
	Procurement (£M)	97.0	154.8
	Legal (£M)	7.57	7.42
	Communications (£M)	66.5	78.0
Fraud, Error, Debt	Total Suspected Fraud	1,073 Incidents	1,025 Incidents
	Total known Errors (£M)	*	*
	Total Debt (£M)	89.6	96.4
	Debtor Days	7.64	8.81
Voluntary and community sector (VCS)/Small and medium enterprises (SME)	Procurement spend with SME (£M)	2,632	686
	Procurement spend with VCS (£M)	182	148
	Grants to VCS (£M)		

1 Data for this metric is taken from the department's input to the Government's benchmarking initiative. The FY11/12 data is not yet available as the Government Property Unit is currently reviewing the detail and timing of the benchmarking exercise with a view to re-launching later in the year.

Major Projects (Top 5)	Cost
Typhoon including Future Capability Programme (£M)	18,159
Future Strategic Aircraft Tanker (£M)	12,009
Astute Submarine (£M)	5,723
Type 45 Destroyer (£M)	5,664
Queen Elizabeth Class Aircraft Carrier (£M)	5,131
£m whole life cost of ALL major projects	59,570

Results		
Input Indicators	**2011-12**	**2010-11**
Additional cost of operations in Afghanistan, per Service person deployed	364,000	397,263
Additional cost of new equipment (urgent operational requirements) for operations in Afghanistan, per Service person deployed	60,012	61,368
* Cost of standing military commitments / tasks and contingent operations per committed Service person	2	
Average percentage by which the cost of the MOD equipment programme varies compared to forecasts in year	1.41	0.15
Cost of major force elements: Ship	34	31
Cost of major force elements: Brigade	661	534
Cost of major force elements: Aircraft (Fast Jets)	8.05	7.32
Cost of major force elements: Helicopter	3.41	2.31
Cost / Benefit ratio of the major change and efficiency programmes being undertaken by Defence	1.85	1.75
* Percentage of non-front line costs versus front line costs, split by Service: Royal Navy, Army and Royal Air Force	2	
Direct personnel costs, per Service person (£thousand)	52	50
Direct personnel costs, per MOD civilian (£thousand)	36	35
Defence spending as a percentage of Gross Domestic Product (published NATO definition) (%)	2.7	2.7

Impact Indicators	2011-12	2010-11
Progress towards a stable and secure Afghanistan	105	88
Number of Service personnel deployed to support civil agencies (e.g. police and fire service) during emergencies	3018	3241
Number of attaches and advisors deployed in support of conflict prevention and defence diplomacy activities (Number of personnel / Number of countries)	110/145	110/143
Number of Service and MOD civilian personnel deployed on all operations in a year	15582	17529
Number of Force Elements (typically ships, aircraft or ground force sub-units) showing critical or serious weakness against the total number of Force Elements for Strategy for Defence priorities (%) [3]	10	30
Average number of months that the MOD equipment programme is delayed in year	5.50	0.46
Percentage of Service personnel that are deployable	92	92
Percentage change in filling skills areas where there are insufficient trained Service personnel to meet the specified requirement by service: Royal Navy [4]	03/09/21	9/12/47
Percentage change in filling skills areas where there are insufficient trained Service personnel to meet the specified requirement by service: Army	29/8/16	31/46/62
Percentage change in filling skills areas where there are insufficient trained Service personnel to meet the specified requirement by service: Royal Air Force	-/-/-	25/14/15
Percentage of Service personnel (Officers / Other Ranks) who are satisfied with Service life in general (%)	62/56	71/58
Overall favourability of the UK Armed Forces (%)	85	88

Structural Reform Plan Actions	2011-12
Total number of actions completed during the year	50
Total number of actions overdue at the end of the year	1[5]
Number of overdue actions that are attributable to external factors	0
Total number of actions ongoing	40

2 This indicator has now been removed
3 The Strategic Defence and Security Review (SDSR) gave the Government the opportunity to address the balance between our levels of national policy ambition, available resources and real world commitments. As such the policy baseline/metric now encompasses all Force Elements at readiness and sustainability, which are scored on a quarterly basis, as articulated in DSD and the Defence Plan.
4 This data compares the 3 OPPs with the largest deficit in Q4 2010-11 with the same OPPs in Q4 2011-12, showing the increase or decrease in deficit. Those OPPs that have been removed from the register are shown as '-'
5 This was completed on 13 April, therefore no longer overdue

People			
Whole Department Family – Workforce Size		**31 Mar 2012**	**31 Mar 2011**
Payroll Staff	Department and Agencies	**See Core Table 5**	
	Non-departmental public bodies		
	Department Family		
Average Staff Costs		[6]	34,967
Contingent Labour	Department and Agencies	**See Core Table 5**	
	Non-departmental public bodies		
	Department Family		

Department and Agencies Only		Year ended 31 March 2012	Year ended 31 March 2011
Workforce Shape	Administrative Assistants and Administrative Officers	39.5	41.6
	Executive Officers	20.2	19.8
	Higher and Senior Executive Officers	34.5	33.2
	Grade 7/6	5.0	4.8
	Senior Civil Servants	0.5	0.5
	Part Time	10.0	10.4
Workforce Dynamics	Recruitment Exceptions[11]	870	1,610
	Annual Turnover Rate	[7]	
Workforce Diversity	Black and Minority Ethnic	3.7	3.3
	Women	37.4	38.7
	Disabled	[8]	7.7
Workforce Diversity (Senior Civil Servants only)	Black and Minority Ethnic	2.7	2.8
	Women	21.9	19.6
	Women (Top Management Posts)	[9]	19.7
	Disabled	[8]	5.0
Attendance (AWDL)	Actual	8.1	8.0
	Standardised	[10]	

Department only; People Survey Metrics		2011 survey	2010 survey
Engagement Index (%)		53	58
Theme scores (%)	Leadership and Managing Change	22	25
	My Work	70	73
	My Line Manager	60	61
	Organisational Objectives & Purpose	76	80

6 The average staff costs is taken from the Treasury Pay Bill Remit. This is not available until end of Sep 2012
7 DASA do not report this data
8 Disability statistics will not be available until end of FY12/13, due to change in law required all MOD personnel to restate their disability reporting
9 DASA no longer report this information
10 DASA do not record this data
11 This is the total MOD Main intake into the Department, as produced by DASA

Structural Reform Plan

Progress against the actions articulated in the Structural Reform Plan is reported monthly and published on the No 10 and the MOD websites. The MOD's Director General Finance can be subject to a monthly review meeting by the Cabinet Office and the Treasury. The Secretary of State and Permanent Secretary can be held to account quarterly for the Department's performance against Structural Reform Plan actions.

1. Afghanistan (including Other Operations)

The first Coalition priority defined in the 'Vision' section of the Business Plan is:

To succeed in Afghanistan – the main effort for the MOD.

Our Armed Forces are working to protect the UK by creating security and stability in Afghanistan and training members of the Afghan National Security Forces (ANSF) to help the Afghans to provide their own security in the future.

This chapter covers the following:

- **Afghanistan**
- **Libya**
- **Iraq**

Soldiers from 1 Platoon, A Company of 3 Scots deploy from a Chinook helicopter in the desert in Afghanistan

CURRENT OPERATIONS

Afghanistan

Overview

1.1 The campaign in Afghanistan remains the Defence main effort. The UK continues to play a leading role in the NATO-led International Security Assistance Force (ISAF). ISAF remains NATO's largest ever mission, with 50 nations contributing some 129,000 troops. The international community aims to improve security, facilitate development and reconstruction, and support the Government of Afghanistan as it extends its authority across the country. The UK's aim is to ensure that the threat of terrorism to UK national security from Afghanistan no longer requires the deployment of UK combat forces. To achieve this we are focused on combating the insurgency and building the capability of the Afghan National Security Forces (ANSF) to enable them to take on full responsibility for security provision by the end of 2014.

1.2 The ISAF mission in Afghanistan is divided into six regional commands with the UK's presence (Task Force Helmand) mainly concentrated in central Helmand in Regional Command (South West). We continue to support ANSF in central Helmand, further assisting their training and development through embedding staff officers at the NATO military and police training mission (NTM-A) Headquarters and other training institutions.

1.3 From April to October 2011, 3 Commando Brigade provided the headquarters for Task Force Helmand, after which responsibility passed to 20 Armoured Brigade until April 2012. The UK's endorsed conventional force level has remained at 9,500 with the Prime Minister announcing in July 2011 that this would reduce to 9,000 by the end of 2012.

1.4 In addition to our Armed Forces, some 150 MOD civil servants are deployed in support of operations in Afghanistan in a range of roles, including as advisors and mentors to help develop the Afghan security institutions in Kabul.

Key Achievements

1.5 Significant progress has been made in Afghanistan over the last year. In 2011, nationwide violence levels fell for the first time since the ISAF mission was expanded in 2006. However, the regional picture in Afghanistan remains varied. More than 90% of the violence occurs in the east, south and south west of the country. The east, which is the largest and most populated region in Afghanistan, has seen an increase in insurgent activity. Afghan and international forces have continued to maintain a high operational tempo against the insurgency, but we expect further challenges as insurgents attempt to regain lost territory.

A Warrior Armoured Infantry Fighting Vehicles from Right Flank, 1st Battalion, The Scots Guards provides overwatch on the edge of the Green Zone in Helmand Province, Afghanistan.

1.6 The process of transition of security responsibility from international forces to the ANSF began in July 2011. In central Helmand, Lashkar Gah was part of the first tranche of provinces and districts to begin this process, with Nad-e Ali entering transition in December 2011. As at the end of March 2012 , approximately 50% of the Afghan population are now living in areas where the Afghans lead provision of security. Nationally, ANSF are leading 40% of operations and carrying out 85% of training.

1.7 As agreed at the Lisbon summit in 2010, British and ISAF forces will remain in Afghanistan in a combat role until the end of 2014. As transition continues, the ANSF are increasingly taking the lead. In Task Force Helmand, the Afghan National Army led seven joint Brigade level operations between October 2011 and April 2012. At the national level, they have responded to a series of high-profile attacks promptly, professionally and increasingly independent of ISAF support. In March, the ANSF and ISAF completed and approved their joint Operational Plan: *Operation Naweed ("Good News") 1391*. This is the plan to synchronise ANSF and ISAF efforts over the next twelve months and marks the first time that the ANSF have taken the leading role in campaign planning. There is still more work to do, but the increasing role that the ANSF is taking in the planning and executing of operations is essential to ensure they are able to manage any residual insurgent threat, once ISAF combat troops withdraw.

1.8 At the Bonn Conference in December 2011, the international community reaffirmed its commitment to support the ANSF beyond 2014. At the NATO Chicago Summit (May 2012) and the Tokyo Conference (July 2012) the international community committed to provide long term support to the Afghans as they shape their country over the Transformation decade. This includes a commitment by the UK to maintain development funding of £178M at current levels through to 2015 and is in addition to the £70M we will provide to help fund the ANSF after transition completes.

1.9 In May, the Afghan Government announced the third tranche of areas to enter security transition. This includes Nahr-e-Saraj the final district within Task Force Helmand- the UK's area of operations. Aligned with this process and as a result of progress on the ground the UK is drawing down its conventional levels by 500 to 9,000 by the end of this year. Redeployment of materiel from Theatre began in earnest and as planned on 1 October 2012.

Casualties

1.10 There were 44 UK Service personnel killed in Afghanistan between April 2011 and March 2012 (85 in 2010-11). A further 55 suffered serious or very serious injuries (146 in 2010-11). This brought the total number of deaths from the start of operations in Afghanistan in November 2001 to 31 March 2012 to 407, of which 367 were classed as killed as a result of hostile action.

Equipment

1.11 Every soldier and unit deployed to Afghanistan is fully equipped for the operations they are asked to undertake. New and bespoke equipment continues to be procured through the Urgent Operational Requirement process to meet emerging threats and requirements. This year has seen an increase in the numbers of Counter-IED detect systems, working dogs and improved Mine Blast Protection for armoured vehicles, as well as the introduction of lightweight, man-portable, electronic countermeasures to reduce the burden on the soldier whilst maintaining the best level of protection.

1.12 Several capabilities have been strengthened and delivered to theatre throughout the year, including Mastiff and Ridgeback protected mobility vehicles. This year has also seen improvements in medical equipment.

Libya

1.13 By 1 April 2011, NATO had assumed effective command of all operations to enforce United Nations (UN) Security Council Resolutions (UNSCRs) 1970 and 1973. The commitment of military forces to Libya averted a humanitarian catastrophe in Benghazi and saved countless lives during the uprising. At its peak, some 2,300 British service men and women were deployed on the NATO operation over Libya, along with thirty-six aircraft, including sixteen Tornado GR4s, six Typhoons, five attack helicopters, refuelling tankers and specialist surveillance aircraft and helicopters, as well as eight warships and a submarine. The successful deployment of the Apache attack helicopter in an amphibious strike role was a first for Defence and the Army.

1.14 Since the end of hostilities, transition has been a Libyan led and owned process with broad international support co-ordinated by the UN. The UK has offered to assist the Libyans with planning a post-conflict transition, developing priorities for post-conflict assistance and setting out the timelines for implementation.

Iraq

1.15 Following the end of our contribution to operations in Iraq and the withdrawal of the NATO military and police training mission in Iraq in December 2011, UK military activity in Iraq has been conducted by the Defence section in the British Embassy in Baghdad. We continue to build upon a good bilateral Defence relationship, based on a long tradition of Defence co-operation. This relationship is particularly strong in the area of military training, comprising junior and senior officer training and specialist courses provided in the UK, which are highly valued by the Iraqi Armed Forces. We are planning to run training courses within Iraq, and also working with the Iraqi military in advising on the development of the Iraqi International Academy of excellence for officer training and education. Involvement in the academy represents a good opportunity to build an enduring relationship with the future leaders of the Iraqi military. Alongside this, the Defence section continues to support UK Trade and Investment on issues related to Defence sales.

1.16 Multi-nationally, the UK is working with NATO to support the re-establishment of a small NATO specialist team, which plans to return to Iraq in Spring 2012 to provide further training to the Iraqi police and military.

2. Standing Commitments

The second Coalition priority defined in the 'Vision' section of the Business Plan is:

To continue to fulfil our standing commitments, including strategic intelligence, the strategic nuclear deterrent, defence against direct threats to the UK and its overseas territories, counter-terrorism and military aid to the civil authorities.

Carrying out these roles is essential to our security and supports key British interests around the world.

This chapter provides an update on the following:

- Defence of UK Overseas Territories, UK Airspace and Waters
- Deterrence
- Counter Piracy
- Counter Terrorism and Olympics
- Military Aid to the Civil Agencies
- Activity and Concurrency Levels
- Contingent Capability
- Other Defence Activity

Royal Navy Type 23 frigate HMS Somerset is pictured during counter piracy operations in the Indian Ocean.

STANDING COMMITMENTS

Defence of UK Airspace and Waters and UK Overseas Territories

2.1 Police and maritime authorities have primacy in protecting the coastline of the UK, and Defence maintains an appropriate force to provide support to these authorities if required. Quick Reaction Alert Typhoon aircraft and air surveillance and control facilities continue to be used to defend UK airspace. We remain fully committed to the defence of UK Territories in the South Atlantic, including South Georgia and the South Sandwich Islands. UK forces remain permanently deployed in the Falkland Islands in a deterrent role.

2.2 In Cyprus we maintain important military facilities in the Eastern and Western Sovereign Base Areas (SBAs), the continued requirement for which was confirmed by the Cyprus Strategic Review in December 2011. The SBAs continue to provide vital support to operations in Afghanistan and played an important role in the recent Libya operations.

Deterrence

2.3 Nuclear weapons provide the ultimate guarantee of the UK's national security. The UK therefore remains committed to an effective, minimum, credible nuclear deterrent. The sole purpose of the UK's nuclear weapons is to deter: preventing nuclear blackmail and acts of aggression against our vital interests that cannot be countered by any other means. They also make a vital contribution to the defence of NATO, which will remain a nuclear alliance while nuclear weapons exist.

2.4 The Government is committed to replacing the current VANGUARD class ballistic missile submarines. In May 2011 the Defence Secretary announced approval of further design work on a class of submarines that will deliver our nuclear deterrent capability beyond 2060. The main investment decision, finalising the detailed acquisition plans, design and number of submarine hulls will be made around 2016.

2.5 The Strategic Defence and Security Review (SDSR) stated that the UK would reduce the maximum number of missiles from 48 to 40, the number of operational warheads from fewer than 160 to no more than 120 and the stockpile of nuclear warheads from a maximum of 225 to no more than 180. In June 2011 the Defence Secretary informed the House of Commons that these reductions had commenced, and that at least one of the VANGUARD class ballistic missile submarines now carries a maximum of 40 nuclear warheads.

Counter Piracy

2.6 Pirate seizures are currently at a three-year low, thanks to an increasingly co-ordinated military effort, and the widespread use of self-defence measures and armed onboard protection teams by merchant vessels. Activity during the most recent inter-monsoon 'peak piracy season' was minimal; overall trends are down and show no immediate signs of reversal.

2.7 Defence plays a key role in the international effort that has achieved this, both through inter-governmental leadership and military contributions to the three international counter piracy coalitions: the European Union's Operation ATALANTA; NATO's Operation OCEAN SHIELD; and the US-led Combined Maritime Force.

2.8 Operation ATALANTA has continued to safeguard the seaborne delivery of food aid and conduct counter piracy missions throughout the Somali Basin and Gulf of Aden Area. The UK provides the Operational Commander and the multinational Operational Headquarters at Northwood. The UK also provided some specialist capability to NATO between December 2011 and February 2012. As a result, 36 suspected pirates were detained and 43 mariners rescued; the pirates were subsequently transferred to regional states for prosecution. The Combined Maritime Force has a permanent UK Deputy Commander based in Bahrain and we contributed ships to the mission throughout the entire period.

Counter terrorism and the Olympics

2.9 The Department of Culture Media and Sport has overall responsibility for the conduct of the Olympics and Paralympics. The Home Office Olympic Security Directorate is responsible for the safety and security of the Games. As announced to Parliament on 15 December 2011, MOD will be providing a range of support to Olympic security. Throughout 2011-12, we have been closely engaged in planning and have participated in a range of exercises to ensure its contribution is fully integrated and prepared. We continue to provide military advice and dedicated planning support through close cross-departmental liaison and the secondment of military officers to key organisations.

Military Aid to the Civil Authorities

2.10 The Home Secretary is responsible for the safety and security of the UK and its citizens. Under the Civil Contingencies Act 2004, lead Government departments are allocated to deal with the most likely high-impact, disruptive events. MOD is not the lead for any civil contingency, but if required can provide support through the Military Aid to the Civil Authorities process. We supported the civil authorities in carrying out their functions on over sixty-five occasions in 2011-12. These ranged from the provision of logistics support to the police and ambulance service, to having personnel trained and on call to provide business continuity in the event of strike action.

2.11 Northern Ireland. Around 4,000 members of the Armed Forces are currently stationed in Northern Ireland. Military personnel stationed there regularly deploy on operations overseas. MOD provides specialist support to the civilian authorities, mostly through Explosive Ordnance Disposal (EOD). The threat from Northern Ireland related terrorism remains a security concern.

2.12 Counter Narcotics. Defence has continued to make a strong contribution to countering the threat from illegal drugs. In the Caribbean, the Royal Navy has been involved in the seizure of almost seven tonnes of narcotics, and significant amounts of bulk cash linked to the drugs trade. Maritime counter narcotics operations are usually conducted with other international agencies. The MOD works closely in support of the Serious Organised Crime Agency on tackling narcotics and other illicit trafficking activity worldwide. In Afghanistan, UK forces, under NATO, have provided training and logistical support to Afghan forces in their counter narcotics operations. UK forces have disrupted thousands of kilograms of drugs in the course of operations in Afghanistan, including one seizure of 1,800 kgs by 854 Naval Air Squadron which would have had an estimated value of about £40M on UK streets.

2.13 Fisheries Protection. The River Class Offshore Patrol Vessels of the Fishery Protection Squadron supported the Marine Management Organisation with fishery patrols. They boarded several fishing vessels, a number of which were detained at a UK port for further investigation, and detected many fishing infringements. Progress continues in the development of joint operations and in working with other EU member states to improve the efficiency and effectiveness of their patrol assets.

2.14 Search and Rescue. The MOD search and rescue service exists to help military aircrew in difficulty. It also contributes to the UK's integrated national search and rescue framework. Helicopter cover for most of the UK, and a large area of the surrounding sea, is provided 24 hours a day by the RAF and Royal Navy from eight helicopter bases. This augments the service provided by a civilian company from a further four bases under contract to the Maritime Coastguard Agency. The RAF maintains four RAF mountain rescue teams in the north of the UK, which are expert in dealing with aircraft crashes in remote areas. The UK Aeronautical Rescue Co-ordination Centre at RAF Kinloss co-ordinates the response of all UK search and rescue aircraft and mountain rescue teams, and hosts the UK Mission Control Centre for the global satellite based distress beacon detection system. Search and Rescue cover is also provided by the RAF from RAF Akrotiri in Cyprus and in the Falkland Islands. In 2011 Defence Search and Rescue services were called out 1,921 times (2,050 in 2010) and came to the aid of 1,560 people. Statistics on Military Search and Rescue incidents, callouts and people moved can be found on the UK Defence Statistics 2011 website at: http://www.dasa.mod.uk/

2.15 Explosives Ordnance Disposal (EOD). MOD provides 24 hours-a-day EOD support to the police in the UK. This includes the provision of operational scientific expertise to deal with complex devices. Routine co-ordination of EOD tasking is conducted by the Joint Service EOD Operations Centre at Didcot which allocates Royal Navy, Army or RAF teams as necessary. EOD teams are stationed at various locations through the UK and responded to over 2,629 callouts in 2011-12 (2,485 in 2010-11).

Activity and Concurrency Levels

2.16 The total number of Service Personnel committed to operations (ie those forces ready to deploy, those currently deployed and those just returned) averages at 29% (up from 26% in 2010-2011) across all three Services. The proportion of regular forces actually deployed (as opposed to those ready to deploy, currently deployed and those just returned) on operations and undertaking other military tasks has also risen by 3 percentage points to 18%. These increases are, in part, due to continued operational activity in the Gulf region, support to NATO operations in Libya and the preparations for support to the Olympics. Table 2.1 below sets out the percentage of regular Armed Forces actually undertaking operations and military tasks during 2011-12.

2.17 The **Royal Navy** has continued to make a significant contribution to wider UK security by supporting operations and commitments in Libya, the Gulf, Horn of Africa, Mediterranean and the North and South Atlantic. Naval Forces have enforced the UN arms embargo in Libya, helped protect World Food Programme shipping, delivered the United Kingdom's continuous at sea nuclear deterrent patrols, maintained the standing commitment in Diego Garcia, provided security of territorial waters and economic zones, led counter piracy operations, and supported the civil authorities for search and rescue, fishery protection, and counter drugs activities. 3 Commando Brigade once again undertook a challenging and rigorous deployment to Afghanistan as part of the UK's contribution to NATO operations under ISAF. This year the overall percentage of Naval Service personnel deployed on operations and undertaking other military tasks has been relatively stable at 14%, compared to 16% in 2011.

2.18 The **Army** has continued to make a major contribution to operations worldwide with the most significant deployment being to Afghanistan. Support to the UN has continued through a variety of global operations, including in Cyprus, Democratic Republic of Congo and Sudan. All standing commitments were met with Land Forces permanently stationed in Northern Ireland, Cyprus, Brunei, Nepal, the Falkland Islands and Ascension Island, Gibraltar and the British Indian Ocean Territory. Land Forces have continued to contribute to the Government's counter-terrorism strategy by delivering military advice and assistance across all four strands of the strategy (Pursue, Protect, Prepare, Prevent). This included training assistance to a number of high priority countries in capabilities such as border security, counter-terrorist detention, public order, and aviation security. The percentage of Army personnel deployed on operations and undertaking other military tasks has increased slightly to an average of 19%, compared to 16% in 2011.

2.19 The **Royal Air Force** has remained committed overseas particularly in the Gulf region, Afghanistan, Libya, Gibraltar and Pakistan. Security co-operation, strengthening of international peace and stabilisation, and support to wider British interests have been delivered through support to arms control, defence diplomacy, NATO counter intelligence operations and defence export activities. Strategic intelligence was provided in liaison with Government Communications Headquarters, the Joint Aerial Reconnaissance Intelligence Centre and the Defence Intelligence and Security Centre. The high level of commitment of air transport and support helicopter fleets has continued. Standing commitments to nuclear deterrence (through the Nuclear Emergency Response Organisation) and transport security have continued to be met, along with other Defence military tasks that encompass search and rescue, counter drugs activities, airborne surveillance and control. The RAF also contributed to permanent commitments in Northern Ireland, the Falkland Islands and Cyprus, and to a range of other military tasks including the integrity of UK waters and airspace. This included a significant contribution, alongside maritime forces, to the enforcement of the UN arms embargo and no fly zone in Libya. Overall the percentage of RAF personnel deployed on operations and undertaking other military tasks increased to 19%, compared to 11% in 2011.

Contingent Capability

2.20 **Contingent forces** are held for unforeseen emergencies or to reinforce existing operations. This includes the UK's contribution to a multinational operation, but the forces are held principally to allow Defence to respond to scenarios in which the UK acts alone to protect national security interests, such as rescuing hostages or counter-terrorism operations. High readiness forces include a balanced range of land, air and maritime capabilities. A UK Contingent Battalion has been at readiness since April 2012 to assist with military tasks in the UK. The size of forces available for contingent operations has been reduced as we do not plan for, or expect, the Services to be ready for the full range of potential operations while they are completing and supporting current operations.

2.21 The **readiness** of the Armed Forces for contingent operations beyond Afghanistan has continued to improve. Improvements in 2011-12 include the designation of both the lead commando group (part of 3 Commando Brigade) and the airborne task force (drawn from 16 Air Assault Brigade) as **high readiness forces** available for deployment at short notice to meet emerging tasks. In addition, the Navy's Responsive Force Task Group (RFTG) has also conducted major training deployments and diverted elements to support other operations in the Mediterranean and the Gulf. This reflects work to deliver the outline force structure (Future Force 2020) described in the SDSR and a flexible approach that allows us more effectively to counter the threats we are most likely to face today whilst retraining our focus on current operations and whilst maintaining the ability to respond to different threats in the future.

From left, a Royal Air Force servicewoman, an Army servicewoman and a Royal Navy sailor salute.

2.22 The **Joint Force Headquarters** (JFHQ) continues to provide the standing command and control capability at the heart of the United Kingdom's response to emerging crises. The JFHQ is at extremely high readiness (twenty-four hours notice). It holds an Operational Liaison and Reconnaissance Team (OLRT) of up to eight personnel at four hours notice. The remainder of the JFHQ (up to forty-seven personnel) is held at twenty-four hours notice. JFHQ has been active in four main areas this year: operations; training; Defence diplomacy/engagement and broader development of joint warfare doctrine and concepts. OLRTs have deployed on a number of occasions during the year to provide information and advice and to inform decision-making. It draws on wider expertise from other organisations, including the Foreign and Commonwealth Office, the Department for International Development, Civilian Police, International Committee of the Red Cross, single Service staffs, cultural advisors and the Stabilisation Unit. Over the last year it has:

- Maintained theatre awareness or conducted specific tasks by deploying specialists to over thirty countries including the Lebanon, Israel, Jordan, Sudan, Nepal and Yemen;
- Worked with headquarters staff of the European Union, the Netherlands, France, Sweden and the USA, as well as British Forces Cyprus and several single-Service headquarters;
- Conducted Defence diplomacy tasks such as campaign planning for the African Union's peace support mission in Somalia (AMISOM) with the Ugandan People's Defence Force, and helping to train the Kenyan Rapid Deployment Force.

Table 2.1 – Percentage of Regular Armed Forces undertaking operations and undertaking Military Tasks during 2011-12:

	Deployed on Contingent Operations				Undertaking Military Tasks			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Royal Navy	7%	8%	5%	5%	13%	7%	5%	5%
Army	7%	10%	8%	11%	11%	10%	9%	9%
Royal Air Force	11%	11%	9%	9%	8%	9%	9%	9%
Overall	8%	10%	8%	9%	11%	9%	8%	8%

Notes:
1. Figures are rounded up to whole figures.
2. Percentages are quarterly averages to reflect the burden of activity imposed by operations and other military tasks undertaken by each service.
3. Figures to not include numbers preparing for, or supporting the preparation for current operations.
4. A list of Military Tasks can be found on the Department's website (www.mod.uk)

Other Defence Activity

Conflict Prevention and Defence Diplomacy

2.23 The Building Stability Overseas Strategy (BSOS), jointly developed with the Foreign and Commonwealth Office (FCO) and the Department for International Development (DFID), was published in July 2011. This strategy sets out a more integrated approach to dealing with conflict and instability. It brings together diplomatic, development and defence and security resources in those regions and countries where risks are high, where the UK has an interest and where we can have an impact. We have contributed to the development of more robust early warning processes, led by the Cabinet Office, and the introduction of a £20M early action facility from within the existing budget for the Conflict Pool. The MOD continued to work with DFID and FCO on conflict prevention and capacity building projects across five regional and one thematic programme: Africa; Afghanistan; Wider Europe; South Asia; Middle East & North Africa; and Strengthening Alliances and Partnerships. Of the approximately £180M available to the Conflict Pool in 2011-12, MOD led on activities totalling some £46M. In conjunction with FCO, MOD is developing a Defence Engagement Strategy (DES), which we aim to publish during 2012.

2.24 In the Middle East and North Africa, MOD has continued provision of technical assistance to the Palestinian security sector, an area which is critical to the future viability of a Palestinian State and highly valued by both the Palestinian Authorities and the Israeli Defence Force. In Lebanon, we have sponsored an internal security training centre that has assisted the Lebanese Armed Forces to develop their internal security, counter-terrorism and public order capability. This work helps maintain stability in the Lebanon and create a secure space within which broader political reform is possible; it is highly appreciated by the Lebanese and has strengthened UK-Lebanese relations.

2.25 Following the conflict in Libya, the Conflict Pool funded deployment of a Defence Advisory Training Team (DATT) to Tripoli to support the transition process, including multi-national demining and counter proliferation activity. The DATT has played an important role in security sector reform, including work on helping Libya draft a White Paper on Security. The DATT is now focusing its efforts on providing technical advice to enable capacity building across the Libyan MOD, Army, Air Force and Navy.

A Royal Air Force Tornado GR4 aircraft takes off from Gioia Del Colle airbase, Italy on 3 April 11 during the early stages of Operation Unified Protector, the UN backed mission to secure the skies over Libya

2.26 The MOD undertook training activity in a number of other countries, including Morocco, Jordan, Oman and the United Arab Emirates (UAE). This provided highly valued capacity building for the host nation and training opportunities for UK forces. Wider defence diplomacy and capacity building activity was also delivered through: Defence attachés; a presence in Kuwait, Saudi Arabia, Oman, Jordan, Qatar and the UAE; bespoke short-term training teams; and UK based courses. This activity is highly valued by these nations, underpins government to government bilateral relations and assists capacity building across a range of subjects from counter-terrorism to maritime security of Economic Exclusion Zones.

2.27 In South Asia our varied defence co-operation supported the wider UK government effort to promote security and prosperity. We continue to maintain a close relationship with Pakistan, principally through our Defence section in the British Embassy. Our bilateral ties with India continue to mature, as witnessed by our agreement to take forward bilateral defence research and technical collaboration. Our ongoing support to the Nepalese Army through the provision of demining assistance has enabled Nepal to declare itself mine free.

2.28 In 2011-12, MOD strengthened our defence diplomacy ties in Asia Pacific in support of the Government's wider focus on the region. We signed a defence Memorandum of Understanding with Vietnam and agreed to sign a Defence Co-operation Memorandum with the Japanese. We also continued to develop our bilateral military to military relationship with the Chinese. In October 2011, Typhoon made a very successful contribution to the Five Power Defence Arrangements (FPDA) live autumn exercise. The following month our new Defence Secretary visited Singapore and Malaysia to commemorate the FPDA's 40th Anniversary. The FPDA is a series of Defence relationships established through bilateral agreements between the United Kingdom, Australia, New Zealand, Malaysia and Singapore.

2.29 In Africa, MOD has contributed strongly to the government Somalia strategy during 2011-2012 through initiatives to improve the capacity of the African Union's peace support mission in Somalia (AMISOM), and by continuing to support the EU's military training mission (EUTM Somalia). Conflict Pool funding for Somalia-related projects increased to reflect the importance attached to conflict prevention and conflict resolution across Somalia. The MOD has also remained active in supporting mediation efforts between Sudan and South Sudan to prevent conflict escalation, which remains a challenging assignment. We maintained a number of active programmes elsewhere in Africa: some, such as those run by our two British peace support training teams, had a regional or sub–regional focus; others were designed to improve the capacity of a country's Armed Forces, although these programmes too can have a wider regional effect. For example, our long-running programme with the Republic of Sierra Leone Armed Forces (RSLAF) and MOD has improved capacity to the extent that RSLAF is now able to deploy on peace support operations elsewhere in Africa. We have devoted an increasing amount of effort to supporting African attempts to devise regional maritime strategies both in the Horn of Africa and the Gulf of Guinea.

2.30 In South America, bilateral defence co-operation continues to be productive, although sometimes constrained by issues arising from Argentina's claim to the sovereignty of the Falkland Islands. Brazil, Chile and Colombia are the main countries in the region for UK defence engagement. Strategic dialogues take place annually with Brazil and Chile, focusing upon co-operation in peace support operations, cyber security, regional and global stability and, particularly for Brazil, the Olympic and Paralympic Games. The bilateral relationship with Colombia is in an earlier phase, but we are exploring opportunities to widen defence co-operation in areas such as counter-IED expertise and counter narcotics.

2.31 In line with the SDSR's focus on working more closely with key partners and allies, the Lancaster House Treaties of 2010 established a framework for intensified defence co-operation with France. The Libya campaign in 2011 provided an early experience of co-operation in this revitalised relationship. This year saw the commencement of structured dialogue talks with Germany and Italy, recognising their importance as NATO and EU partners and seeking to enhance bilateral co-operation. The Northern Group, an informal grouping of north European countries, continued to provide a useful focus for engagement on a variety of defence issues, such as counter piracy, and is expected to develop its role further in 2012.
A treaty was signed with Turkey, providing a basis for enhanced bilateral defence co-operation.

2.32 Across wider Europe, the Conflict Pool funded a wide range of projects focused on peacekeeping and governance, accountability and security sector reform. This included the UK contribution to the United Nations Peacekeeping Force in Cyprus, our largest commitment to a UN operation. In the Western Balkans we maintained our commitment of a small number of staff officers on operations in Bosnia and Herzegovina. We further plan to contribute a UK-based company of troops to the reserve force for the EU's military operation in Bosnia (EUFOR Althea) from December 2012. The UK-funded Peace Support Operations Training Centre in Sarajevo provided training for countries in the region. In Kosovo our contribution to the NATO advisory team continued to oversee the development of the Kosovo Security Force in a difficult political environment that required the deployment of NATO reserve forces in the north of the country. Across the border in Serbia, we sponsored a number of projects focused on improved governance and awareness of the role of NATO. In Ukraine, our special defence adviser within the Ukrainian MOD has worked closely on implementation of defence reform; and we have now established an additional full-time special defence adviser in Georgia. In Armenia, UK support to defence review work has progressed into the implementation phase.

2.33 Throughout 2011-12, MOD has assisted in the development of the Armed Forces of partner nations, by providing defence education and training to twelve countries through the Security Sector Education programme. Through the Strengthened Alliances and Partnerships strategy of the Conflict Pool, MOD contributed to capacity-building for peace support operations, especially through 'train the trainer' schemes, building training and teaching capacity in target countries. For example, the British Military Advisory Training Team trained 320 students from 20 countries in courses based in the Czech Republic, and a further 295 students through in-country training teams. These teams help other countries become self-sufficient, capable of providing for their own security in an accountable and democratic framework, and of contributing personnel to peace support operations.

2.34 The MOD's Defence Assistance Fund (DAF) has been used to further develop and strengthen bilateral and multilateral defence relationships in support of Defence and wider Government objectives, including in support of current and contingent operations. The DAF funds defence education in support of security sector reform and capacity building; short-term training teams; staff talks, and exchange visits.

2.35 The UK has continued to enter into arrangements and agreements with key long-term partners in defence and security. During 2011-12, a Defence Framework Treaty was agreed with Turkey, and almost thirty new Memoranda of Understanding and many other subordinate arrangements were signed.

Stabilisation Unit

2.36 The Stabilisation Unit is jointly owned by MOD, FCO and DFID and provides specialist, targeted assistance to countries emerging from violent conflict. During 2011-12, the Stabilisation Unit deployed the first overseas civilian-military 'Stabilisation Response Team' (SRT), to Libya, in response to tasking from the National Security Council. Internationally, the Unit expanded its geographical civilian deployment remit to reach more than thirty countries. Throughout the year, Military Stabilisation Support Group (MSSG) continued to work closely with the Stabilisation Unit, providing military expertise to planning, operations and exercises globally.

British troops are pictured boarding an RAF C-17 flight at 901 EAW (Expeditionary Air Wing) B Flt before the transit to Camp Bastion, Afghanistan

NATO

2.37 The UK has taken the lead in driving forward reform of NATO. The reformed NATO command structure is now being implemented, following agreement of the structure and geographical footprint in June 2011. As part of this, the UK has retained the Maritime Command at Northwood and has been allocated a wide range of influential posts across the new command structure.

2.38 The UK also continues to support the NATO Response Force (NRF), making regular contributions, including the Maritime Component Command from January to June 2011. In support of these command elements, the UK has committed throughout 2011-12: an anti-submarine warfare escort ship; a mine counter measures vessel; twelve air defence/ground attack aircraft; two airborne early warning aircraft and two air to air refuelling aircraft. These air and maritime elements formed the framework for the UK's commitment to NATO's operations in Libya last year, reinforced by further air and maritime assets and additional personnel in the NATO HQs used in the operation. The UK has also contributed a number of ships to NATO's counter-piracy mission off the Horn of Africa (Operation OCEAN SHIELD).

2.39 The UK continues to lead the Allied Rapid Reaction Corps (ARRC), our major land contribution to the NATO Force Structure. HQ ARRC successfully completed a nine month deployment to Afghanistan at the end of 2011 as the ISAF Joint Command in Kabul. It has been preparing to takeover as NATO's principal high readiness Land Component headquarters at the start of next year. HQ ARRC has now successfully completed its move from Germany to Cheltenham.

United Nations

2.40 MOD supported four peacekeeping operations in 2011-12, providing approximately 280 military personnel to UN missions. We also maintained our commitment to UN-mandated peace support operations, with approximately 11,000 personnel involved in operations in Afghanistan and Libya.

2.41 MOD continued to provide three officers on secondment to the UN in New York and to maintain a Defence section in the UK Mission to the United Nations. MOD contributed to extensive multilateral capacity building in Africa through a combination of short term training teams, British peace support training teams and British military advisory training teams. MOD also continued to implement actions detailed in the National Action Plan to enact the United Nations Security Council Resolution 1325 on Women, Peace and Security, including through the deployment of female engagement teams and cultural advisers into Afghanistan.

Common Security and Defence Policy (CSDP)

2.42 Following the ratification of the Lisbon Treaty in December 2009, the UK has continued to encourage the European Union CSDP to focus on the delivery of more capable, coherent and effective policy and activity that remains supportive of, and complementary to NATO.

2.43 We continue to provide the Operational Headquarters at Northwood and the Operational Commander for the EU's counter piracy operation off the Horn of Africa (Operation ATALANTA). The UK has also supported the soon-to-launch regional maritime capacity building mission in the Horn of Africa (EUCAP NESTOR), as well as the activation of the Operations Centre in Brussels which will run the mission.

Arms Control and Counter-Proliferation

2.44 The National Security Risk Assessment identified that the risk from hostile acts by terrorists and states would be greatly increased if weapons of mass destruction, advanced military technologies, and the systems used to deploy them, reached the wrong hands. The following paragraphs summarise MOD's contribution to meeting the government's wider arms control and counter-proliferation objectives.

Nuclear Arms Control

2.45 As part of our support of the 2010 Nuclear Non Proliferations Treaty, MOD has continued the UK-Norway initiative on nuclear warhead dismantlement, and hosted a successful non nuclear weapons states workshop on the subject in London.

2.46 We have continued to fulfil its international obligations as the national authority responsible for the UK's commitment to the Comprehensive Test Ban Treaty, supporting efforts with the international community to bring swift entry of the treaty into force. Work has included a MOD-led presentation on technological developments designed to enhance the performance of the monitoring system at the international Science and Technology Conference in Vienna in June 2011.

2.47 The UK continues to call for negotiations on a Fissile Material Cut-off Treaty to commence in the United Nations Conference on Disarmament. MOD is assessing the implications of such a Treaty, steering preliminary international discussions and preparing the UK in order to protect HMG's national security and nuclear non-proliferation interests.

Conventional Arms Control

2.48 We continue to implement key politically and legally binding Conventional Arms Control agreements on behalf of the UK. During the year, MOD hosted fourteen verification missions, which checked the UK's compliance with the Conventional Arms Control agreements; and led or participated in twenty-six verification missions in other countries.

Chemical and Biological Arms Control

2.49 MOD continued to provide expertise to strengthen the Chemical Weapons Convention and the Biological and Toxin Weapons Convention (BTWC), and to implement chemical and biological non-proliferation projects, as part of the UK's commitment to the G8 Global Partnership against the spread of weapons and materials of mass destruction. The biological non-proliferation programme aims to reduce the risks of proliferation of biological expertise, weapons and materials, including by providing technical advice, training, and support for BTWC implementation. Current priority areas are Central Asia, the Caucasus, and Middle East/North Africa.

Ballistic Missile Defence

2.50 The UK has no national Ballistic Missile Defence (BMD) capability nor any current plans to develop or acquire such capability. However, the Government is committed to supporting the development of NATO's BMD system. This system builds on an existing NATO capability that provides limited protection to deployed forces, by extending that protection to include NATO European territory and populations. Over the last year, the UK has been working closely with Allies to develop the associated command and control system, in terms of both hardware and supporting doctrine, to enable NATO commanders to operate the system. This work has supported NATO's goal to declare interim BMD capability at its summit in Chicago.

2.51 The UK also supports the United States' BMD system by sharing data acquired at RAF Fylingdales and transmitted via RAF Menwith Hill.

Arms Trade Treaty

2.52 The UK remains committed to securing a strong Arms Trade Treaty under which all states apply common criteria in assessing whether or not to export conventional arms, in order to ensure the worldwide arms market is better regulated. MOD contributed significantly to the Treaty's development, including the negotiating conference in July 2012. The MOD expects to continue to support the development of the Treaty as negotiations progress.

Space Security

2.53 Many of our key military systems depend on access to surveillance, communication, positioning and timing information derived from space assets. In the recognition of this dependency, MOD is working to strengthen space co-operation with close allies on space security matters; as well as working with Government partners, particularly the UK Space Agency, to ensure a coherent approach across government.

Cyber Security

2.54 In April 2011 we established the Defence Cyber Security Programme (DCSP) to drive a fundamental change in the way we approach cyber operations. As part of this we have:

- Formed two Joint Cyber Units (JCU), JCU Corsham (based just outside Bath) and JCU Cheltenham (hosted by Government Communications Headquarters), drawing on Service personnel across each of the single Services to provide the skills and capacity to defend our networks and undertake broader cyber operations;
- Included cyber within our Defence doctrine, and developed a strategy for raising cyber awareness in MOD and training military and civilian personnel accordingly;
- Considered how reserve forces could play a role in cyber defence, bringing unique skills and training from their daily life to meet Defence needs;
- Established close links across government and with partner nations to ensure an integrated approach to cyber defence;
- Invested to improve our situational awareness of our networks and our ability to defend those networks against cyber attack.

2.55 The new Joint Forces Command will take the lead in ensuring that Defence cyber capabilities are organised and managed effectively and efficiently to support success on operations.

3. Other Operations (Contingent)

The third Coalition priority defined in the 'Vision' section of the Business Plan is:

To succeed in other operations we are required to undertake at home and overseas, by providing a defence contribution to UK influence, by defending our interests by projecting power strategically and through expeditionary operations, and by providing security for stabilisation.

This chapter provides an update on Funded Readiness.

Royal Navy and Royal Marines Commandos board a Somalian whaler suspected of being operated by pirates in the Indian Ocean off the Horn of Africa. RFA Fort Victoria was patrolling as part of NATO's combined task force 508.

Funded Readiness

3.1 The MOD has a graduated readiness system in place to ensure that the right force elements (typically ships, ground force sub units and aircraft) are ready to deploy to conduct the range of missions that may be required by the Government. Through its budget setting process, MOD's Head Office sets requirements for the three Services in terms of the force elements and the readiness and sustainability at which they need to be held, and allocates the resources to achieve this. These requirements are underpinned by specific parameters for manning levels, equipment, logistic support, and training (individual and collective – the training that units do together to ensure they can fight effectively as part of a larger force). Measuring and aggregating readiness is complex, not least because it is based on a judgement of what is required to enable the Armed Forces to respond to a wide range of potential challenges and deliver a wide range of effects.

3.2 The Armed Forces' readiness targets are measured against the ability to prepare, deploy, fight and recover against the full range of potential operations. In recent years, however, the Armed Forces have focused on preparing for and sustaining operations in Iraq, Afghanistan and Libya (Afghanistan is the Department's highest priority. Libya is an example of forces held at readiness being deployed at short notice to conduct a mission required by the Government). In so doing, they have provided substantial forces at immediate readiness for those operations, deployed them to and sustained them in theatre, and recovered them to their home bases at the end of their tours. The Armed Forces have also continued to generate and sustain high quality, properly trained force elements for other standing military commitments, such as maintenance of the nuclear deterrent and the provision of garrisons in permanent joint operating bases worldwide.

3.3 Performance against the delivery of identified force elements at the required readiness and sustainability enables the Department (and the Commands) to identify issues and the associated risk early and take action as necessary. By way of an example, in the reporting period this process informed the decision to buy an additional C17 and two BAe 146.

4. Defence Exports

As part of the third Coalition priority defined in the 'Vision' section of the Business Plan is:

To succeed in other operations we are required to undertake at home and overseas, by providing a defence contribution to UK influence (including working with the Department of Business, Innovation and Skills (BIS) to promote defence exports), by defending our interests by projecting power strategically and through expeditionary operations, by providing security for stabilisation, and by providing a defence contribution in support of other government departments.

A Royal Air Force Typhoon takes off on a mission from Gioia del Colle Airfield

Export Support

4.1 To promote defence exports consistent with export control criteria; as part of a defence diplomacy programme to strengthen British influence and help support British industry and jobs.

Defence Exports

4.2 Defence exports can help reduce the cost to the taxpayer of MOD acquisition programmes through extended production runs and help maintain jobs in the defence and aerospace industry, many of which are highly skilled. Promoting exports can also help maintain and enhance the UK's relationship with international partners by improving their capabilities and increasing interoperability with friends and allies, acting as a lever to achieving the UK's international objectives.

4.3 UK Trade and Investment Defence and Security Organisation (UKTI DSO), part of the Department for Business, Innovation and Skills, is responsible for promoting UK defence and security industry overseas. We work closely with UKTI DSO to increase the UK's share of the export market. We support exports though an active and innovative defence diplomacy initiative. This year when travelling overseas, Ministers and senior officials from across the Department took the opportunity to promote UK industry.

4.4 UKTI supported the Defence and Security Equipment International exhibition, held between 13-16 September 2011, which was an international showcase for the UK defence and security industry. MOD provided significant support for this important event including the presence of a Type 45 Destroyer, HMS Dauntless, which highlighted the outstanding UK maritime shipbuilding capability. Several MOD Ministers attended the event, undertaking bilateral engagements where they took the opportunity to promote the best that Britain has to offer and offering visible support to the large number of UK exhibitors, as well as meeting many potential and actual suppliers to MOD.

4.5 In February 2012 we published the National Security Through Technology: Technology, Equipment, and Support for UK Defence and Security White Paper, reaffirming our commitment to supporting UK defence and security exports. The paper highlighted a number of commitments in support of UK industry, such as considering entering into Government to Government arrangements where these are critical to support for UK defence exports; appointing a Director responsible for exports to coordinate the Department's export effort and agreeing to embed exportability in our equipment acquisition cycle. Throughout the year Ministers and officials have held discussions with a number of potential partners for our Type 26, Global Combat Ship programme, which will replace the Royal Navy's Type 23 Frigates . We are seeking to establish the requirements of potential foreign partners so that variants that meet their needs (and, potentially, be offered for third-party sale under licence) can be developed from the UK core programme where practicable.

4.6 Throughout the year we supported exports by providing briefings and demonstrations highlighting the performance of UK platforms and systems in use with our Armed Forces. Senior RAF officers have briefed on Typhoon's exceptional performance during operations on many occasions this year, both in foreign capitals or as part of visits hosted in the UK.

4.7 The RAF deployed Typhoon aircraft to the Dubai Air Show to maintain engagement in this important region. Typhoon was displayed at the Langkawi International Maritime and Air Show in Malaysia between 6-10 December 2011 in addition to its participation in the exercise marking the 20th anniversary of the Five Powers Defence Arrangement. The RAF loaned Hawk aircraft to participate in a number of shows across North America in support of BAE Systems' bid to supply the US with trainer aircraft.

5. Strategic Defence and Security Review (SDSR) Implementation

The first Coalition priority defined in the Structural Reform Plan is:

To restructure the Armed Forces and their capabilities to ensure that the UK has the required Force Structure, training and equipment to carry out operations, as part of the implementation of the Strategic Defence and Security Review (SDSR).

Soldiers from the Royal Household Cavalry Regiment man a check point on a busy stretch of road in Helmand Province Afghanistan. One soldier waits to stop on coming traffic while he is covered by members of his unit in a Jackal, Mobility Weapon-Mounted Installation Kit.

HMS Dauntless is pictured entering Portsmouth in August 2011.

Structural Reform Plan

5.1 The Structural Reform Plan can be found using this link: http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/BusinessPlans/ModBusinessPlans/

5.2 The actions set out in the Structural Reform Plan are being taken forward through the *Transforming Defence* programme. This will deliver versatile, agile and battle-winning Armed Forces who work effectively with each other, directed and supported by a professional Ministry of Defence, with people ready to lead, accept responsibility and spend wisely. This is our highest priority after current operations. We are doing this through:

- Restructuring the Armed Forces and their capabilities by implementing the conclusions of the Strategic Defence and Security Review (SDSR) – including the introduction of new equipment; a new balance between regulars, reserves, civilians and contractors; and developing a New Employment Model;
- Implementing the new Defence Operating Model following the Defence Reform Review, to create a simpler and more effective organisation and deliver significant reductions in running costs; and
- Delivering Defence in the most effective, efficient and sustainable way.

5.3 Reflecting the scale and complexity of this endeavour, we have established the Defence Transformation Portfolio under the Director General for Transformation and Corporate Strategy (DG T&CS) to direct, co-ordinate and drive forward implementation of our major change initiatives. The Secretary of State oversees progress personally through the Defence Board and the Transformation Steering Group. Lord Levene's Defence Reform Steering Group will also reconvene annually in 2012, 2013, and 2014 to check on progress against their recommendations and report to the Defence Secretary, who will in turn report to Parliament.

5.4 Progress on transformation has been scrutinised by Parliament. In July 2011 the House of Commons Public Administration Select Committee published its independent evaluation of departmental structural reform plans, including the MOD. In the autumn the House of Commons Defence Committee completed its review of the SDSR. In December 2011 the Prime Minister submitted the first Annual Report on the SDSR, for consideration by the Joint Committee on the National Security Strategy. In March 2012 the House of Commons Public Accounts Committee took evidence on *Reforming the MOD*, and *Managing Change in the Defence Workforce*.

Strategic Defence and Security Review (SDSR) Progress

Restructure the Armed Forces and their capabilities

5.5 The SDSR in October 2010 set out our plans for Future Force 2020, subsequently modified by the outcome of the Three Month Exercise in July 2011. Recognising that we are less than two years into a ten-year programme, we have been making good progress so far. All three Services have implemented the early force structure and capability changes set out in the SDSR, and we have completed core elements of follow-on work, in particular the Reserves and Basing Reviews. There has been good progress on several major capability programmes underpinning Future Force 2020, including Carrier, Astute, Type 45 and Warrior. Further detail is set out below.

5.6 In the **maritime environment** the Royal Navy has largely completed the changes to its force structure announced in the SDSR. We are making good progress towards Future Force 2020 capabilities:

All three River Class Offshore patrol vessels of the Fishery Protection Squadron, HMS Severn, HMS Tyne and HMS Mersey are pictured exercising off the coast of Cornwall.

- The assessment phase for the programme to replace the Vanguard-class submarines began in May 2011;

- The remaining three Type 22 frigates, HMS Campbeltown, Cumberland and Cornwall, were withdrawn from service, as were the Royal Fleet Auxiliaries Largs Bay, Bayleaf and Fort George. The Lynx Mk 3 helicopter was also withdrawn from front line service;

- The Response Force Task Group was established in February 2011;

- The new highly capable Type 45 destroyers are now entering service. Work continues developing the new Type 26 Global Combat Ship that will enter service in the 2020s;

- The first Astute class submarine is undertaking sea trials, including successful test firing of Tomahawk cruise missiles in November 2011 and the second is undergoing testing and commissioning, making her maiden dive in October 2011;

- Assembly of the first Queen Elizabeth class carrier began in September 2011, and we began cutting steel for the second in May 2011;

- In January 2012 we confirmed development of the new SeaCeptor air defence missile;

- The Royal Navy also brought into service the Ice Patrol Ship HMS Protector, which has been acquired under a three year lease as an interim replacement for HMS Endurance;

- The three River Class Offshore Patrol Vessels HMS Tyne, Severn and Mersey, which were previously held under lease, have now been purchased for the Royal Navy. They will continue to fulfil a maritime security role as well as carry out fishery protection patrols on behalf of the Marine Management Organisation;

- The programme to transfer the RAF's Merlin Mk3 helicopters to the Royal Navy Commando Helicopter Force, to replace the Sea King Mk4, has also begun;

- In February 2012 we ordered four new tankers for the Royal Fleet Auxiliary, which will be significantly more capable than those they will replace;

- In April 2012 the new Navy Command structures stood up.

5.7 In the **land environment** the Army has made progress restructuring in line with the SDSR.

- We announced in July 2011 that the regular Army's trained strength will be reduced to around 90,000 by 2015, and 82,000 by 2020. This will be offset in part by the planned uplift in the size and effectiveness of the Territorial Army, along the lines articulated in the Future Reserves 2020 – The Independent Commission to Review the United Kingdom's Reserve Forces report.

- The Army started the process of growing the Territorial Army (TA) by engaging in a new recruitment campaign. This seeks to build on a highly successful drive held in summer 2011, which saw a three-fold increase in enquiries to join the TA across all ranks. Those serving with the TA will feel the benefit of the re-instatement of Overseas Training Exercises for Reserve units and the growing importance of the TA is demonstrated by the creation of a 'two-star' post of Deputy Commander Land Forces, specifically for the TA;

- In July 2011 we announced the disbandment of 19 Light Brigade by February 2013;

- In November 2011 the Army introduced a new top level command structure in line with Lord Levene's recommendations. During the year the Army continued to work towards the goal stated in the SDSR to return half of its personnel currently based in Germany to the UK by 2015 and the remainder by 2020. This process saw 43 Close Support Squadron RLC moving from Gütersloh in Germany to Abingdon in Oxfordshire to co-locate with its parent regiment (12 Logistic Support Regiment) in January 2012;

- In January 2012 the Army began the implementation of Project Avanti, the process of reducing its administrative structure in the UK to enhance its focus on front-line capabilities. This began in January 2012 when HQ Support Command in Aldershot commenced operations and HQ 4th Division in Aldershot disbanded. In Apr 2012 HQ 2nd Division in Edinburgh and HQ 5th Division in Shrewsbury also officially disbanded, although both staffs will continue with some tasks until at least August 2012 by which time HQ Support Command should be fully operational;

- We have continued to invest in introducing improved capabilities. During the year we announced a £1Bn upgrade of the Warrior infantry fighting vehicle and the contract for the next generation Light Protected Patrol Vehicle (Foxhound). We have delivered further protected vehicles and Counter-Improvised Explosive Device technology to troops in Afghanistan, including the third and final tier of the multi-tiered pelvic protection system;

- Several Army units have conducted reciprocal training with the French Army in the UK and France, as envisaged in the Defence and Security Co-operation Treaty.

5.8 In the **air environment** Tornado drawdown and Typhoon force growth remain on track.

- Two front line Tornado squadrons were withdrawn during 2011-12 in line with the SDSR announcement to retain a smaller Tornado fleet as we transition to a future fast jet fleet of two aircraft types, Typhoon and Joint Strike Fighter. In parallel, there is a programme in place to develop the multi-role capabilities of Typhoon as Tornado is withdrawn from service. Construction of the RAF's Typhoons will be complete by 2016;

- A400M production remains on track, with the first test flight carried out in Dec 2009. The first aircraft is expected to be delivered in late 2014 as a replacement for the C-130 Hercules;

- In February 2012 we ordered an eighth C17 heavy transport aircraft. This was received at a hand over ceremony at Long Beach and arrived back at RAF Brize Norton on 23 Mar 2012. This supports the airbridge which transports Armed Forces personnel and equipment between the UK and Afghanistan;

- In April 2012 improved fast jet flying training began at RAF Valley using the new Hawk T2 aircraft, we signed a contract for extra Paveway IV bombs, sustaining the Royal Air Force's precision bombing capability, and the new RAF Command Structure stood up;

- The first Airbus 330-200 Voyager aircraft arrived at RAF Brize Norton in December 2011. Further work was then undertaken to prepare the aircraft for handover and to provide familiarisation training for its staff. Ground and air-air-refuelling trials between the Voyager aircraft and Tornado GR4 have identified some issues which are being resolved. The aircraft are being used in Air Transport roles while training of our first crews progresses;

- RAF personnel are currently training in the United States to fly the Rivet Joint signals intelligence aircraft. Pilots, navigators and electronic warfare officers, in addition to intelligence operators and airborne maintenance technicians, are amongst those being trained on the aircraft at Offutt Air Force Base, Nebraska. On completion of training, RAF personnel are employed on United States Air Force (USAF) Rivet Joint aircraft on operations in order to maintain their skills , as they have been since 2011. Delivery of the first of three Rivet Joint aircraft being purchased for the RAF is still on track for early 2014;

- The Puma upgrade programme, announced as part of SDSR, has continued this year. Over half the aircraft in the modification programme have commenced flying trials. In 2011, the RAF Puma officially celebrated its 40th anniversary since the first aircraft made its maiden operational flight in September 1971;

- In 2011 the Defence Secretary announced the contract award for 14 new Chinook helicopters. The RAF will receive the first three aircraft for initial trials and testing in 2013. They will enter service in November 2013, making an immediate contribution to the flexibility of the UK Chinook capability;

- The RAF manned Defence Chemical Biological Radiological Nuclear (CBRN) Wing stood up on 14 Dec 2011 at RAF Honington. This takes over responsibility for all provision of specialist CBRN capabilities for UK Defence;

5.9 We have continued to deliver **estate improvements** underpinning the delivery of military capability. During the year this has included work at MOD Caledonia in Rosyth on accommodation and messing for Royal Naval staff who will support production of the new Queen Elizabeth class aircraft carriers; the beginning of seabed drilling operations off Portsmouth to prepare for the dredging they require; the completion of upgrade work at RAF Northolt; delivery of the first of a suite of new buildings to house Defence Intelligence at RAF Wyton; upgraded accommodation in Paderborn; the new barracks for the Kings Troop at Woolwich; and the 'Topping Out' of a dedicated training facility for injured Royal Marines at Lympstone in Devon.

A Royal Air Force Puma helicopter is pictured over the English countryside.

6. Armed Forces Covenant

The second Coalition priority defined in the Structural Reform Plan is:

Deliver the Armed Forces Covenant and develop the New Employment Model meeting a promise of fair treatment, on behalf of the nation, to ensure our Armed Forces and their families are valued and respected.

A soldier with a prosthetic leg is pictured at the Personnel Recovery Centre in Edinburgh. The Personnel Recovery Centre in Edinburgh offers enhanced support to sick or injured soldiers with the aim of helping them return to active duty or to make the transition into civilian life.

Armed Forces Covenant

6.1 The Armed Forces Covenant defines the principles for ensuring that our Armed Forces personnel are not disadvantaged as a result of their service. It includes special provisions for access to public and commercial services for Service personnel, veterans and their families, who together form the Armed Forces Community. It has set a framework for policy-making and delivery across Government.

6.2 Following publication of the Armed Forces Covenant itself in May 2011, the Defence Secretary published an interim report on 20 December 2011. The report made a number of new commitments, recorded progress towards delivering earlier Government pledges and highlighted a number of improvements that had been made under the Covenant. This report can be found at the following link: http://www.publications.parliament.uk/pa/ld201011/ldhansrd/text/111220-wms0001.htm

6.3 Alongside publication of the interim report, it was announced in December 2011 that a new Ministerial Committee was being established to oversee Covenant work and to ensure that momentum is maintained. The Prime Minister chaired the first meeting of the new Committee on 2 February 2012. The Committee will work closely with key stakeholders such as Service charities and the Families Federations to give them the opportunity to monitor progress.

6.4 The Armed Forces Act 2011 received Royal Assent on 3 November 2011. For the first time, the Act places a statutory obligation on the Secretary of State to report to Parliament each year on the Armed Forces Covenant. A programme of work to implement the Act is underway and the first commencement order, which represents some 50% of the main provisions in the Act, was made on 1 March 2012. Included in this is the provision for the Armed Forces Covenant which came into effect on 8 March. We intend to publish the first statutory report towards the end of 2012.

6.5 As with the interim report, we expect the 2012 report to be based on 15 themes that concern Service personnel, veterans and their families. These include key topics such as healthcare, housing, education and the operation of inquests. One of the purposes of the report will be to record the commitments the Government has made in relation to the Armed Forces Covenant and – importantly – to highlight those which have and have not been met. Work on the commitments will be ongoing throughout the year.

6.6 The interim report set out progress on a number of different workstrands, including:

- a pilot for increased support to early Service leavers;
- the troops to teachers programme;
- the inclusion of postcodes in overseas Service addresses, to assist Service personnel in acquiring credit histories and procuring goods and services;
- introducing portability to Criminal Records Bureau checks through the Protection of Freedoms Bill;
- arrangements for veterans and serving personnel who have serious genital injuries to receive three cycles of IVF treatment; and
- launching a Veterans' Card as part of the Defence Discount Scheme, which will entitle veterans and other members of the Armed Forces Community to discounts and promotions on a wide range of goods and services.

6.7 In addition to these, the Budget on 21 March announced £100M extra to be spent on housing for Service personnel and their families; a doubling of the families' welfare grant; and a move to double council tax relief for families of those serving abroad.

6.8 With more than 50 communities already signed up to their own Community Covenant partnerships and a further 50 areas with plans in place to do so, there is a clear enthusiasm for the Community Covenant across the country. Some £30M has been earmarked for the Community Covenant Grant scheme over the four financial years from 2011-12 to 2014-15. We spent £1.714M on successful applications in the first year. A further £5M is available for 2012-2013 and then £10M for each of the following two years.

Healthcare for Serving Personnel and Veterans

6.9 As part of our commitment to mental health, in September 2011 we commenced a pilot giving access to a dedicated website for veterans, Service personnel and their families. The service offers anonymous 24/7 online early intervention support for those experiencing emotional distress. It combines social networking with a choice of clinically informed interventions to improve self-management of mental wellbeing.

Pay and Allowances

Operational Allowance

6.10 On 13th July 2011, Service personnel operating within the landmass, airspace and territorial waters of Libya became eligible to receive the Operational Allowance (OA). This lasted until 31 Oct 2011 for maritime and air elements, and 1 Dec 2011 for land-based elements, when the threat level was reduced.

Other Allowances

6.11 The introduction of SDSR measures from 1 May 2011 has put the Department on track to achieve the required savings of some £250M per year on Service allowances by 2014-15. In introducing these changes we have sought to ensure that no group is disproportionately affected, and have reduced the impact by phasing in some changes by up to two years. The substantial allowance package that remains will continue to reimburse Service personnel for justifiable expenditure incurred either when on duty or as a result of the unique nature of Service life.

Service Pay

6.12 As part of the Government's 2010 Emergency Budget, the Chancellor announced a two-year pay freeze from 2011 for all public sector employees, including the Armed Forces. However, the Government stated that all those earning £21,000 or less should receive a minimum increase to annual salary of £250. For the second year running, the independent Armed Forces' Pay Review Body recommended in their March 2012 report an increase of £250 for Armed Forces personnel earning £21,000 or less, which the Government accepted. Over 40,000 Service personnel, including those under training, will receive increased rates of pay as a result. A further recommendation, effective from 1 April 2012, will enhance support for those Service personnel experiencing separation in the UK and overseas.

6.13 In his Autumn Statement on 29 November 2011, the Chancellor confirmed that the public sector pay freeze will end in 2013-14. However, pressures on the public finances, and the need to protect jobs, mean that public sector pay awards will be kept to a 1% average for the subsequent two years. This policy will apply to the Armed Forces.

6.14 Annual progression up the pay range for Service personnel is not affected during the pay freeze or the further period of pay restraint starting from 1 April 2013. All Service personnel who are not at the top of their pay range will therefore continue to receive an increment each year, subject to satisfactory performance. However, the award of performance related double increments made to a small number of senior officers at 2, 3, and 4-Star ranks will be suspended for the period of the pay freeze and not re-instated. This decision was endorsed by the independent Senior Salaries Review Body.

Fair Pay Review

6.15 The final report of the Hutton Review of Fair Pay in the Public Sector, which included Armed Forces pay, was published on 15 March 2011. The Government welcomed this report. The unique characteristics of the Armed Forces mean that not all of the recommendations apply, but MOD will adhere to the report's guiding principles, and will publish relevant data about pay multiples in the Remuneration section of the Annual Report and Accounts. (See Chapter 8.)

Operational Welfare

Council Tax Relief

6.16 As part of the Budget on 21 March 2012, the Chancellor announced a range of measures which demonstrated the Government's commitment to honouring the Armed Forces Covenant. One of the measures was the doubling of the Council Tax Relief to some £600 for an average six month deployment. This uplift comes into effect from April 2012 and will be paid at a flat rate to all eligible personnel.

Families Welfare Grant

6.17 The Families Welfare Grant is used to enhance the support to families of those deployed. The Families Welfare Grant benefits over 30,000 families per year. In the March 2012 Budget, the Families Welfare Grant was doubled from £2.20 per week to £4.40, amounting to just short of £2M of extra funding per year across Defence.

A soldier returned safely from Afghanistan, heads home with his family.

Personnel Recovery

6.18 In December 2011, the House of Commons Defence Committee commented on the "extraordinary quality of care" given to our wounded, injured and sick personnel. They specifically commended the Armed Forces' medical services for the improvement in all aspects of the medical treatment of those most seriously injured on operations.

6.19 Patients requiring further rehabilitation (including prosthetics) can be referred to the Defence Medical Rehabilitation Centre (DMRC) at Headley Court in Surrey. DMRC has 96 established in-patient beds with a further 19 beds being made available as a short-term contingency. A contract has been awarded for a new facility that will raise DMRC ward-based capacity to 144 beds, including appropriate therapy space. The project is on schedule to be delivered by June 2012.

6.20 During 2011-12 we have opened two new Personnel Recovery Centres (PRCs). The first is Tedworth House in Wiltshire, opened in June 2011 in partnership with Help for Heroes, where a £20M building and refurbishment programme is in process. Help for Heroes has pledged a further £24M over ten years towards the centre's running costs, and the Royal British Legion will contribute £50M towards operating costs. The centre will eventually provide accommodation for up to 50 wounded, injured and sick personnel and day courses for an additional 30 personnel. The second PRC was opened in October 2011 in Catterick, North Yorkshire, and is also being delivered in partnership with Help for Heroes and the Royal British Legion. This interim PRC is providing accommodation for up to 35 wounded, injured and sick personnel until the final purpose-built centre is delivered in early 2013. This will provide accommodation for up to 50 personnel and 30 day attendees.

Repatriation

6.21 Repatriation ceremonies returned to RAF Brize Norton in 2011 on completion of work there and cessation of flying activity at RAF Lyneham. In preparation for the move, a new repatriation facility was built on the base. This much improved centre has a private area where families can gather to watch both the repatriation aircraft land and the formal element of the repatriation ceremony. It houses a Chapel of Rest where the families can spend time with their deceased loved ones.

6.22 Under the new arrangements, the cortege leaves RAF Brize Norton via the newly created Britannia Gate, en route to the John Radcliffe hospital in Oxford. Oxfordshire County Council commissioned a memorial garden on Norton Way, close to RAF Brize Norton, where families and members of the general public can congregate to pay their respects to the passing cortege. The building works and relocation were achieved on time, allowing repatriation ceremonies to move smoothly from RAF Lyneham to RAF Brize Norton.

Armed Forces Compensation Scheme (AFCS)

6.23 Following Admiral the Lord Boyce's Review of the AFCS and subsequent legislative changes to implement the Review's recommendations, a comprehensive compensation package for those injured as a result of service continues to be delivered.

6.24 The majority of those who have received an award under AFCS have received an uplifted payment to reflect the new levels of compensation. All uplifts will be completed by June 2012. Individuals are contacted automatically with no action required to receive the additional sums.

Resettlement

6.25 Working together with the commercial, public, voluntary and community sectors we try to ensure that all personnel leaving the Services undertake a successful transition to civilian life. This year, the MOD has entered into a partnership with the Department for Education (DfE) in order to implement and deliver a 'Troops to Teachers' programme. This will secure rewarding second careers for Service leavers and provide schools with a high quality cohort of teachers who can progress to school leadership roles. Two industry-led trials are running from January 2012 over a 12-month period aiming to improve the resettlement of approximately two thousand people leaving the Services with fewer than four years' service.

Training and Education

6.26 In July 2011 we announced MOD's withdrawal from Arborfield and Bordon garrisons, with a view to relocating of training activities to Lyneham in 2015. This should deliver significant training estate rationalisation.

6.27 This year the Department has also signed up to the Professional Technician Commitment, a national initiative to increase the pool of home grown technical skills in the UK. The Armed Forces have some 43,000 eligible technicians in the Engineering, Information and Communications Technology, and Medical fields, who will be encouraged to register and gain recognition of their individual expertise and the contribution they make to our society in general.

Armed Forces Recruiting

6.28 The Recruiting Partnering Project contract with Capita was signed in March 2012 and will improve recruiting delivery for the Army over a ten-year period. The project represents a major investment in the transformation of Army recruiting, with the information technology element of the project covering all three Services. The Army will retain ownership of its own recruitment policy, entry criteria and assessment standards.

The New Employment Model (NEM)

6.29 In the SDSR, the Government made a commitment for the future to deliver a New Employment Model for Service personnel. This is to ensure that there are sufficient, capable and motivated people to enable the delivery of operational capability. A formal programme was established in 2011 to develop NEM proposals which:

- Better meet the needs of today's Armed Forces;
- Promote greater stability in Service life, balanced against the requirement to deliver operational capability;
- Recognise that where mobility is required for Service reasons, appropriate support and compensation is available, and that the Armed Forces remain an attractive employer.

6.30 Five project teams have been stood up to focus on: manpower utilisation and terms of service, financial and non-financial conditions of service, future accommodation, training and education and NEM delivery. Initial project team work has examined factors in the current employment arrangements which need modernising. Subsequent work has looked at opportunities and options for change which has included focus group consultation and an understanding of external best practice. It is expected that implementation will start in 2015 with some measures taking up to 10 years to complete in full.

Armed Forces Continuous Attitude Survey (AFCAS)

6.31 The AFCAS 2011 Report was published on 1 September 2011. The AFCAS collects information about Service personnel's attitudes regarding terms and conditions of service on an annual basis. The report draws out information on key aspects, such as satisfaction and morale, commitment, demands on the individual, remuneration, and Service living accommodation. The Department will continue to use the information from the survey to focus attention where it is most needed in order to make further improvements in the future.

6.32 Some of the key findings of the survey were:

- The majority of personnel (83%) continue to report feeling proud to be in the Service;
- A strong team ethos at the local level (85%) and confidence in the immediate work team to overcome difficulties (89%) remains high;
- Job satisfaction (64%) has increased 3% points since 2010, as has satisfaction with the standard of personal (5% point increase to 54%) and major equipment (4% point increase to 44%);
- Whilst satisfaction with basic pay (43%), pensions (50%) and allowances (37%) has decreased since 2010, job security (69%), dental and healthcare (66%) provision, and current pension arrangements (70%) still rank among the top factors associated with intention to stay in Service;
- The high percentage of Service personnel who considered the length (82%) and frequency (68%) of operational deployments to be about right has been maintained from 2010 levels;

- Most receive support from family members (83%), although perceived negative impact of Service life on family and/or personal life is the highest factor (53%) associated with intention to leave the Service;
- Those satisfied with Service life in general has decreased 3% points since 2010 to 57%.

6.33 A copy of the full AFCAS 2011 report can be accessed via. http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/ConsultationsandCommunications/Surveys/CAS/ResultsForArmedForcesContinuousAttitudeSurveyafcas.htm

Future Reserves 2020

6.34 The Department announced the publication of the Future Reserves 2020 Report in July 2011. The report recognised the contribution that the Reserves continue to make to Operations and made a number of recommendations on the role and governance of the Reserves, which the Department is now considering. A programme has been initiated that aims to ensure that the UK's Reserve and Regular Forces will be integrated in to a 'Whole Force' in order to deliver assured capability to Defence.

Redundancy

6.35 In the SDSR, the Government announced reductions in the size of the Armed Forces, reducing the Army by 7,000, the Royal Air Force by 5,000 and the Royal Navy by 5,000 by 2015. The Three Month Exercise resulted in reductions of a further 12,000 to the regular Army. The Armed Forces redundancy programme is expected to deliver up to 6,700 redundancies in Tranche 1 and 2 across the three Services. Tranche 2 was the last major tranche for the Royal Navy and Royal Air Force, although a small number of further redundancies may be required for Senior Officers and Senior Medical Staff. Up to two further main tranches for the Army may be required, however, these tranches have not yet been approved. The programme will be completed by 31 December 2015.

6.36 The first redundancy criteria for the three Services were published on 1 March 2011 for the RAF and 4 April 2011 for the Army and Royal Navy. Those selected for redundancy in the first tranche were notified on 1 September 2011 (Army and RAF) and 30 September 2011 (Royal Navy). The second tranche was announced on 17 January 2012 and those selected for redundancy were notified on the 12 June 2012. Those leaving through redundancy are entitled to a comprehensive resettlement provision to help them transition back to civilian life.

6.37 Those serving in Operational Allowance earning locations (such as Afghanistan) on the notification dates are exempt from redundancy, unless they apply. Similarly, those preparing for or recovering from such operations are exempt. No personnel who are medically downgraded will leave the Armed Forces through redundancy or otherwise until they have reached a point in their recovery where leaving the Armed Forces is the right decision, however long it takes.

Manning Levels

6.38 Overall manning levels for the Armed Forces are published in the UK Defence Statistics, and can be found at http://www.dasa.mod.uk. We are also committed to publishing data on Pinch Points, which are skills areas where there are insufficient trained personnel. This can reflect a shortage of people against the peacetime requirement, a temporary operational requirement greater than the peacetime requirement, or a combination of the two. Pinch Points are managed by the individual Services. Each Service maintains a list reflecting operational commitments and manning levels within branches and trades, which varies over time. The position as of 31 March 2012 is set out at Table 6.1 overleaf. This table excludes information that might jeopardise operational security.

Navy

6.39 The number of Navy Operational Pinch Point (OPP) trades has remained at 11 during the year. There is concern over the shortages of both Royal Marine Other Ranks and Petty Officer Minewarfare specialists, which is being addressed. There are shortages of 37% (down from 46% from last year) amongst Leading Aircraft Controllers and 28% amongst Leading Hand and Petty Officer Seaman Specialists.

Army

6.40 The Army currently has 19 OPPs, a reduction of three since the last report. Due to the specialist nature of the current establishment it is not expected that the Army's top three OPPs (Advanced Explosive Ordnance Device Operator, Royal Signals Electronic Warfare Systems Operator and Royal Army Veterinary Corps Dog Handler) will be resolved before 2015. Measures have been taken to support the manning of these OPPs with a financial incentive pending for the dog handlers. Due to their contribution to Operations the Infantry Lance Corporal, Corporal and Warrant Officer 2nd Class ranks remain an OPP.

6.41 Army Manning Pinch Points (MPPs) have reduced by one (to 19) since the last report. We are looking at innovative approaches to manning shortages. A recent example of good practice has been the approach taken by the Royal Engineers, who plan to re-trade individuals (using an intensive bespoke training/conversion course) to assist with the manning of the Armoured Lance Corporal – Corporal pinch point.

RAF

6.42 Improvements have been made during 2011-12, as RAF OPPs reduced from 7 to 3, with the Intelligence Analyst Voice, Pilot, Medical Nursing Officer, Gunner and Operations Support (Regiment) trades leaving the list during the year and the addition of Aerial Erector Senior Aircraftmen.

6.43 MPPs have shown a similar degree of movement and now comprise only five branches and trades, comprising those OPPs listed above and also the RAF Regiment Junior Officers and Chaplaincy branch.

Table 6.1 – Operational Pinch Points – Quarter 4 2011-12

Naval Service Operational Pinch Point Groups – Quarter 4 2011/12			Liability	Shortfall	% Diff.
1	Anti-Submarine Warfare Aircrewmen		90	10	15%
2	Aircraft Controllers: Rank: Leading Rate		55	20	35%
3	Strategic Weapon System Control and Monitoring Panel Watch Keeper – Rank: Leading Hand		30	~	30%
4	Seamen General Service (Warfare) – Rank: Leading		500	115	25%
5	Seaman Specialists – Rank: Leading Rate to Petty Officer		190	55	30%
6	Royal Marine Other Ranks – Rank: Corporal to Warrant Officer Class 2		2,175	220	10%
7	Mine Warfare – Rank: Leading Rate to Petty Officer		135	30	20%
8	Category A2 Nuclear Watch Keepers		150	10	5%
9	Category B Nuclear Watch Keepers		360	50	15%
10	Diver Specialist – Rank: Petty Officer		55	5	10%
11	Grey Sea King – Rank: Sub Lieutenant to Commander		-	-	-
Army Operational Pinch Point Groups – Quarter 4 2011/12			**Liability**	**Shortfall**	**% Diff.**
1	Advanced Explosive Ordnance Disposal Operator		130	35	25%
2	Royal Signals Systems Operator Electronic Warfare – Rank Corporal to Sergeant		205	95	45%
3	Royal Army Veterinary Corps Dog Handler – Rank: Lance Corporal to Warrant Officer Class 2		225	35	15%
4	Int. Corps Operator Military Intelligence – Cpl-Sgt		780	295	40%
5	Interrogators		70	40	55%
6	Int. Corps Linguist		260	140	55%
7	Royal Military Police Special Investigation Branch – Rank: Sergeant to Warrant Officer Class 2		190	10	5%
8	Military Provost Staff – Rank: Sergeant to Warrant Officer Class 1		100	~	~
9	Royal Army Medical Corps Combat Medical Technician – Rank: Corporal to Sergeant		730	310	45%
10	Human Intelligence Operator		275	100	35%
11	Royal Engineers Geospatial Engineer – Rank: Corporal		80	35	45%
12	Royal Electrical & Mechanical Engineers Armourer Class 1 – Rank: Lance Corporal to Corporal		245	55	20%
13	Infantry – Rank: Private to Corporal and Warrant Officer Class 2	Pte-Cpl:	19,005	1265	5%
		WO2:	705	-45	-5%
14	Royal Artillery Observation Post Assistant		390	75	20%
15	Royal Artillery Fire Support Team Commanders		115	~	~
16	Royal Artillery Integrated Unmanned Air System Operator – Rank: Bombardier to Sergeant		275	130	45%
17	Royal Military Police General Police Duties – Rank: Lance Corporal to Staff Sergeant		1,240	75	5%
18	Royal Engineers Professionally Qualified Engineers		10	~	50%
RAF Operational Pinch Point Groups – Quarter 4 2011/12			**Liability**	**Shortfall**	**% Diff.**
1	Medical Officers		280	40	15%
2	Aerial Erector – Rank: Senior Aircraftman		50	10	25%
3	General Technician (Mechanical) – Rank: Senior Aircraftman to Sergeant		870	20	~

Notes:
* Figures have been rounded to 5 in order to prevent unnecessarily obscuring the data. However, to prevent disclosure any numbers less than 5 are shown as '~'.
* Where rounding has been used, totals and sub-totals have been rounded separately and so may not equal the sums of their rounded parts.
* OPP 11 is new for quarter 4 2011-12.

7. Defence Reform Review

The fourth Coalition priority defined in the Structural Reform Plan is:

Transform Defence by implementing the new Defence Operating Model (in response to the Defence Reform Unit's review) creating a simpler and more effective organisation and delivering significant reductions in running costs.

A military band plays as the new Joint Forces Command stands up at Northwood HQ on 2 April 2012

Deliver the Defence Reform Unit's review

7.1 Lord Levene's Defence Reform Unit reported ahead of schedule in June 2011, as set out in last year's Annual Report. We accepted all its recommendations. Progress since then has been strong, with a number of major elements having already been implemented. Completion of the organisational changes is planned for April 2013, recognising that this is an ambitious and stretching target.

7.2 Following further design and implementation work, we published a first full version of a 'Blueprint for the future Department', in December 2011, reissued in June 2012 to reflect subsequent progress. The Blueprint is consistent with, and builds on, the emerging operating model circulated to all staff in September, feedback on that version, and further design and implementation work by the Defence Reform Unit. It describes what the Department will look like and how Defence will work from April 2013, and the key milestones as we make the transition. The new model:

- increases real accountability of budget holders for delivering Defence outputs within the agreed financial envelope, while empowering the single Service Chiefs of Staff with greater freedoms to run their Service;
- creates a stronger, smaller and more strategic centre, better able to take difficult resource allocation decisions and monitor the delivery of outputs;
- provides a structured framework that sets out clearly which decisions are best taken in the centre and which are best taken in the business, but in all cases makes senior individuals responsible for them, gives them the means and incentives to deliver, and holds them robustly to account;
- establishes much tighter financial management processes to ensure that the need for affordability is recognised and owned at all levels across the Department and that the Board has the increased visibility and assurance necessary to ensure financial control, but ends micro-management;
- balances the strengths of the single Services with the need to build on the joint approach, and disentangles Head Office and joint activity through establishment of a separate Joint Forces Command; and
- brings transparency, standardisation and best practice to enabling processes, both to ensure efficiency and to ensure that posts are filled with the right individuals, with the right skills, for the right length of time.

7.3 The Defence Board issued a new Defence Vision in May 2012 alongside the Planning Round 2012 announcement, and we are now taking forward a major internal communications campaign to support Transforming Defence, including the organisational and behavioural changes encompassed by the Defence Reform Review.

7.4 Lord Levene recommended that, alongside the increased freedoms and accountabilities for Front Line Commands and TLBs, Head Office should be smaller and more strategic, with improved financial controls and behaviours. The Permanent Secretary will be engaging TLB holders in regular reviews of performance during 2012-13 in preparation for rolling out the full process for holding them to account against their business objectives from April 2013. We published proposals for the future Head Office Senior Structure in December 2011, and announced our final conclusions following consultations in June 2012. It will remain an integrated civilian-military organisation supporting Ministers, the Chief of the Defence Staff and the Permanent Secretary in advising Government and accountability to Parliament; making policy and setting Defence strategy; planning and resource allocation; managing Defence; and directing military operations at the strategic level. It will also include the new Defence Safety and Environment Authority, extending implementation of one of the key principles of the Haddon-Cave report to areas outside aviation. But with the transfer of some responsibilities from Head Office to the Front Line Commands, Joint Forces Command and other TLBs, it will be substantially smaller and more strategic than before. By 2013-14 it will have about 1,900 military and civil service personnel and a single building in central London (by comparison, the MOD occupied more than 20 London buildings and had over 50,000 personnel in and around London in the early 1990s). There will also be a significant reduction of up to 25% in the senior star count by April 2014 (up to 21% by Apr 2013), including the abolition of the post of 2nd Permanent Secretary. The new Joint Assured Model for managing senior officers recommended by Lord Levene was introduced in April 2012, overseen by the Defence Board's new People Subcommittee.

7.5 Outside the Head Office the new Joint Forces Command achieved initial operating capability on time on 2 April 2012. The Navy, Army and Air Force have also all introduced new command structures and the Army has introduced its' simplified regional structure. We have made significant progress in establishing new partnership arrangements to draw on private sector expertise in acquisition and corporate support functions. We set up the new Defence Infrastructure Organisation (DIO) in April 2011. During the year we successfully conducted soft market testing on potential strategic business models, following which in May 2012 we launched a procurement exercise to test whether bringing a Strategic Business Partner into DIO offers the best value for money solution for Defence. In July 2011 we set up the new Defence Business Services organisation, and in March 2012 announced that it will be working with an external management team from Serco to transform it into a lean and effective shared services centre, building on private sector best practice. Under the Chief of Defence Materiel we have been developing the Materiel Strategy, looking at future options for Defence Equipment and Support that increase the role of the private sector, including a Trading Fund Agency, Executive Non-Departmental Public body or Government Owned Contractor Operated (GOCO) organisation. We have carried out a soft market testing exercise, and Ministers will review the options in light of this further work and make a decision on which to take forward later this year. We have proposed for consultation significant changes to security and civil policing arrangements to ensure they reflect the main crime and security risks we face while delivering policing and guarding requirements as cost-effectively as possible. We have continued to make progress reducing our headcount against the SDSR baseline, with military trained strength reducing by about 7,800 (4.4%), and the civilian workforce by 14,700 (17.7%) since April 2010.

7.6 As Lord Levene's report stressed, improving our business leadership and behaviours are critical to delivering a sustainably transformed MOD. Changing behaviour and culture is difficult, and we have always struggled with this. So in parallel with all the work on organisation restructuring, process and reductions, we have introduced a new behavioural framework for the business side of Defence under which we are working to develop a long term behaviours and business improvement programme. This sets out the three behaviours we need to focus on: effective business leadership at every level of defence; working together to make defence as a whole stronger; and modern, innovative ways of doing business where we weed out indecision, red tape and waste. Key blocks of work are in hand on improving leadership, effective holding to account, better business processes, and a revitalised approach to innovation and continuous improvement. We have also introduced stronger feedback and engagement arrangements across defence.

7.7 There have also been developments in the way we conduct several parts of our business, internal and external. Externally, following publication of the *National Security Through Technology* White Paper we have launched a new industrial engagement policy with overseas-based suppliers, with the aim of encouraging them to invest in the defence and security sectors. The Defence Infrastructure Organisation is taking forward its Next Generation Estates Contract programme, having shortlisted bidders for delivery of future large-scale construction projects, and invited industry to submit expressions of interest in three new regional prime contracts for the future provision of facilities management in England and Wales. Internally, despite the pressures we face, we have encouragingly improved our Freedom of Information system enough to persuade the Information Commissioner that we are meeting the legal standard and no longer need extra formal monitoring. We have launched the *Defence Security Handbook*, which greatly simplifies the way we help people understand and follow our security rules. And in response to staff feedback we have simplified civilian Performance Appraisal and Recruitment Processes.

Secretary of State Phil Hammond opens Joint Forces Command (JFC) at Northwood HQ on 2 April 2012 with Air Chief Marshal Sir Stuart Peach

8. Delivering Defence

The fourth Coalition priority defined in the Structural Reform Plan is:

Deliver Defence in the most effective, efficient and sustainable way by meeting benchmarking, efficiency and Government sustainable development targets, building on the Defence Reform Unit's review.

Delivering defence has three main components: military equipment, infrastructure (predominantly estates) and people.

Section 1 covers the overall resources available to the MOD.

Section 2 reports on acquisition and support of equipment, as well as logistic support to operations.

Section 3 looks at estates and the the recent establishment of the Defence Infrastructure Organisation.

Section 4 of this chapter covers the essential contribution made by civilians to the delivery of defence. Military Personnel issues are covered in Chapter 6 on the rebuilding the Armed Forces Covenant.

Section 5 sets out the Departmental overview on sustainability, together with an update on safety. Sustainability is firmly embedded in our estates and equipment procurement processes and is also covered in the relevant part of each section.

Section 6 reports on Defence in the public eye.

Section 7 accounts introduction

Section 8 remuneration report

A Lynx Mk 9A helicopter flying over the desert in Helmand province, Afghanistan.

Section 1: Defence Budget and Spending

Departmental Outturn

8.1 Planned expenditure for 2011-12 was set out in the MOD 2011-12 Main Parliamentary Estimate, which was updated by a single Supplementary Estimate. The Statement of Parliamentary Supply compares the final performance against the final Estimate.

8.2 The Resource estimate comprises the Resource Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). AME includes elements of expenditure that are outside the Department's control or volatile and therefore difficult to forecast, such as War Pensions or movements in the value of financial instruments. The MOD holds financial instruments in the form of forward currency contracts, which reduce exposure to changes in foreign exchange rates, and swap contracts, which are used as a hedge against changes in fuel prices. The MOD does not hold or issue derivative financial instruments for trading purposes.

8.3 The effects of decisions made in the SDSR continue to be seen in the 2011-12 accounts. The largest of these is a significant fall in net programme costs. This was mainly due to some £8Bn of write-off costs for equipment taken out of service that were incurred in 2010-11 but not in 2011-12. Write down of inventory as a result of the SDSR has continued in 2011-12. The difficulty of forecasting these costs contributed just over £1Bn to an underspend of £3.4bn against the Supplementary Estimate. The remainder is predominantly due to movement in the value of the nuclear provision £1bn and in movements in the market value of elements of the defence estate £400m, both of which are AME and do not affect the Departmental Expenditure Limit.

8.4 The Statement of Financial Position shows a £4bn increase in the value of the non-current assets held by the Department. This comprises:

- A revaluation of married quarters by the Valuation Office Agency £2.4bn;
- A net increase in development costs of major projects £700m;
- A net increase in the value of assets under construction including; Eurofighter/Typhoon £400m, Queen Elizabeth Class carriers £650m, Astute Class submarines £300m, a range of transport aircraft and helicopters £700m and non dwelling buildings £300m;
- A net reduction due to equipment being taken out of service £1bn.

8.5 Military and civilian staff numbers have already started to reduce following decisions taken in SDSR. Civilian staff costs have reduced by £154m or 5% in line with the reduction in numbers and a pay freeze for civil servants. Military staff costs have increased marginally £228m or 2% following an across the board pay rise, in the form of an additional increment on the pay scale, for all military personnel.

8.6 The overall inventory balance (net) has reduced by £473m or 6% during 2011-12. The majority of the reduction is the result of a write down in the value of the inventory balance. The Department also disposed of circa £170m of surplus inventory during 2011-12. The overall inventory balance is net of some £2.4Bn of provisions for future write-downs as work to value stock more accurately bears fruit.

Cost of Operations

8.7 The Department is voted additional resources to cover the net additional costs of Operations and Peacekeeping Programme Expenditure. This expenditure includes the additional costs of operations in Libya incurred to the end of March 2012. It does not include costs that the Department would have incurred in any case, such as the salaries of Service personnel.

Table 8.1 – Net Additional Cost of Operations (£M)

	Afghanistan			Wider Gulf			Libya			Conflict Pool		
	Allocation	Outturn	Outturn	Allocation	Outturn	Outturn	Allocation	Outturn	Outturn	Allocation	Outturn	Outturn
	2011-12	2011-12	2010-11	2011-12	2011-12	2010-11	2011-12	2011-12	2010-11	2011-12	2011-12	2010-11
Personnel	295	294	220	5	6	8	5	5	0	0	18	18
Infrastructure	244	192	336	8	8	10	15	14	0	0	2	9
Inventory/Other Consumption	758	758	784	5	3	4	42	34	2	0	0	0
Equipment Support	670	585	605	16	14	21	58	30	1	0	0	1
Other Costs	525	475	503	10	4	10	12	13	1	46	25	32
Receipts and Other Income	-29	-38	-24	0	0	-1	-6	-4	0	0	1	-1
Cash Release of Provision	6	3	4	0	0	7	0	0	0	0	0	0
Total Cash Resource	2470	2269	2428	43	35	59	126	91	4	46	46	59
Total Non Cash Resource	513	436	292	1	0	5	96	97	17	0	0	0
Total Resource	2982	2705	2720	44	35	64	222	188	21	46	46	59
Total Capital Costs	**1156**	**750**	**1054**	**2**	**2**	**28**	**25**	**25**	**0**	**0**	**0**	**1**
Total Annually Managed Expenditure	**9**	**4**	**3**	**0**	**0**	**35**	**0**	**0**	**0**	**0**	**0**	**0**
Total Costs	**4147**	**3458**	**3777**	**45**	**37**	**127**	**247**	**213**	**21**	**46**	**46**	**60**

Reconciliation between Estimates, Accounts and Budgets

8.8 The Department is required to use different frameworks to plan, control and account for income and expenditure. The planning framework uses resource and capital spend broken down into Departmental Expenditure Limits and Annually Managed Expenditure, as described above. These are referred to throughout the Spending Review, Budget Red Book, Pre-budget Report and individual Departmental Annual Reports. Control is exercised through the Parliamentary approval of Supply in the Main and Supplementary Estimates. Some elements of DEL and AME are outside the Supply process. Similarly, some expenditure is voted on by Parliament, but outside the DEL or AME. Audited outturn figures are reported in the Annual Accounts, which are prepared under the conventions of International Financial Reporting Standards (IFRS). The IFRS adopted for the government sector is 'adapted as necessary for the public sector' as stated in the Government Financial Reporting Manual. Table 8.4 provides a breakdown of reconciliation of resource expenditure between Estimates, Accounts and Budgets.

Table 8.2 – Reconciliation of Resource Expenditure between Estimates, Accounts and Budgets (£K)

	2011-12 £000	2010-11 £000
Net Resource Outturn (Estimates)	**38,524,362**	48,636,400
Prior period adjustments	**422,419**	-
Net Resource Budget Outturn	**38,946,781**	48,636,400
of which:		
Departmental Expenditure Limits (DEL)	**37,979,944**	40,744,714
Annually Managed Expenditure (AME)	**966,837**	7,891,686
	38,946,781	48,636,400
Adjustments:		
Reverse discount rate reduction included in resource outturn but not passing through net operating costs	**235**	-
Adjustment for Service Concession Arrangements treated as on-SoFP for Accounts but treated as off-SoFP for Estimates and Budgets.	**110,203**	80,067
Income in respect of donated assets treated as Capital income	**(26,033)**	-
Gain on foreign exchange contracts in respect of Capital purchases	**(58,792)**	-
Adjustment for impairments and impairment reversals included in resource outturn but not passing through Net Operating Cost	**(17,220)**	3,868
Add Capital grants included in operating costs but excluded from resource outturn	**27,223**	1,314
Prior year – add the additional cost (depreciation and impairment less the movement in payables not passing through the SOCNE) resulting from the change in accounting policy in respect of leased land.	**-**	(1,680,211)
Prior Period Adjustment to correct an impairment error	**-**	(422,419)
Net Operating Cost (Accounts)	**38,982,397**	46,619,019

Core Tables

Tables for Public Spending and Capital employed are below.

Table 8.3 – Total Departmental Spending

Total departmental spending , 2005-06 to 2014-15	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Plans	2013-14 Plans	£'000 2014-15 Plans
Resource DEL										
Provision of Defence Capability Service Personnel Costs	-	8,484,781	8,787,857	8,818,819	9,270,207	9,687,233	9,822,628	9,547,851	9,422,960	9,269,660
Provision of Defence Capability Civilian Personnel Costs	-	2,476,966	2,565,443	2,574,482	2,706,255	2,708,577	2,888,233	2,279,317	2,102,305	2,041,674
Provision of Defence Capability Infrastructure costs	-	4,146,905	4,122,192	4,532,692	4,575,357	4,130,436	4,365,665	4,160,724	4,176,951	4,165,038
Provision of Defence Capability Inventory Consumption	-	2,020,993	1,851,609	1,922,549	1,851,181	1,560,057	1,740,806	1,485,994	1,486,376	1,432,074
Provision of Defence Capability Equipment Support Costs	-	5,140,885	5,186,947	5,417,481	6,066,863	5,721,074	5,625,988	5,600,218	5,655,085	5,587,199
Provision of Defence Capability Other Costs and Services (see details)	-	806,409	906,281	1,379,233	1,310,353	2,590,215	1,357,871	1,628,857	1,629,276	1,660,495
Provision of Defence Capability Receipts and other Income	-	-1,595,606	-1,813,209	-1,698,504	-1,744,595	-1,280,177	-1,283,873	-1,156,415	-1,181,863	-1,178,673
Provision of Defence Capability Depreciation and Impairments Costs	-	6,732,334	7,464,384	6,388,871	7,901,575	10,626,669	9,291,756	8,677,012	8,984,000	9,452,000
Provision of Defence Capability Cash Release of Provisions Costs	-	413,347	486,912	316,031	273,437	242,598	176,464	242,868	243,159	242,431
Provision of Defence Capability Other Capital (Fiscal)	-	-2,167	-	-	-	-	-	-	-	-
Operations Service Personnel Staff Cost	-	142,377	162,053	174,953	187,477	204,898	278,285	246,770	5,200	5,200
Operations and Peacekeeping Civilian Personnel Staff Costs	-	46,227	52,615	56,804	60,870	23,043	25,570	32,192	-	-
Operations Infrastructure Costs	-	233,372	343,360	367,614	366,443	312,144	214,071	239,496	-	-
Operations Inventory Consumption	-	462,232	645,706	910,319	719,429	786,590	794,614	720,701	-	-
Operations Equipment Support Costs	-	382,203	599,008	847,896	806,205	629,133	630,108	665,413	-	-
Operations Other Costs and Services	-	131,776	134,065	136,399	155,714	560,059	492,251	490,855	-	-
Operations Receipts and other Income	-	-15,557	-27,710	-28,090	-58,486	-33,245	-42,806	-27,961	-	-
Operations Depreciation and Impairment Costs	-	54,087	266,467	358,109	385,679	308,591	532,998	519,617	-	-
Operations Cash Release of Provisions Costs	-	-	-	-	7,379	11,093	2,827	5,734	-	-
Conflict Pools Resource Costs	-	-	-	-	-	59,705	46,212	52,200	-	-
Non Departmental Public Bodies Costs	-	63,316	63,272	238,811	193,386	186,203	186,791	171,443	-	-
Provision of Defence Capability Research and Development Costs	-	-	-	-	-	-	833,485	1,176,522	1,210,648	1,244,727
IFRS/PFI and other costs	-	-	-	-	-117,360	-	-	-	-	-
Total Resource DEL	**-**	**30,124,880**	**31,797,252**	**32,714,469**	**34,917,369**	**39,034,896**	**37,979,944**	**36,759,408**	**33,734,097**	**33,921,825**

Table 8.3 – Total Departmental Spending

Total departmental spending , 2005-06 to 2014-15										£'000
	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Plans	2013-14 Plans	2014-15 Plans
Of which:										
Staff costs	-	11,263,549	11,708,002	11,772,534	12,305,054	12,546,522	12,849,165	12,106,130	11,530,465	11,316,534
Purchase of goods and services	-	12,407,252	12,544,304	13,479,584	13,481,214	13,517,431	13,018,341	16,516,243	14,268,466	14,199,333
Income from sales of goods and services	-	-1,104,937	-847,688	-1,062,527	-1,085,660	-1,009,805	-1,015,555	-942,376	-939,863	-936,673
Current grants to persons and non-profit bodies (net)	-	-	-	-	-	64	67	-	-	-
Current grants abroad (net)	-	141,578	152,664	182,118	168,005	197,796	176,535	-	-	-
Subsidies to public corporations	-	592	2,195	-	-	-	-	-	-	-
Rentals	-	829,819	1,141,654	1,834,639	1,952,604	2,734,339	3,102,643	-242,000	-242,000	-242,000
Depreciation [1]	-	6,597,997	7,181,627	7,304,478	7,330,535	10,944,816	9,837,462	9,197,617	8,984,000	9,452,000
Take up of provisions	-	-	-	-	-	556	21,099	-	-	-
Other resource	-	-10,970	-85,506	-796,357	765,617	103,177	-9,812	123,794	133,029	132,631
Resource AME										
Provision of Defence Capability Depreciation and Impairment Costs	-	12,256	68,589	352,890	838,438	7,098,741	509,557	1,664,430	1,813,828	1,949,205
Provision of Defence Capability Provisions Costs	-	-113,578	491,843	441,309	548,128	17,925	-467,009	457,271	502,210	541,697
Provision of Defence Cash Release of Provisions Costs	-	-413,347	-486,912	-316,031	-273,437	-242,598	-342,499	-242,868	-243,159	-242,431
Movement On Fair Value of Financial Instruments	-	-	-	-1,177,064	202,354	50,481	347,133	252,627	277,456	299,271
Provision of Defence Capability AME Capital Fiscal	-	-2,167	-709,000	-	-	-	-	-	-	-
Operations	-	6,285	11,695	-324	7,168	39,575	6,799	15,056	-	-
Operations Cash Release of Provisions Costs	-	-	-	-	-7,379	-11,093	-2,827	-5,734	-	-
War Pensions Benefits Programme costs	-	1,038,574	1,014,616	1,000,400	980,294	935,066	915,683	922,978	900,392	874,985
Total Resource AME	**-**	**528,023**	**390,831**	**301,180**	**2,295,566**	**7,888,097**	**966,837**	**3,063,760**	**3,250,727**	**3,422,727**
Of which:										
Purchase of goods and services	-	-	-	-	770	-	-	-	-	-
Current grants to persons and non-profit bodies (net)	-	1,038,574	1,014,616	1,000,400	980,294	935,066	915,683	922,978	900,392	874,985
Depreciation [1]	-	12,256	68,589	-824,174	1,040,792	7,126,961	937,113	1,917,057	2,091,284	2,248,476
Take up of provisions	-	-140,314	475,155	438,539	544,477	67,287	-538,843	472,327	502,210	541,697
Release of provision	-	-413,347	-486,912	-316,031	-281,586	-253,691	-345,326	-248,602	-243,159	-242,431
Other resource	-	30,854	-680,617	2,446	10,819	12,474	-1,790	-	-	-
Total Resource Budget	**-**	**30,652,903**	**32,188,083**	**33,015,649**	**37,212,935**	**46,922,993**	**38,946,782**	**39,823,168**	**36,984,824**	**37,344,552**

Table 8.3 – Total Departmental Spending

Total departmental spending , 2005-06 to 2014-15	**2005-06 Outturn**	**2006-07 Outturn**	**2007-08 Outturn**	**2008-09 Outturn**	**2009-10 Outturn**	**2010-11 Outturn**	**2011-12 Outturn**	**2012-13 Plans**	**2013-14 Plans**	**£'000 2014-15 Plans**
Of which:										
Depreciation [1]	-	6,610,253	7,250,216	6,480,304	8,371,327	18,361,451	10,774,575	11,114,674	11,075,284	11,700,476
Capital DEL										
Provision of Defence Capability Other Costs and Services (see details)	-	-2,298	-2,299	1,603	-1,695	-	25,000	-	-	-
Provision of Defence Capability Receipts and other Income	-	-4,840	-4,840	-	-	-	-	-	-	-
Provision of Defence Capability Capital Single Use Military Equipment	-	6,158,123	4,567,698	4,517,457	4,488,004	4,851,719	4,828,749	5,888,370	5,719,000	5,156,000
Provision of Defence Capability Other Capital (Fiscal)	-	1,037,451	3,211,965	3,361,494	3,197,059	3,432,350	3,536,231	3,346,752	3,658,000	3,935,000
Provision of Defence Capability Fiscal Assets / Estate Disposal	-	-346,839	-	-87,324	-16,386	-32,154	-149,657	-67,000	-86,000	-342,000
Provision of Defence Capability New Loans and Loan Repayment	-	-388	-61,802	-101,127	-55,176	-71,903	-5,469	-5,000	-11,545	1,556
Operations Capital Single Use Military Equipment	-	348,198	526,998	1,148,685	807,357	598,026	454,911	421,340	-	-
Operations Other Capital (Fiscal)	-	-	308,878	77,057	728,431	485,571	322,068	329,660	-	-
Conflict Pools Resource Costs	-	-	-	-	-	694	-	-	-	-
Non Departmental Public Bodies Costs	-	-	744	-	-	851	2,223	2,693	-	-
Total Capital DEL	-	**7,189,407**	**8,547,342**	**8,917,845**	**9,147,594**	**9,265,154**	**9,014,056**	**9,916,815**	**9,279,455**	**8,750,556**
Of which:										
Capital grants to persons & non-profit bodies (net)	-	-	-	-	-	-	25,000	-	-	-
Capital support for public corporations	-	-7,382	-70,906	-101,127	-55,176	-71,903	-5,469	-5,000	-11,545	1,556
Purchase of assets	-	7,545,082	8,618,804	9,154,270	9,019,394	9,369,211	8,698,601	9,988,815	9,477,000	9,091,000
Income from sales of assets	-	-348,293	-2,665	-136,901	-40,964	-32,154	-150,045	-67,000	-186,000	-342,000
Other capital	-	-	2,109	1,603	224,340	-	445,969	-	-	-
Capital AME										
Provision of Defence Capability Provisions Costs	-	-	-	75,868	-4,690	-	-9,615	-	-	-
Provision of Defence Capability AME Capital Fiscal	-	-	-	-	9,773	-	-	-	-	-
Total Capital AME	-	-	-	**75,868**	**5,083**	-	**-9,615**	-	-	-
Of which:										
Purchase of assets	-	-	-	75,868	-	-	-9,615	-	-	-
Other capital	-	-	-	-	5,083	-	-	-	-	-
Total Capital Budget	-	**7,189,407**	**8,547,342**	**8,993,713**	**9,152,677**	**9,265,154**	**9,004,441**	**9,916,815**	**9,279,455**	**8,750,556**

Table 8.3 – Total Departmental Spending

Total departmental spending , 2005-06 to 2014-15										£'000
	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Plans	2013-14 Plans	2014-15 Plans
Total departmental spending [3]	**-**	**31,232,057**	**33,485,209**	**35,529,058**	**37,994,285**	**38,116,370**	**37,176,648**	**38,625,309**	**35,188,995**	**34,394,632**
Of which:										
Total DEL	-	30,716,290	33,162,967	34,327,836	36,734,428	37,355,234	37,156,539	37,478,606	34,029,552	33,220,381
Total AME	-	515,767	322,242	1,201,222	1,259,857	761,136	20,109	1,146,703	1,159,443	1,174,251

1 Includes impairments
2 Pension schemes report under FRS 17 accounting requirements. These figures therefore include cash payments made and contributions received, as well as certain non-cash items
3 Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget

Table 8.4 – Departmental Spending Control

								£'000
	2011-12 Original Plans		2011-12 Adjusted Plans†		2011-12 Final Plans		2011-12 Outturn	
Spending in Departmental Expenditure Limits (DEL)	**Resource**	**Capital**	**Resource**	**Capital**	**Resource**	**Capital**	**Resource**	**Capital**
Voted expenditure	**39,462,243**	**9,504,961**	**39,389,410**	**9,506,066**	**39,462,243**	**9,504,961**	**37,979,945**	**9,014,056**
Of which:								
Provision of Defence Capability Service Personnel Costs	9,748,371	-	9,748,371	-	9,748,371	-	9,822,628	-
Provision of Defence Capability Civilian Personnel Costs	2,876,919	-	2,876,919	-	2,876,919	-	2,888,233	-
Provision of Defence Capability Infrastructure costs	4,222,354	-	4,222,354	-	4,222,354	-	4,365,665	-
Provision of Defence Capability Inventory Consumption	1,647,246	-	1,647,246	-	1,647,246	-	1,740,806	-
Provision of Defence Capability Equipment Support Costs	5,417,796	-	5,337,322	-	5,417,796	-	5,625,988	-
Provision of Defence Capability Other Costs and Services (see details)	1,900,748	-	1,900,716	-	1,900,748	-	1,357,872	25,000
Provision of Defence Capability Receipts and other Income	-1,306,138	-	-1,298,465	-	-1,306,138	-	-1,283,873	-
Provision of Defence Capability Depreciation and Impairments Costs	10,271,336	-	10,271,336	-	10,271,336	-	9,291,756	-
Provision of Defence Capability Cash Release of Provisions Costs	321,033	-	321,033	-	321,033	-	176,464	-
Provision of Defence Capability Capital Single Use Military Equipment	-	4,918,500	-	4,918,500	-	4,918,500	-	4,828,748
Provision of Defence Capability Other Capital (Fiscal)	-	3,582,013	-	3,582,013	-	3,582,013	-	3,536,232
Provision of Defence Capability Fiscal Assets / Estate Disposal	-	-185,612	-	-185,612	-	-185,612	-	-149,657
Provision of Defence Capability New Loans and Loan Repayment	-	5,591	-	6,696	-	5,591	-	-5,469
Operations Service Personnel Staff Cost	269,186	-	269,186	-	269,186	-	278,285	-
Operations and Peacekeeping Civilian Personnel Staff Costs	35,871	-	35,871	-	35,871	-	25,570	-
Operations Infrastructure Costs	266,875	-	266,875	-	266,875	-	214,071	-
Operations Inventory Consumption	804,818	-	804,818	-	804,818	-	794,614	-
Operations Equipment Support Costs	743,154	-	743,154	-	743,154	-	630,108	-
Operations Other Costs and Services	547,069	-	547,069	-	547,069	-	492,251	-
Operations Receipts and other Income	-34,657	-	-34,657	-	-34,657	-	-42,806	-
Operations Depreciation and Impairment Costs	609,716	-	609,716	-	609,716	-	532,998	-
Operations Cash Release of Provisions Costs	6,390	-	6,390	-	6,390	-	2,827	-
Operations Capital Single Use Military Equipment	-	662,594	-	662,594	-	662,594	-	454,911
Operations Other Capital (Fiscal)	-	519,652	-	519,652	-	519,652	-	322,068
Conflict Pools Resource Costs	46,253	-	46,253	-	46,253	-	46,212	-
Non Departmental Public Bodies Costs	176,320	2,223	176,320	2,223	176,320	2,223	186,791	2,223
Provision of Defence Capability Research and Development Costs	888,823	-	888,823	-	888,823	-	833,485	-

Table 8.4 – Departmental Spending Control

	2011-12 Original Plans		2011-12 Adjusted Plans†		2011-12 Final Plans		2011-12 Outturn £'000	
National Loan Fund interest and repayments	2,760	-	2,760	-	2,760	-	-	-
Total Spending in DEL	**39,462,243**	**9,504,961**	**39,389,410**	**9,506,066**	**39,462,243**	**9,504,961**	**37,979,945**	**9,014,056**
Spending in Annually Managed Expenditure (AME)								
Voted expenditure	**2,693,536**	**-**	**2,690,263**	**-**	**2,693,536**	**-**	**966,837**	**-9,615**
Of which:								
Provision of Defence Capability Depreciation and Impairment Costs	2,043,861	-	2,040,588	-	2,043,861	-	509,557	-
Provision of Defence Capability Provisions Costs	-243,817	-	-243,817	-	-243,817	-	-467,009	-9,615
Provision of Defence Cash Release of Provisions Costs	-300,053	-	-300,053	-	-300,053	-	-342,499	-
Movement On Fair Value of Financial Instruments	218,879	-	218,879	-	218,879	-	347,133	-
Operations	15,056	-	15,056	-	15,056	-	6,799	-
Operations Cash Release of Provisions Costs	-6,390	-	-6,390	-	-6,390	-	-2,827	-
War Pensions Benefits Programme costs	966,000	-	966,000	-	966,000	-	915,683	-
Total Spending in AME	**2,693,536**	**-**	**2,690,263**	**-**	**2,693,536**	**-**	**966,837**	**-9,615**
Total	**42,155,779**	**9,504,961**	**42,079,673**	**9,506,066**	**42,155,779**	**9,504,961**	**38,946,782**	**9,004,441**
Of which:								
Voted expenditure	42,155,779	9,504,961	42,079,673	9,506,066	42,155,779	9,504,961	38,946,782	9,004,441

† Figures for Adjusted Plans have been adjusted for machinery of government changes effected during 2011 to reflect the Final Plans structure where applicable

Table 8.5 – Administration Budget

Administration budget , 2006-07 to 2014-15	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Plans	2013-14 Plans	2014-15 Plans £'000
Resource DEL									
Provision of Defence Capability Service Personnel Costs	750,139	777,450	736,361	735,986	670,788	-	-	-	-
Provision of Defence Capability Civilian Personnel Costs	1,936,586	1,931,902	1,947,330	1,929,833	1,355,224	2,673,630	2,160,642	1,992,168	1,935,206
Provision of Defence Capability Other Costs and Services (see details)	-	-	-	-	-	18,316	24,491	23,267	22,104
Non Departmental Public Bodies Costs	63,316	63,272	238,811	193,386	186,203	-	-	-	-
Total administration budget	**2,750,041**	**2,772,624**	**2,922,502**	**2,859,205**	**2,212,215**	**2,691,946**	**2,185,133**	**2,015,435**	**1,957,310**
Of which:									
Staff costs	2,689,397	2,712,093	2,683,691	2,665,819	2,026,012	2,673,630	2,160,642	1,992,168	1,935,206
Purchase of goods and services	65,748	66,364	245,570	200,508	193,475	18,316	24,491	23,267	22,104
Subsidies to public corporations	592	-	-	-	-	-	-	-	-
Depreciation	1,328	1,363	9,486	9,520	9,556	-	-	-	-
Other resource	-7,024	-7,196	-16,245	-16,642	-16,828	-	-	-	-

Table 8.6 – Assets and Liabilities in the Statement of Financial Position at year end

Assets and liabilities in the Statement of Financial Position at year end:	2004-05 outturn (UK GAAP) £m	2005-06 outturn (UK GAAP) £m	2006-07 outturn (UK GAAP) £m	2007-08 outturn £m	2008-09 outturn £m	2009-10 outturn £m	2010-11 outturn £m	2011-12 outturn £m	2012-13 Plans £m	2013-14 Plans £m	2014-15 Plans £m
Assets											
Non-current assets	92,630	95,272	99,263	111,376	119,142	121,893	116,863	120,890	122,704	124,544	126,412
Property, plant and equipment	69,635	71,775	74,601	82,434	89,877	91,653	88,300	92,070	93,451	94,852	96,275
Intangible assets	22,648	22,983	24,163	26,718	27,959	29,134	27,529	27,851	28,269	28,693	29,123
Financial Assets	347	514	500	256	217	224	147	142	144	146	148
Receivables due after more than one year				1,968	1,088	883	887	882	840	853	866
Current assets	9,405	9,991	9,032	8,581	11,027	11,165	11,306	10,647	10,806	10,968	11,133
Liabilities									-	-	-
Current Liabilities	-6,076	-6,449	-6,739	- 8,840	- 9,078	-9,278	-10,252	-10,920	-11,084	-11,250	-11,419
Non-current liabilities	-10,313	-7,333	-6,747	-10,252	- 1,045	- 11,103	- 11,025	-10,730	-10,891	-11,054	-11,220
Capital employed within main department	85,645	91,481	94,810	100,866	110,045	112,678	106,892	109,887	111,535	113,209	114,907
NDPB total assets less liabilities	339	336	343	613	608	608	842	845	845	845	845
Total capital employed in dept'l group	**85,984**	**91,817**	**95,153**	**101,478**	**110,653**	**113,285**	**107,734**	**110,732**	**112,393**	**114,079**	**115,790**

8.9 Details of Staff in Post can be found at: http://www.dasa.mod.uk/applications/newWeb/www/index.php?page=48&pubType=1&thiscontent=450&PublishTime=09:30:00&date=2011-07-29&disText=1%20July%202011&from=listing&topDate=2011-07-29. As in previous years, data on regional spend has not been provided.

Section 2: Defence Equipment and Support (DE&S)

Value of New Equipment Delivered

8.1 The DE&S organisation delivered new equipment valued at £4.2Bn which includes £0.5Bn of Urgent Operational Requirements (UORs). Further details on UORs are provided in paragraph 8.8 below. There were 6 [1]major equipment procurement projects formally accepted into service.

8.2 Total programmed capital expenditure for DE&S in 2011-12 was £8.5Bn. Capital expenditure covers money spent on acquisition less any capital receipts.

8.3 As the single balance sheet owner for military equipment, at the end of FY2011-12, DE&S was responsible for £56.6Bn of capital assets. This was a reduction of £0.9Bn since the FY2011-12 opening balance of £57.5Bn. Depreciation of assets on operations was £332.8M. Items of equipment procured through the UOR process were depreciated in the same way as other assets, but the expected life was adjusted to reflect the harsh environment in which they were operated. DE&S also owns the majority of non-property assets and equipment under construction, which increased by 18% from £15.6Bn to £18.4Bn during the year.

Key Contracts and Achievements

8.4 For the Royal Navy:

- HMS DIAMOND, the third Type 45 destroyer, entered service;
- A £452M contract for the build of four Military Afloat Reach and Sustainability tankers was awarded on 9 March 2012 to Daewoo Shipbuilding and Marine Engineering of South Korea. The tankers will be operated by the Royal Fleet Auxiliary and will enter service from 2016;
- The first Steel Cutting for the main blocks of the second Queen Elizabeth Class carrier, HMS PRINCE OF WALES, took place in May 2011;
- A contract for £40M was signed in March 2012 to purchase three River Class Offshore Patrol Vessels from BAE SYSTEMS. The vessels were previously leased from BAE Systems and this purchase will save MOD £58M over 10 years;
- A new Ice Patrol Ship, HMS PROTECTOR, was chartered for the Royal Navy for a three year term and entered service in June 2011;
- A £483M contract was placed with MBDA in February 2012 for the development of the new naval short range air defence system, Sea Ceptor, designed to protect ships from attack by supersonic missiles. Sea Ceptor will succeed the existing Sea Wolf system on Type 23 frigates later this decade and is planned to be used on the Type 26 Global Combat Ship;
- A £350M contract was signed with Babcock Marine Ltd for the long overhaul period (refuelling) for HMS Vengeance, to take place at Devonport dockyard, Plymouth. HMS Vengeance is one of the four Vanguard class submarines carrying Trident missiles which provide the UK's strategic nuclear deterrent. The contract award will secure around 1,000 jobs at Devonport and 300 other jobs in Plymouth, with a further 700 in the supply chain.

8.5 For the Army:

- As announced by the Prime Minister on 25 October 2011, the Army's Warrior infantry fighting vehicles will benefit from a major £1Bn upgrade. Key improvements delivered through the upgrade include the fitting of improved turrets and new 40mm cannons, enabling them to fire while on the move. The upgrade will allow the service life of the vehicle to be extended from 2025 to beyond 2040. As part of the programme, a contract has been awarded to Lockheed Martin UK which will create and sustain 600 British jobs;
- A contract with Hawk Protection Ltd worth £4M has delivered the latest phase of the MOD's Pelvic Protection System. It is designed to significantly reduce the extent of injury from Improvised Explosive Devices and increase any casualties' long-term chances of recovery;

1 The 6 major equipment procurement projects are; Maritime Composite Training Systems Phase 1, M270 Universal Fire Control System, T800 Engines in Lynx Mk9, JOUST, UK Military Flying Training Systems – Rear Crew Stage 1, Mode S Capability Upgrade Programme.

- The last of 22 Lynx Mk9As was handed over to the frontline at the end of a rapidly delivered upgrade programme. The final aircraft was handed over three months early with the Mk9A already having delivered more than 4,000 hours on operations in Afghanistan where its more powerful engines allow all year round flying in hot and high environments.

8.6 For the RAF:

- Following a Prime Ministerial announcement on 8 February 2012 on the intention to procure an eighth C-17 for the RAF, a contract for the aircraft, worth approximately £200M, was signed with Boeing on 9 March 2012. The new aircraft entered RAF service in July 2012. It will shortly undergo a fit of a defensive aids suite, following which it will be used to support operations;

- The RAF's Future Strategic Transport Aircraft (FSTA) has been named 'Voyager.' In April 2012 the first Voyager aircraft secured Release to Service in the transport, aeromedical evacuation and crew training role, with Air-to-Air Refuelling capability being introduced over the coming year;

- The first Puma Mk2 made its maiden test flight in June 2011. The Puma life extension programme, which was approved in summer 2009, will improve the safety and performance of the platform by providing new engines and a digital flight control system, as well as increased platform survivability and enhanced communications;

- A £10M contract for the next four year phase of support for current and legacy Paveway IV precision guided bombs was placed with Raytheon Systems Ltd UK in July 2011. A £60M contract to replenish stocks of Paveway IV was awarded to the company in December 2011;

- A contract was placed with Boeing in August 2011, valued at £1.2Bn (including development, manufacture, and the first five years of support), for 14 new Chinook helicopters.

8.7 Pan Defence:

- New combat uniforms have been designed and are now being issued across all three Services. The uniforms incorporate a new camouflage, the Multi-Terrain Pattern, for use in a wide range of environments, and a new design to reflect lessons learnt on recent operations while wearing body armour. The issue will be complete by mid-2013;

- The upgrade to Bowman, Combat, Infrastructure and Platform Battlefield Information System Application (BCIP) 5.4 has been delivered on time and within cost, and is now fully deployed in Afghanistan. BCIP provides a mobile battlefield tactical internet offering secure voice, data and situational awareness capabilities throughout the battlespace. This particular upgrade has delivered more advanced software and hardware, and improves interoperability, security, network management and robustness. Requiring the modification of some 97,000 plus individual items of equipment, the upgrade was completed in December 2011;

- In August 2011 the MOD awarded a four-year contract, known as Phoenix, to Babcock International for the provision and management of MOD's White Fleet requirement for the mainland UK;

- The Kingdom of Saudi Arabia announced the purchase of 22 Hawk aircraft on 23 May 2012 to assist with training and continue to operate the Tornado and Typhoon aircraft with related sustainment and support contracts. The UK Government continues to support the Kingdom of Saudi Arabia through supply of equipment and services. We continue to strengthen and deepen the relationship and are committed to substantial undertakings throughout the next five year budget period.

Urgent Operational Requirements (UORs)

8.8 The UOR process is used for the rapid purchase or modification of equipment to address urgent and unforeseen capability gaps in support of a current or imminent military operation. Where a requirement meets these criteria and is specific to a particular operational theatre, it will be funded from the Government Special Reserve rather than the Defence budget. Over £7.5Bn of expenditure has been approved through the UOR process since 2001. Of this, over £5.6Bn has been for emerging requirements for Afghanistan, including over £330M on equipment to counter the threat of Improvised Explosive Devices and more than £23M on additional vehicle safety measures in this year alone.

8.9 For 2011-12, the Department agreed an estimate with HM Treasury for Reserve expenditure on UORs of up to £882M. The final outturn against this estimate, based on operational demand, was £415M. The difference reflects both the changing operational requirements of UK Forces in Afghanistan since the original estimate was put in place and the Department's efforts to actively reduce costs of UORs without compromising their urgency or quality. In 2011-12, the MOD successfully delivered 97 UORs.

8.10 UOR performance has exceeded targets with 97% of UORs meeting their Equipment Delivery Dates or being delivered early. This included a £10M contract for nano-Unmanned Air Systems. It also included the purchase of two BAE 146 aircraft in March 2012 to supplement the existing tactical troop-carrying airlift capacity. Following military modifications, both aircraft are due to enter RAF service in first quarter 2013 and are expected to be immediately and intensively deployed in support of operations. A 5th Shadow Surveillance aircraft was delivered to 14 Sqn, RAF Waddington, in December 2011, which will be used in support of operations in Afghanistan. Deliveries of the first enhanced Combat Vehicle Reconnaissance (Tracked) vehicles to Afghanistan began in September 2011. This was the result of a £30M contract placed with BAE Systems in June 2010.

8.11 A £90M contract was signed with Force Protection Europe to provide a further 100 Foxhound vehicles straight to theatre, taking the total set for frontline Armed Forces to 300. Foxhound's size and agility allows troops to carry out a wide range of tasks in environments that may restrict larger, heavier vehicles. It is ideal for the partnering and mentoring role required for transition in Afghanistan, being able to access urban areas with increased protection. Foxhound was procured through the UOR process but partly funded from the MOD core budget in recognition of the vehicle's wider utility.

Royal Engineers from 37 (Three Seven) Squadron strip a Medium Girder Bridge (MGB) near Check Point Oqob in the northern part of Nahr-e Seraj District of Helmand Province.

Logistics Management and Support to Operations

8.12 Support to the 9,500 military personnel deployed in Afghanistan remains the department's main logistic challenge. During this reporting period, this commitment has been met whilst providing concurrent support to the UK contribution to NATO operations in Libya. As part of the transition process to hand over responsibility for security to the Government of Afghanistan, UK forces have mentored the Afghan National Security Forces to develop their own logistic capabilities. Logistics planning has gathered pace over the last year to prepare for the end of NATO's involvement in combat operations, which will be the most challenging logistics task for a generation. Personnel from all three Services, MOD civilians and commercial partners are engaged to ensure that UK defence is capable of successfully recovering and processing the equipment that will no longer be required.

Movements

8.13 The standard pattern of troop movement to and from Afghanistan includes a deployment flight, flights from and to theatre for rest and recuperation and a return flight home. This amounts to approximately 120,000 individual movements per year. Passenger movements are split almost equally between RAF Tristar aircraft (199 flights in Financial Year 2011-12) and commercial charter aircraft (215 flights) with some additional support from RAF C-17 aircraft.

8.14 Air freight, amounting to approximately 18,000 tonnes to support operations in Afghanistan is delivered through a combination of RAF C-17 (279 flights) and commercial charter aircraft (303 flights).

8.15 In Afghanistan, there were 15 dedicated casualty evacuation flights and 24 flights to return fatalities to UK have been flown by C-17 aircraft.

8.16 In Financial Year 2011-12, the cost of air charter in support of operations in Afghanistan was £198M, approximately 94% of the total Defence requirement for commercial airlift.

8.17 Surface routes, using commercial shipping, railways and road transport as well as MOD Strategic RoRo shipping, also continue to play a very significant role in the delivery of routine sustainment freight to operations in Afghanistan. About 9,100 tonnes have been delivered via Pakistan although this southern route has not been available since the end of November 2011. About 6,300 tonnes have been delivered via Central Asia on the now well established northern route. In addition some 549 tonnes have been delivered on Sail-Fly via Cyprus or UAE. A new northern Sail-Rail-Fly route is currently under trial.

8.18 In addition to operation in Afghanistan, UK support to NATO operations in Libya has been a significant factor this year. During the Libya operation some 1,800 personnel and nearly 1,000 tons of freight were deployed by air. Considerable amounts of freight were also moved via land routes.

Disposals

8.19 The Disposal Services Authority (DSA) achieved £265M in gross sales during 2011-12. Major activities included the sale of RFA Largs Bay to the Royal Australian Navy for £65.5M and the sale of the Harrier fleet and associated spares to the US Marine Corps for US $180M.

8.20 The DSA also successfully negotiated the sale of eight combat engineering tractors to the Singapore Defence Force for £1.125M and excess Sonobuoys following the cancellation of the Nimrod MRA4 for £1.3M.

8.21 The DSA has sold HM Ships Exeter, Southampton and Nottingham for £1.65M to Leyal Ship Recycling in Turkey. It has also sold ex-Nimrod MRA4 engines for approximately £3M, silver element recovered from Torpedoes for £4.8M and seawater batteries for £2.3M.

Materiel Strategy

8.22 The Materiel Strategy was launched in May 2011. Its aim is to consider how DE&S can operate differently to become more efficient and effective. Three root causes for delays and cost overruns in MOD acquisition have been identified: the overheated Equipment Programme; the weak interface between DE&S and the wider MOD that results in poor discipline and change control; and insufficient levels of business capability in DE&S for the size and complexity of the programme it is asked to deliver. In order to address these problems, the Materiel Strategy has considered a range of organisation design options intended to break in the cycle of poor performance and three options were presented to Ministers in December 2011:

- a Trading Fund;
- an Executive Non-Departmental Public Body with a Strategic Partner; and
- a Government Owned Contractor Operated entity.

8.23 Further work is now being done on options for increasing the role of the private sector in DE&S and a soft market testing exercise has been carried out. Ministers will review the options in light of this further work and intend to make a decision on which to take forward later this year.

Section 3: Defence Infrastructure

8.24 The MOD is one of the largest landowners in the United Kingdom, with an estate of some 230,000 hectares, about 1% of the UK mainland. Some 73,000 hectares of this comprise a varied built estate including naval bases, airfields, living accommodation for military personnel, scientific facilities, storage and distribution centres, communications facilities and offices, making the MOD the UK's largest property manager. Reflecting the long history of the Armed Forces, the estate contains a substantial number of listed buildings. The rural estate (some 157,000 hectares) comprises mainly training areas and ranges, on undeveloped land which is in places of particular environmental or archaeological significance. The MOD has rights to use a further 125,000 hectares in the UK, mainly for training. In addition, the MOD manages an overseas estate comprising the garrisons and training facilities in Germany, Cyprus, the Falkland Islands and Gibraltar, as well as facilities in Ascension Island, Belize, Brunei, Nepal, Singapore and the United States. The Armed Forces regularly use major training facilities in Canada, Cyprus, Germany, Norway, Poland and Kenya. As at 31 March 2012 estate related Defence assets were valued at some £25 Bn.

Defence Infrastructure Organisation (DIO) Transformation Programme

8.25 The first phase of a 2 year transformation programme to deliver the DIO mandated SDSR outcomes have now been completed. This has included a major review of DIO's operating model, including determination of its main business processes, establishing its management information requirements, the required high level organisational design and underpinning behaviours.

8.26 At the same time, extensive analysis has been carried out to determine the most appropriate corporate structure, investigating possible new Strategic Business Models for DIO, which could see more private sector involvement in the organisation.

Basing Optimisation Programme

8.27 Following the announcement of SDSR in 2010, a basing review was undertaken to identify the impact of these decisions and how the changes could be delivered.

8.28 The outcomes of this work were announced by the Secretary of State on 18 July 2011. This included the long-term intention to bring the Army back from Germany by 2020; revised basing arrangements for elements of the RAF and the Royal Navy; and a plan to deliver receipts from the sale of estate no longer required.

8.29 Work during 2010-11 has included establishing and recruiting a Programme team and developing a high level plan against the announced basing work and rationalisation and disposal programme out to 2020-21. In November 2011 the Department announced a small number of preliminary moves to take advantage of closing RAF bases in the UK and allow early site closures in Germany.

Next Generation Estates Contract

8.30 The financial year 2011-12 has seen the release of Pre-Qualifying Questionnaires for Regional Prime Contracts for Scotland and Northern Ireland, National Housing, National Training Estate, Regional Framework East and the National Framework with short listed bidders being announced for all of these. During February 2012, the Expression of Interest was released for the second set of the Next Generation Estate Contracts for the Central, South East and South West areas with responses received March 2012. The MOD is embedding sustainable development into its next generation of estate contracts by including material in the requirement documents, advertisements and tendering stages.

Sustainability of the Estate

8.31 DIO is now responsible for the policy and delivery of sustainable development across the estate infrastructure. DIO has continued to lead the way for MOD energy efficiency and sustainable practices during the financial year 2011-12. The DIO has exceeded the Government's 12.5% carbon reduction target on the defence estate relative to financial year 1999-00 levels by achieving a 23.5% reduction. Water consumption across the estate has been reduced by 29% since 2004-05 against a 25% target. MOD has met the Government target to achieve 95% of its Sites of Special Scientific Interest in 'favourable' or 'recovering' condition, and has removed two more sites from the number of listed buildings at risk on the estate.

8.32 The MOD has also progressed against the Government Flexible Framework targets for embedding sustainable development within estate contracts. MOD continues to lead across Government on its approach to assessing risks to the resilience of its estate from extreme weather events and climate fluctuations. It has a target to conduct climate impact risk assessments on eighty of its most critical and high risk priority operational sites by 2015, which it is on track to achieve. When complete the assessments create a risk register that manages and informs short to medium term estate maintenance, Business Continuity and longer term strategic planning.

8.33 The Government launched new sustainable development targets last year (Greening Government Commitments) and these run through until March 2015, their aim being to fulfil the pledge of this being the "Greenest Government ever".

Defence Training Estate (DTE)

8.34 The DTE organisation supplies the majority of military training facilities for the Armed Forces in the UK, Germany, Canada and Kenya. The last year was demanding with a high operational tempo in support of Operations in Afghanistan and Libya. DTE continues to review its holdings of estate, in particular reducing surplus capacity in the UK and it has commenced the drawdown of training estate in Germany. As the UK military basing becomes clear, with the drawdown from Germany, and reorganisation of the Army, further work will be required on the long-term requirement for the training estate. As part of the longer-term development of a Defence Training and Evaluation Estate, there is increasing integration between DTE and Defence Equipment and Support (Test and Evaluation) area to ensure efficiencies are achieved by removing surplus capacity. Work continues to address the viability of transferring the remaining training facilities and camps, not under DTE management, into a single contract to provide a more effective delivery and efficiency.

Overseas Estate

8.35 DIO continues to provide civilian Commercial and Facilities Management staff deployed in-theatre to support operations in Afghanistan. In Germany, a €200M 5 year contract awarded to Babcock International Group PLC went live in August 2011 delivering Facility Management services. This included reactive, statutory and grounds maintenance services and on vesting day some 600 MOD staff transferred across to the new contractor. Interserve Defence Ltd was also awarded a 5 year £60M a year contract to deliver Facilities Management capability to British Forces on the Falkland and Ascension Islands initially followed by Cyprus and Gibraltar.

Estates Disposals

8.36 Total receipts of some £86M were achieved during the Financial Year 2011-12.

A street of modernised Service Family Accommodation (SFA)

Single Living Accommodation (SLA)

8.37 This year, there has been continued investment in SLA modernisation through Private Finance Initiatives, Project SLAM and other MOD funded projects. The modern standard for SLA for junior ranks provides single en-suite bed-sitting rooms configured in either six or eight person flats or hotel layout supported by additional communal space and utility rooms with laundry and kitchenette facilities. There are similar scales for more senior personnel. Over the last nine years the MOD has completed some 51,996 bed-spaces of which 4,662 were delivered in 2011-12. A detailed break down of delivery is set out below:

Table 8.7 – Project SLAM Delivery

	2004/5	2005/6	2006/7	2007/8	2008/09	2009/10	2010/11	2011/12
Target	1640	2500	1500	2100	2300	1250	2100	1055
Cumulative Target	2640	5140	6640	8740	11040	12240	14340	15395
Delivered	1862	3570	2207	2008	2719	1442	2542	1618
Cumulative Delivery	2012	5582	7789	9797	12516	13958	16500	18118

Table 8.8 – TLB Funded and PFI Delivery

	2004/5	2005/6	2006/7	2007/8	2008/09	2009/10	2010/11	2011/12
Target	4300	5300	5800	5550	4150	3630	3018	2535
Cumulative Target	5800	11100	16900	22450	26600	30230	33248	35783
Delivered	3749	1969	3615	4897	5191	4367	3312	3044
Cumulative Delivery	6514	8483	12098	16995	22186	26553	29865	32909

Service Family Accommodation (SFA)

8.38 The MOD controls 67,000 properties worldwide. Of these some 49,000 properties are in the UK and some 18,000 properties are on the overseas estate with the majority being held in Germany. SFA is owned in a variety of ways. In Germany almost all are leased from either the Federal Government or private owners, as is the case in remote overseas locations. However, in the other overseas bases most are MOD owned. In England and Wales, most properties are leased from Annington Homes Ltd (AHL). AHL own 39,427 properties in England and Wales that were purchased from the MOD in 1996 and leased back for a period of 199 years. Most of the properties in Scotland and Northern Ireland are owned by the MOD.

8.39 Standard for Condition is used to determine the overall physical state of SFA, with Standard 1 being the highest and Standard 4 the lowest. Some 97% of the UK housing stock is in Good Condition (that is Standard 1 and 2 for Condition). In the UK there are only some 990 properties at Standard 3 (which will not be allocated from January 2012 onwards) and only 185 properties at Standard 4 (which are no longer allocated).

8.40 A margin of empty properties is required to support the annual rotation of reassigned personnel, in particular peak demand in the late summer before the new school year, as well as periodic repair and upgrade of properties. The proportion of empty properties in the UK has been driven down from a historic high of 21% in May 2008 to 10%, with a further 3% held pending decisions on the final outcome of the SDSR and estate re-basing.

8.41 Over £47M was allocated for the upgrade and improvement of UK property during 2011-12. This enabled some 700 properties to be upgraded to Standard 1 for Condition, with a further 3,200 benefiting from other improvements such as new kitchens and bathrooms, double glazing and insulation.

Section 4: Civilian Personnel

8.42 MOD civilians play a vital role directly supporting the success of military operations, deploying alongside the military to operational theatres, and undertaking a range of important roles in support of the military mission. Throughout 2011-12 there were 200 civilians in 18 different roles supporting operations in Afghanistan and 9 deployed posts across 5 roles established and filled to support operations in Libya. Whilst focus is often on the better known policy adviser, civil secretary, intelligence analyst, and scientific adviser roles, half the deployed civilians are engineers from the Defence Support Group (DSG) and a quarter are police officers from the Ministry of Defence Police helping to train the Afghan Police forces.

8.43 Additionally, approximately 350 MOD civilians were deployed to operational theatres in 2011-12 for shorter periods. Typically these individuals carry out work on an urgent operational requirement basis, such as conducting equipment trials for the fielding of equipment that directly benefited the operation. All of those civilians who deploy are volunteers and great care is taken to ensure that they are properly prepared and supported, before they go, while they are deployed, and after they return. This includes robust risk assessment and management processes, guidance and support for families, assistance with re-integrating into the workplace, and championing their contribution amongst the rest of the Defence community.

8.44 Across Defence, MOD prioritises civilian support according to where the need is greatest. Provision of direct support to current and contingent military operations takes precedence over all other work. Civilian resources are diverted depending on the Government's emerging Defence priorities, encompassing not just Afghanistan, but emerging new crises or operations. With the UK involvement in Libya in 2011, for example, this flexibility meant we could deploy civilian surge support to the teams handling this effort within four hours of the need being identified. We continued to provide increasing levels of highly-skilled support as the crisis continued, augmenting some 55 civilians to Libya. This ensured that the Cabinet, military commanders and senior officials were fully supported with appropriate policy advice and briefing at all stages of the crisis. In February 2012, we extended the successful regime for staffing urgent operations to staffing for important Transforming Defence programmes.

Workforce Numbers

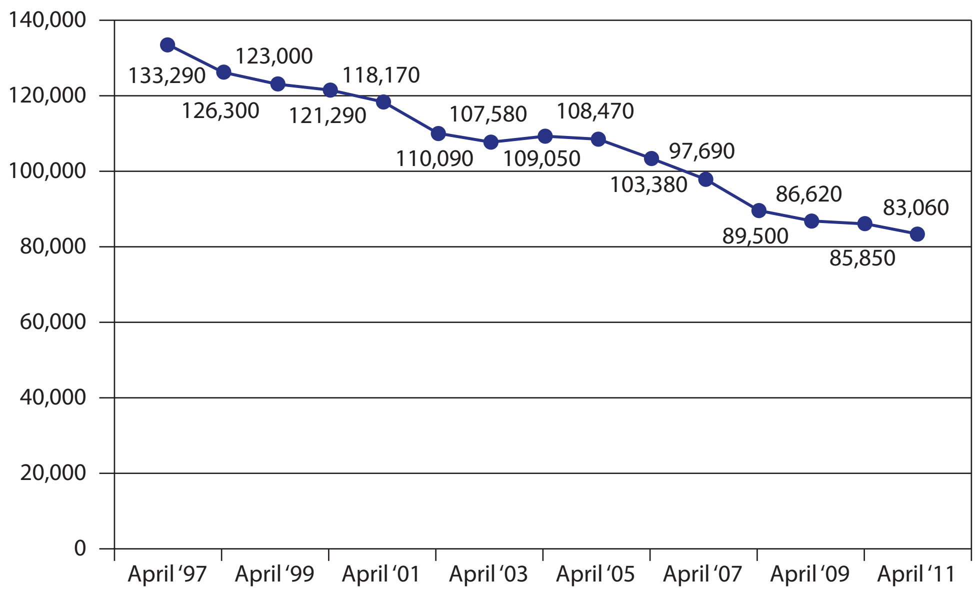
8.45 The MOD civilian workforce has significantly reduced in size over the past thirty years, and will continue on a downward trend post-SDSR. In 1980, the workforce consisted of 276,200 full time equivalents, reducing to 70,940 in April 2012. As a result of the SDSR, the civilian workforce is currently planned to reduce to around 57,500 by 2015.

Civilian Voluntary Early Release Schemes (VERS)

8.46 Two MOD-wide voluntary early release schemes (VERS) for MOD civil servants have been launched in response to the outcome of the SDSR which announced some 25,000 civilian staff reductions by 31 March 2015. The Department currently plans to achieve approximately 28,500 reductions in this time.

8.47 The first VERS covered the financial year 2011-12 and was originally intended to secure up to 4,000 individual releases. Interest in the scheme exceeded expectations and the allocated funding was increased to enable the Department to maximise the numbers that could be released. A total of 13,943 individuals applied; 8,167 offers were made and 6,268 offers were accepted – all of whom had left by 31 March 2012.

Figure 8.1 – MOD Workforce – Full Time Equivalent Numbers – 1 April Date Point



8.48 The second VERS was launched in November 2011 and invited applications for release during the two financial years up to 31 March 2014. A total of 12,640 applied, of which 5,889 applications have been approved (offers made or to follow) and a further 3,074 have been placed on reserve lists. Offers are being issued at quarterly intervals to align with pre-set release dates. To date, 2,259 left in June and September 2012 and a further 660 have accepted offers to leave in December. Offers for March 2013 releases will be issued in November and are expected to yield a further 324 exits. Offers to the remaining successful applicants and to those on reserve lists will be made throughout 2013-14.

8.49 A significant portion of the overall reductions will be achieved through normal outflows (resignations, dismissals, retirements and so on) allied to continuation of the recruitment restrictions that have been in place since May 2010. Moreover, some redundancies are arising as a result of site closures, relocations and draw-downs where affected staff cannot be redeployed.

Recruitment

8.50 The freeze on external recruitment to the Civil Service, which was introduced in May 2010, remains in place. The freeze impacts civil service recruitment across Government departments and agencies. Limited exceptions apply for frontline and business critical staff, requiring approval from Civilian Workforce Advisors (senior Civil Servants) or an Agency Chief Executive and with TLB holders accountable to the Defence Board.

8.51 The recruitment figures for the last year are shown in Table 8.11. During 2011-12 the intake to the Department was 870. In the previous year, this figure was 1,610.

Table 8.9 – Civilian Recruitment in 2011-12

	Non Industrial	Industrial
Total Number of Staff Recruited	690	180
Number and Percentage of Women Recruited	330 48.1%	40 25.3%
Number and Percent-age of Ethnic Minorites Recruited [3]	20 6.9%	~ ~
Number and Percentage of People with Disabilities Recruited [4]	- -	~ ~

Source: DASA (SMG)

Notes:
1. **Disability Data** Due to the implementation of changes made to align definitions with the 2011 Census, Disability fields for May 2011 strengths and April 2011 flows onwards remain unusable until further notice.
2. Data supplied by DASA, recruitment data based on personnel directly recruited by Department, Transfer of Function, Loan from another Department, Re-Instatement and Re-Employment,Transfer from Another Public Office and Unknown..
3. The recruitment statistics shown are for all permanent and casual civilian personnel excluding Trading Fund staff. No recruitment information is available for Royal Fleet Auxiliary or Locally Engaged Civilians.
4. Percentage of staff recruitment is based on known declarations of ethnicity and excludes staff with unknown or undeclared ethnicity.
5. Percentage of staff recruitment is based on known declarations of disability status and excludes staff with unknown or undeclared disability status.
6. ~ is equal to all strengths of less than ten or percentages based on strengths of less than ten.
7. All figures are on a Headcount basis.
8. All figures have been rounded to meet the Freedom of Information requirements and protect confidentiality.

8.52 In accordance with our obligations to the Civil Service Commissioners' Recruitment Principles Table 8.10 shows the use of permitted exceptions to the principles of fair and open competition and selection on merit in 2011-12.

Table 8.10 – Permitted exceptions to the Civil Service Commissioners Recruitment Principles

	Non industrial	Industrial
Total Exceptions	**74**	**9**
Short Term Appointments of up to 2 years	21	9
Secondments of up to 2 years	6	0
Transfer of individuals into the Civil Service	47	0
All other categories	0	0

Table excludes any exceptions made by the Trading Funds

Disabled Persons Employment

8.53 We are fully committed to attracting and retaining staff with disabilities and providing the necessary support and reasonable adjustments to help them work effectively.

Section 5: Safety and Sustainability

Safety

8.54 The safety of our military and civilian personnel is of utmost importance and despite pressure on resources across the Department; we continually strive to improve our safety processes, our organisational culture and our individual behaviours. Over the past year the Department has continued to further develop and demonstrate our commitment to safety through the creation of the Defence Safety and Environment Authority (DSEA).

Defence Safety and Environment Authority (DSEA)

8.55 One of the key recommendations of the Haddon-Cave report into the loss of the XV230 Nimrod aircraft in Afghanistan was that, to avoid a conflict of interest, those responsible for the regulation of safety should be independent of those responsible for delivering output. MOD has already implemented the principle of regulatory independence in aviation by setting up the Military Aviation Authority (MAA). The DSEA extends this principle across Defence as a whole. This was created by bringing existing regulators together into a new independent regulatory body which provides the regulatory framework for all non-aviation safety and environmental protection issues.

8.56 As well as being responsible for internal regulation, the DSEA is also responsible for overall Departmental policy on safety and environmental protection and carries out high-level assurance to establish whether Top Level Budget Holders (TLBs) and Trading Fund Agencies (TFAs) are complying with the requirements of legislation, as well as internal regulation, in accordance with the Secretary of State's Policy Statement.

8.57 Further information on the DSEA and the MAA can be found at http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/

Safety Strategy

8.58 The MOD Safety Sub-Strategy provides direction to the Department for the period 2011-2016. It has been developed to provide focus on delivering improvements in safety management and performance with the overarching aim of minimising fatalities, injuries and ill-health to our people and those affected by our activities.

Minimising Fatalities and Major Injuries

8.59 There were 7 deaths related to potential health and safety failures in 2011-12, some of which are still under investigation. This is a reduction on 2010-11 in which there were 11 fatalities relating to potential health and safety failures. We continue to work hard to reduce and minimise the number of fatalities as a result of accidents.

8.60 The Defence Analytical Services and Advice (DASA) produces the MOD Health and Safety Statistics Annual Report which includes statistics on major and serious injuries, the 2011-2012 report which was published on 31 October 2012 and can be found at http://www.statistics.gov.uk/hub/government/defence/personnel

Assurance and Accountability

8.61 Safety in the MOD is monitored by the Safety Process Owner, which was 2nd Permanent Secretary until his departure and is now the Permanent Secretary. An annual Safety and Environmental Protection Assurance Report is submitted to the Defence Audit Committee and the Defence Board.

Sustainable Development (SD)

8.62 Global environmental, social and economic pressures pose real threats to Defence's ability to meet its strategic objectives. For example, challenges such as climate change, natural resource depletion, water scarcity and energy and resource security are potential catalysts for increased unrest or armed conflict. Two Defence Principles, specifically define Sustainable Development in Defence:

(1) Defence must be resilient to current and future environmental, social and economic threats (adaptation);

(2) Defence must realise the positive and minimise the negative impacts that Defence activities can have on the environment, people and the economy in the UK and overseas (mitigation).

8.63 To meet the challenges we have developed an SD Strategy, published in May 2011[2]. The Strategy aims to ensure that SD principles become an integral part of all other Defence strategies, policies, decision-making processes, programmes, projects, activities and behaviours. This will drive further progress in:

2 http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/DefenceEstateandEnvironmentPublications/SustainableDevelopment/SustainableDevelopmentStrategy.htm

- Reducing our reliance on fossil fuel;
- Reducing waste production and increase reuse and recycling;
- Reducing water consumption;
- Engaging suppliers in our sustainability agenda;
- Ensuring that the decision-making process fully considers and responds to environmental, social and economic impacts, threats and opportunities.

Sustainable Development Performance

8.64 The Sustainability on the Government Estate (SOGE) targets completed in 2010-11. MOD met or exceeded all the targets. The Defence Infrastructure Organisation (DIO) has continued to lead the way for MOD energy efficiency and sustainable practices during the financial year 2011-12. The DIO has exceeded the Government's 12.5% carbon reduction target on the defence estate relative to financial year 1999-00 levels by achieving a 23.5% reduction. Water consumption across the estate has been reduced by 29% since 2004-05 against a 25% target. MOD has met the Government target to achieve 95% of its Sites of Special Scientific Interest in 'favourable' or 'recovering' condition, and has removed two more sites from the number of listed buildings at risk on the estate. New cross-Government SD Targets called Greening Government Commitments (GGC) will be applicable to the period 2009-10 to 2014-15. GGC requires further savings in addition to those already made for SOGE. GGC performance is shown in Annex D of this report.

Climate Change

8.65 The MOD has worked with other Government Departments to identify and understand the global impact of climate change and the effects on UK interests and security. MOD continues to work closely with the FCO, DECC and other stakeholders to understand the longer-term security and defence implications of climate change and resource competition. In addition, MOD's Envoy on Climate and Energy Security engaged in a wide range of activities to further both domestic and international understanding of these issues and of the actions necessary to reduce the risks to global stability.

8.66 Sustainable Procurement is a key element in the planning and delivery of military capability. This addresses resource scarcity and resilience to climate change in all capability programmes. MOD's procurement guidance requires new equipment that is resilient to long-term climate change. In addition, it is mandatory that all procurement business cases should consider sustainability.

8.67 MOD has also developed its Climate Impacts Risk Assessment Methodology (CIRAM), which identifies the risks and opportunities for Defence outputs from current and future climates or extreme weather events. This also identifies the adaptation actions needed to increase resilience in the short, medium and long term. MOD is on track to deliver CIRAM assessments across its most critical sites by March 2013 and other key operational sites by 2015.

Mainstreaming

8.68 MOD has taken steps in recent years to mainstream SD into its core business. The MOD 2011 SD Strategy directed that achievement of its SD objectives and commitments will be delivered through mainstreaming Defence SD principles into all strategies, decision-making processes and associated programmes, projects and activities. It requires business areas to develop and implement their own SD mainstreaming plans. These requirements are reflected in the Defence Plan, and business areas are required to report on their progress through the Department's Holding to Account process.

8.69 All projects subject to Investment Approvals Committee and centrally delegated approvals are required to embed SD principles into all stages of the acquisition process. During 2011-12, new training on sustainable procurement was made available to acquisition staff, and new awareness training for staff in infrastructure and estate roles. The sustainable procurement commercial guidance in the MOD's Acquisition Operating Framework has been updated.

8.70 MOD has developed a suite of tools, which are used to assess and manage the SD effects of any new or revised policies, plans programmes or projects. Business areas are required to carry out Sustainability Appraisal on the options they submit as part of the annual Departmental Planning Round, and to report the outcome.

Section 6: Defence in the Public Eye

8.71 We work hard to ensure that Parliament, the public, the media and other stakeholders understand our role, what we do, and why we do it. The results of independent public opinion polling conducted on our behalf show that the British population continues to be highly favourable towards the UK Armed Forces. The reputation of the MOD has continued to improve steadily and that of the Armed Forces remains at a high level.

8.72 The MOD has conducted surveys of public opinion on an annual or bi-annual basis since 1999. Up until spring 2011 qualitative research was conducted by face-to-face interviews. However, following a requirement to achieve cost savings, the Department switched to a more cost effective and flexible telephone based methodology in Spring 2012. This switch in methodology means that detailed comparison between our most recent 2012 survey results undertaken by telephone and previous waves undertaken by face-to-face interviews should not be made. For continuity we show historical data clearly flagging where the shift in methodology occurred.

Table 8.11 – External opinion of the Armed Forces and MOD

Favourable ratings for Armed Forces			
March 2012	**March 2011**	**March 2010**	**March 2009**
85%	88%	82%	84%
Unfavourable ratings for the Armed Forces			
March 2012	**March 2011**	**March 2010**	**March 2009**
4%	3%	4%	2%
Favourable ratings for MOD			
March 2012	**March 2011**	**March 2010**	**March 2009**
68%	57%	56%	55%
Unfavourable ratings for MOD			
March 2012	**March 2011**	**March 2010**	**March 2009**
13%	15%	11%	9%

Figure 8.2 – External opinion of the Armed Forces and MOD 2007-12

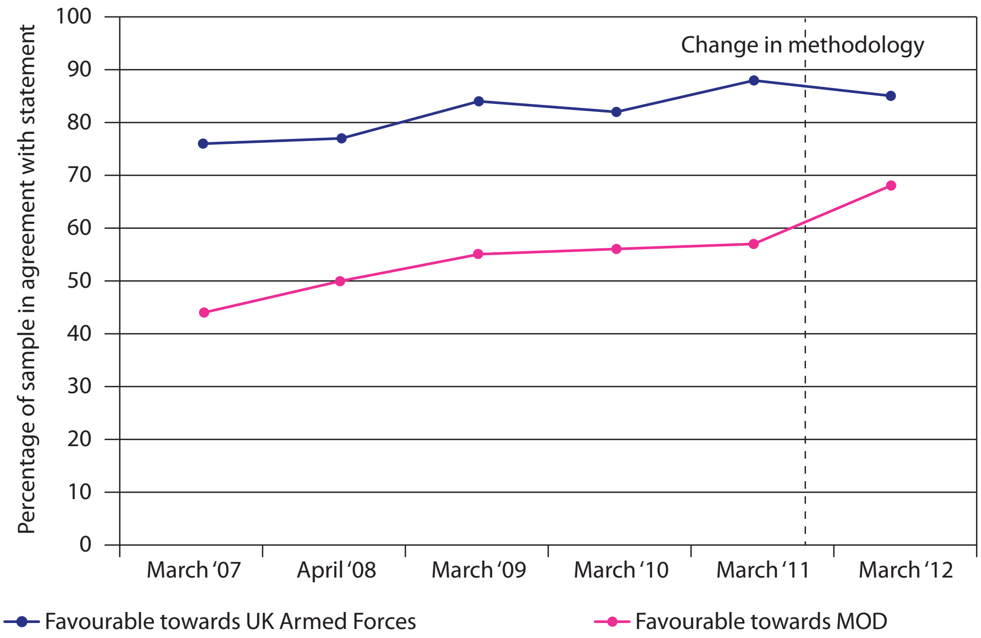
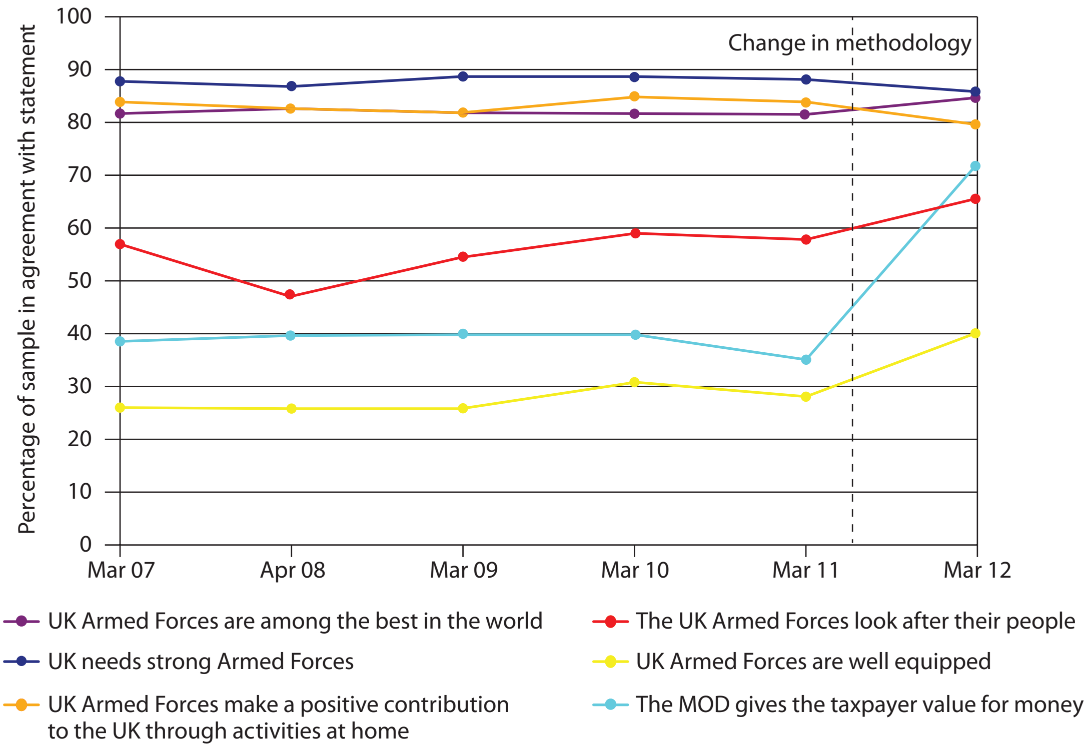


Table 8.12 – External Opinion Survey Headlines

Armed Forces	March 2012	March 2011
Favourable towards Armed Forces	85%	88%
UK Armed Forces are among the best in the world	85%	82%
UK needs strong Armed Forces	86%	88%
UK Armed Forces look after their people	66%	58%
UK Armed Forces make a positive contribution to the UK through their activities at home	80%	84%

Ministry of Defence	March 2012	March 2011
Favourable towards MOD	68%	57%
UK Armed Forces are well equipped	40%	28%
MOD gives the taxpayer value for money	42%	35%

Figure 8.3 – External Opinion Survey Polling Results, 2007-12



Reputation among Service and Civilian Personnel

8.73 We also carry out an annual survey to determine the views of our own people – Service and Civilian – on Defence issues and the Armed Forces. Our most recent poll conducted in Spring 2012 showed that the majority of our people agree that both the Armed Forces and Civilian staff are a force for good at 90% and 75% respectively. Internal views on equipment have increased again and 80% of our people believe Armed Forces equipment is good or satisfactory. It is notable that the opinion of our own people is considerably higher in this respect than that of the general public.

Table 8.13 – Internal opinion (Service and Civilian personnel) of MOD and Armed Forces

% of Service and Civilian personnel who thought that the Armed Forces were a Force for Good		
Spring 2012	Spring 2011	Spring 2010
90%	90%	91%
% of Service and Civilian personnel thought that the MOD was a Force for Good		
Spring 2012	Spring 2011	Spring 2010
75%	75%	79%

Table 8.14 – Internal Opinion Survey headlines

Armed Forces	March 2012	March 2011
UK Armed Forces are a Force for Good	90%	90%
UK Armed Forces are among the best in the world	89%	88%
UK needs strong Armed Forces	97%	97%
UK Armed Forces contribute to making the world a safer place	90%	87%
UK Armed Forces have the highest professional standards	82%	82%
UK Armed Forces look after their personnel	49%	46%
UK Armed Forces make a positive contribution to the UK through their activities at home	89%	87%
UK Armed Forces training is world class	72%	72%

Ministry of Defence	March 2012	March 2011
MOD is a Force for Good	75%	75%
UK Armed Forces equipment is good or satisfactory	80%	75%
MOD gives the taxpayer value for money	44%	46%
MOD is as open as it can be about its activities	58%	57%
MOD looks after its civilian employees	52%	50%

Figure 8.4 – Internal polling results, 2007-2012

Section 7: Accounts Introduction

Departmental Accounting Boundary

8.74 As at 31 March 2012, the Department consisted of 7 (2010-11: 7) Top Level Budget (TLB) Holders. The TLBs are responsible for providing forces and support services required for a modern defence force; within the TLBs, there were 31 (2010-11: 31) reporting entities, known as management groupings, producing detailed management accounting information as part of in-year financial management, planning and budgeting processes. Accounting transactions are recorded at management group level for in-year management purposes but reporting for the annual financial accounts is based on Departmental and TLB level returns.

8.75 Following removal of agency status from: the Service Personnel and Veterans Agency, the People, Pay and Pensions Agency and the Defence Vetting Agency there are 2 (2010-11: 5) on-vote Defence Agencies (listed in Note 30 – Entities within the Departmental Boundary, to the accounts). Defence Agencies publish their own accounts. Further information on each agency can be found at the following websites:

Agency	Website
MOD Police and Guarding Agency	http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/SecurityandIntelligence/MDPGA/
Service Children's Education	http://www.mod.uk/DefenceInternet/DefenceFor/ServiceCommunity/Education/SCE/

8.76 Also included within the Departmental Boundary are Advisory Non-Departmental Public Bodies (NDPBs) sponsored by the Department; these are listed at Note 30.

8.77 HM Treasury's Clear Line of Sight (Alignment) Project implemented changes to the structure and content of the Supply Estimates. As a result, the format of the accounts includes:

- changes to the layout of the Statement of Parliamentary Supply and its supporting note, Note 2.1 – Analysis of Net Resource Outturn; and
- disclosure of figures for the Core Department (including the two Agencies) and for the Departmental Group. The Departmental Group consists of the Core Department (as previously reported) plus, for the first time, the Non Departmental Public Bodies and Other Bodies listed at Note 30; these additional bodies are referred to as Arm's Length Bodies throughout this annual report and accounts.

8.78 There are 3 (2010-11: 4) Executive Defence Agencies established as Trading Funds, the reduction follows the transfer of the Met Office to the Department for Business Innovation and Skills. The Trading Funds produce their own accounts and fall outside the Departmental Boundary. Further details are provided in: Note 12 – Financial Instruments, Note 27 – Related Party Transactions and on the following websites:

Trading Fund	Website
Defence Science and Technology Laboratory (Dstl)	http://www.dstl.gov.uk/
UK Hydrographic Office (UKHO)	http://www.ukho.gov.uk/Pages/Home.aspx
Defence Support Group (DSG)	http://www.dsg.mod.uk/default.asp

8.79 The Oil and Pipelines Agency and the NAAFI are Public Corporations, and are outside the Departmental Boundary.

Pension Liabilities

8.80 The transactions and balances of the Armed Forces Pension Scheme (AFPS) (including the Gurkha Pension Scheme, the Non-Regular Permanent Staff Pension Scheme and the Reserve Forces Pension Scheme) and the Armed Forces Compensation Scheme are not consolidated in the financial statements. The report and accounts of the AFPS are prepared separately; further information is available on the website:
http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions

8.81 The Department's share of the transactions and balances of other pension schemes to which employees belong (e.g. under Civil Service Pension (CSP) arrangements, the NHS Superannuation Scheme and the Teachers' Pension Scheme) is also not consolidated in the accounts; separate accounts are prepared for the schemes and details can be found on the following websites:
http://www.civilservice.gov.uk/pensions

http://www.education.gov.uk/schools/careers/payandpensions
http://www.nhsbsa.nhs.uk/pensions

8.82 Other employees are members of smaller pension schemes e.g. schemes for Locally Employed Civilians in Germany, Cyprus and Gibraltar, the Merchant Navy Ratings Pension Fund, the Commonwealth War Graves Commission Superannuation Scheme and the Council of Reserve Forces and Cadets Associations Pension Scheme; estimates of the liabilities for these schemes are included in the figure for Provisions for Liabilities and Charges (see Note 19) and additional details are provided in Note 20 – Employee Benefits – Pension Schemes.

8.83 Employer's contributions payable to the Armed Forces, Civil Service, NHS, Teachers' and other pension schemes have been charged to the Statement of Comprehensive Net Expenditure. Further information on the various pension schemes can be found in the Remuneration Report and at Note 6 – Staff Numbers and Costs.

Research and Development

8.84 Research and Development expenditure is incurred mainly for the future benefit of the Department. Such expenditure is primarily incurred on the development of new single use military equipment and on the improvement of the effectiveness and capability of existing single use military equipment.

8.85 In accordance with IAS 38 – Intangible Assets (as adapted for the public sector by the Government Financial Reporting Manual (FReM), chapter 7) amounts spent on research are not capitalised and certain development expenditure is expensed. The amounts are included at Note 7.2 – Other Programme Costs.

8.86 Capitalised development expenditure is included in Note 10 – Intangible Assets.

Payments to Suppliers

8.87 The Department's invoices, with the exception of some payments to suppliers made by units locally, are paid through the Defence Business Services (DBS) organisation. In the period 1 April 2011 to 31 March 2012, the DBS paid 99.72% of all correctly submitted invoices within 11 calendar days. This contributed to the Department's overall performance of 99.99% over the 30 calendar day cycle ensuring a high level of compliance with its statutory obligation under the Late Payment of Commercial Debts (Interest) Act 1998. Commercial debt interest of £21,000 was paid during this period (2010-11: £188). From May 2010 all Government Departments were asked to pay 80% of invoices from suppliers within 5 working days. The Department, including its Trading Funds, has achieved a performance of 90.72% against this target up to 31 March 2012.

Financial Instruments

8.88 The MOD holds financial instruments to finance its operations, to manage related currency risks and as a hedge against future fuel price risk arising from those operations; in addition various trade and other receivables and payables arise directly from operations. The Department uses derivative financial instruments, in the form of forward currency contracts, to manage exposure to market risks from changes in foreign exchange rates and swap contracts as a hedge against future changes in fuel prices; it does not hold or issue derivative financial instruments for trading purposes. Transactions in derivative financial instruments are undertaken to manage the risks arising from underlying business activities.

8.89 The Department's funding, liquidity and cash flow risks are managed, based on consideration of the cash flows from operations, by a central treasury function whose primary role is the forecasting of cash requirement and management of the Supply funding. The central treasury function is subject to controls set out in: Managing Public Money, which sets out HM Treasury's principles for dealing with resources used by public sector organisations, Departmental regulations (Joint Service Publications) and a biennial banking review, completed by Defence Internal Audit, as well as additional controls and monitoring by HM Treasury.

8.90 The Department has entered into forward currency contracts for the US Dollar and the Euro. These contracts are designed to mitigate 80% of the risk that operating cash flows will be affected by changes in exchange rates; thus providing greater certainty over transactions in these key foreign currencies. As a result MOD's exposure to foreign currency risk arises mainly on: residual exposure in Operations and Peace-Keeping expenditure and exposure in other currencies. The value of the forward currency contracts is detailed at Note 12 – Financial Instruments.

8.91 The Department has also entered into swap contracts for Aviation Turbine Fuel and Gasoil.

These contracts are designed to mitigate 80% of the risk that operating cash flows will be affected by changes in the prices of the two fuel commodities. The value of the swap contracts is detailed at Note 12 – Financial Instruments.

8.92 The Department is subject to some credit risk or credit related losses. The maximum credit risk exposure is represented by the amounts reported under the relevant Statement of Financial Position headings; more detailed analysis is provided at Note 16 – Trade Receivables and Other Current Assets.

Provision of Information and Consultation with Employees

8.93 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.

IFRIC 4 – Determining Whether an Arrangement Contains a Lease

8.94 In preparing these accounts MOD has not complied with the accounting standard (IFRIC 4) which requires the Department to review its contracts, particularly strategic procurement arrangements with key contractors, to see if, for accounting purposes, they contain a lease. If these contracts, once reviewed, are considered to be a finance lease, the assets and offsetting liabilities associated with the contract would be brought into the MOD Accounts. On the introduction of IFRS across Government in 2009-10, it was deemed too costly and time consuming to review MOD's contracts within the timescales for the 2009-10 Accounts. The review was then further deferred beyond 2011-12 when it became apparent that a large number of major contracts would have to be renegotiated as a result of the outcome of the SDSR.

8.95 Since April 2011 the Department has been assessing new contracts in readiness for a more wide ranging review of the impact on the accounts. It is likely that the majority of the SDSR re-negotiations will be finalised by the end of 2012-13. As a result, by September 2013 the MOD will aim to have completed a review by contract and supplier of those industry facilities where IFRIC 4 is likely to apply. The review will assess the potential resource implications both in terms of internal manpower and the addition costs that industry will seek to recover for providing and updating (longer term) the information on their asset base. It will also assess the timescales for completing the work.

8.96 The Comptroller and Auditor General's (C&AG's) opinion on the financial statements will be qualified for as long as non-compliance with IFRIC 4 is considered to have a material impact on the accounts.

Performance

8.97 The MOD's internet site (www.mod.uk) provides access to detailed information set out, as best practice, in the Accounting Standards Board's (ASB's) Reporting Statement: Operating and Financial Review.

8.98 The Strategic Defence and Security Review available at: http://www.mod.uk/DefenceInternet/DefenceNews/DefencePolicyAndBusiness/StrategicDefenceAndSecurityReviewPublished.htm

- describes Defence strategies, priorities and activities, and how they are managed and delivered in the legislative, regulatory and external environments in which MOD operates;
- provides a forward looking view of performance and development; and
- sets out information on the availability and use of resources.

8.99 Additional detail is provided by the *Business Plan 2011-15* published by the Department at: http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/BusinessPlans/ModBusinessPlans/BusinessPlan20112015.htm

- The plan describes some of the risks and uncertainties which might affect performance. The Governance Statement also describes the Department's risk and control framework.

8.100 In June 2011 Lord Levene published his independent report into the structure and management of the Ministry of Defence. The report is available on the Defence website at: http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/PolicyStrategyandPlanning/DefenceReform/DefenceReformReportIntoStructureAndManagementOfMod.htm and details of progress against its recommendations are also available on the website.

Environmental, Social, Community, Employee and Other Matters

8.101 *The Business Plan 2011-15* summarises senior managers' views of how the Department's work will realise the Defence Vision, highlighting relevant matters. Specific aspects mentioned in the ASB's Reporting Statement that are available elsewhere on MOD's website are:

- **Social and Community Issues** – including sections covering: current operations, cadet forces and support to veterans.

- **Environmental** – the MOD owns a large, varied and complex estate, with most of the UK's indigenous habitat types, exceptional biodiversity and some of the finest archaeological sites in the country. Further information on how the MOD is undertaking its responsibility for stewardship of the estate in the UK and overseas including links to *Sanctuary*, the annual MOD Conservation magazine, can be found at: http://www.mod.uk/defenceinternet/microsite/dio

- **Sustainability** – the MOD's work to build security overseas is a key contributor to Sustainable Development. Internationally, MOD works with other government departments to prevent or contain violence, protect people and institutions, build capacity and improve security in some of the most poorly developed regions and countries in the world. This work is essential for preventing further conflict, strengthening international peace and creating the conditions for sustainable development overseas. Further information can be found at: http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/DefenceEstateandEnvironment/SustainableDevelopment/

- **Employees** – personnel related information can be found at: http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications; and statistical information including staff numbers can be found at: http://www.dasa.mod.uk/. The MOD publishes details of its management of civilian sick absence on its website – at: http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/PersonnelPublications/Welfare/SicknessAbsenceAnnouncement.htm .

- **Performance Indicators** – Some details of MOD's performance are published as part of the Government's transparency initiative at: http://transparency.number10.gov.uk/

- **Contractual Arrangements** – the Department's contractual commitments under leases and service concession arrangements are detailed in Note 22 to the accounts. During 2011-12 the Defence Science and Technology Laboratory, the UK Hydrographic Office and Defence Support Group were Executive Defence Agencies financed by Trading Fund; they provided essential services to the Department. Details of the Defence Industrial Strategy are at: http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/PolicyStrategyandPlanning/DefenceIndustrialStrategy/DefenceIndustrialStrategyDefenceWhitePapercm6697.htm
Details of expenditure published under the Government's transparency agenda, including links to the data sets is available at: http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/FinancialReports/MinistryOfDefenceAndModFamilySpendOver25k.htm

- **Spending Review 2010** – implications of significant changes following the Department's Comprehensive Spending Review settlement are set out in the *Business Plan 2011-15*.

- **Contingent Liabilities** – Details of Contingent Liabilities disclosed under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, and additional liabilities included for Parliamentary Reporting and Accountability are at Note 24 to the accounts.

Personal Data Related Incidents

8.102 The following tables set out details of the Department's personal data related incidents during 2011-12. An incident is defined as a loss, unauthorised disclosure or insecure disposal of personal data. Protected personal data is information that links an identifiable living person with information about them which, if released, would put the individual at risk of harm or distress. The definition includes sources of information that, because of the nature of the individuals or the nature, source or extent of the information, is treated as protected personal data by the Department.

Summary of Protected Personal Data Related Incidents Formally Reported to the Information Commissioners Office in 2011-12

The Department's Chief Information Officer (CIO) has responsibility for setting strategy, policy and standards relating to information and for ensuring appropriate governance and monitoring. The CIO also overseas a risk-managed information assurance process.

Month of Incident	Nature of Incident	Nature of Data Involved	Number of People Potentially Affected	Notification Steps
No Personal Data Related Incidents were reported to the Information Commissioner's Office in 2011-12				
Further action on information risk:		The MOD has made good progress towards the target of achieving Level 3[1] of the Information Assurance Maturity Model and is on track to achieve this by the end of 2012. The Information Assurance programme is focused on helping the three outstanding parts of the Department reach the target by the end of 2012 and ensuring that the rest of MOD maintains its performance at that level.		

1. Level 3 Information Assurance Maturity means that IA awareness, across the Department, has increased leading to a measured improvement in Information Risk Management behaviours and all critical areas of the business are subject to a robust IA regime.
Further information can be found at: http://www.cesg.gov.uk/policyguidance/IAMM/Pages/index.aspx

Summary of Other Protected Personal Data Related Incidents 2011-12

Incidents deemed by the Data Controller not to fall within the criteria for reporting to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	3
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	6
III	Insecure disposal of inadequately protected paper documents.	-
IV	Unauthorised disclosure.	-
V	Other.	-

Financial Position

8.103 The Statement of Parliamentary Supply – Summary of Resource and Capital Outturn compares Estimates and Outturn and is analysed in more detail in Note 2 to the accounts.

8.104 Both Resource expenditure (e.g. expenditure on staff, utilities and maintenance) and Capital expenditure (e.g. money spent on purchasing or significant upgrades to physical assets such as buildings and military equipment) are separated into the following budgetary controls:

- Departmental Expenditure Limit (DEL) – firm multi-year plans are set in Spending Reviews and MOD may not exceed the limits set. Spending is assumed to be DEL unless HM Treasury has stated otherwise;

- Annually Managed Expenditure (AME) – covers programmes that are demand-led, or exceptionally volatile in a way that could not be controlled by the Department, and where the programmes are so large that the Department could not be expected to absorb the effects in its normal DEL controls. Examples of AME expenditure are: certain pension, disablement or death payments arising out of war service; the creation and revaluation of provisions; impairments in the value of non-current assets e.g. following catastrophic damage to equipment; and costs associated with nuclear decommissioning.

- Non-Budget costs – items of expenditure which are subject to Parliamentary but not Treasury control, and therefore outside DEL and AME. The Department had no Non-Budget expenditure.

8.105 The net outturn for Total Resource is £38.5Bn against an Estimate of £42.1Bn, an under spend of £3.6Bn. The underspend consists of:

- an underspend of £1.5Bn against the approved limit for Resource DEL;

- an underspend of £1.7Bn against the approved limit for Resource AME; and

- an underspend of £0.4Bn against non-budget as a result of a prior period adjustment.

8.106 The net outturn for Total Capital is £9Bn against an Estimate of £9.5Bn, an under spend of £0.5Bn.

8.107 The Net Cash Requirement shows an outturn of £37.6Bn against an Estimate of £39.6Bn.

8.108 The Net Administration Costs were £2.692Bn, £93M lower than the Estimate of £2.785Bn.

8.109 Additional information on the Department's budget and expenditure including a reconciliation of resource expenditure between Estimates, Accounts and Budgets and information on expenditure on military operations is included in the section on Delivering Defence.

Directorships and Significant Interests

8.110 Details of directorships and other significant interests held by Ministers are set out in The Register of Lords' Interests and The Register of Members' Financial Interests which are available on the UK Parliament website at: http://www.publications.parliament.uk/pa/ld/ldreg.htm for Ministers in the Lords and at: http://www.publications.parliament.uk/pa/cm/cmregmem/contents.htm for Ministers in the Commons

8.111 In accordance with Cabinet Office guidance, MOD maintains a register of interest which records details of directorships and other significant interests held by senior managers in the Department. The Ministry of Defence Register of Interest is updated quarterly and a copy can be requested from DFM-RegisterofInterest-mailbox@mod.uk.

8.112 Details of Related Party Transactions, including those arising as a result of the interests of Ministers or Defence Board members, are listed at Note 27 – Related Party Transactions. The MOD works closely with many organisations in the charitable sector, and this can include representation on governing bodies, for example, The Secretary of State for Defence is trustee of Greenwich Hospital. The Department provides information (which reflects the Charity Commission's guidance on conflicts of interest for charity trustees) to individuals who hold appointments in outside organisations where a conflict of interest might arise, or be perceived to arise.

Auditor

8.113 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 form part of this Annual Report and Accounts. The audit fee is disclosed in Note 7.2 to the accounts. The Department did not contract with its external auditor for any non-audit services.

Statement as to Disclosure of Information to Auditors

8.114 So far as I, the Accounting Officer, am aware, there is no relevant audit information of which the Department's auditors are unaware, and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.

Section 8: Remuneration Report

Remuneration Policy

8.115 The Review Body on Senior Salaries (SSRB) provides independent advice to the Prime Minister and the Secretary of State for Defence on the remuneration of senior civil servants and senior officers of the Armed Forces.

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

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

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

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

8.119 There is an established departmental procedure for the appointment of all Non-Executive Board Members (NEBMs). This requires a transparent recruitment and selection process, with appointment on merit, thus mirroring the Civil Service Commissioners' Recruitment Principles for permanent employees to the Civil Service. NEBMs appointed to the Defence Board receive a Letter of Appointment setting out, amongst other things, details of the agreed remuneration. NEBMs have the option to waive their remuneration.

Performance and Reward

8.120 Salary and reward for Permanent Secretaries is considered annually by the Permanent Secretaries' Remuneration Committee and, in common with that for other members of the Senior Civil Service (SCS), is subject to the rules and regulations imposed by the SSRB and the Cabinet Office. For the SCS below Permanent Secretary level, MOD implements its own pay and non-consolidated award arrangements within the Cabinet Office framework through an agreed pay strategy. Any non-consolidated award is based on a judgement of how well an individual has performed against their peers and awarded to individuals judged to have made the highest in-year contribution to MOD's business objectives. There is no restriction on the nature of the contribution; the only requirement is that it benefits the Department or Defence more widely. Recommendations for awards – which are considered by moderation committees – must be linked to demonstrable evidence of delivery.

8.121 SCS pay increases are normally calculated using the relationship between their percentage progression across the pay scale and their performance group assessment at the end of the moderation committee process. Minima and maxima of SCS pay bands are set by the Cabinet Office. The SCS have not received any base pay increases since 1 April 2009 and there have been no increases to pay band minima since that date. Furthermore, following the announcement in June 2010 that the public sector would have a freeze on pay increases for two years from 2011-12, the SCS entered their third year of pay freeze on 1 April 2012. Non-consolidated awards for performance in year 2011-12 will be limited to the top 25% of SCS performance.

8.122 The Department also employs a number of members of the SCS on Fixed Term Appointments. These individuals are externally recruited to fill specific roles where the Department does not already have the necessary skills in-house. They are employed on individual contracts which allow them a base salary and the opportunity to earn performance related awards, specifically linked to business and corporate objectives. They are expected to deliver substantial benefits to the Department both in terms of outputs, delivering change programmes and skills transfer. As with the rest of the SCS the awards paid to those on Fixed Term Appointments are non-consolidated and non-pensionable and are subject to rigorous scrutiny. In line with SCS standard contracts they have not received any base pay increases since 1 April 2009.

8.123 All senior (2-star and above) military officers (except for: the Chief of the Defence Staff (CDS), Legal Branch 2-star officers, medical and dental officers and those in the Chaplaincy branches) are paid under the Performance Management and Pay System (PMPS). Depending on their performance and position on the pay scale, individuals can be awarded a single increment or no increment, and progress accordingly up the incremental pay range for their rank. The average value of one incremental rise under the PMPS is 2.6% of salary (2010-11: 2.6%).

8.124 Whilst Non-Executive remuneration is not directly linked to performance, in part to avoid any suggestion that an employee/employer relationship exists, NEBM performance is reviewed annually. The aim of the reviews is to consider the impact of individuals on the performance of the board, recognise the contribution of the NEBM and identify ways this could be improved, and provide feedback.

Senior Managers' Contracts

8.125 Recruitment into the Civil Service is regulated by The Constitutional Reform and Governance Act 2010 which established the Civil Service Commission and requires selection in accordance with Recruitment Principles, which require appointments to be on merit on the basis of fair and open competition, but also include the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.org.

8.126 Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended, and to which a notice period of 3 months would usually apply. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

8.127 The lead NEBM is appointed to the Defence Board for an initial period of three years, from a list of candidates recommended by the Cabinet Office and his/her appointment is approved by the Prime Minister.

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

8.129 The Chief of Defence Materiel was recruited on a four year fixed term appointment. Conditions covering termination of employment are set out in his contract of employment and include a notice period of not less than 6 months. The contract also provides for the opportunity to earn a non-consolidated performance award.

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

8.131 Senior military members of the Defence Board hold appointments which are subject to competition. Once selected for the appointment the intention is that they hold the post for between 3 and 5 years.

Management

8.132 As part of work to transform Defence the MOD has created a smaller Defence Board. Chaired by the Secretary of State and including the Minister for the Armed Forces, the Defence Board is the main corporate board of the MOD, providing senior level leadership and strategic management of Defence, driving forward delivery and change. The following pages contain details of pay and pensions in respect of individuals who served as Ministers or members of the Defence Board (including the previous Board) during the financial year.

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

Secretary of State for Defence
The Right Honourable Phillip Hammond MP
(appointed 15 October 2011, replacing The Right Honourable Dr Liam Fox MP).

Minister of State for the Armed Forces
Mr Nick Harvey MP
(appointed 13 May 2010).

Parliamentary Under-Secretary of State for Defence (Minister for International Security Strategy)
Mr Gerald Howarth MP
(appointed 14 May 2010).

Parliamentary Under-Secretary of State for Defence (Minister for Defence Personnel, Welfare and Veterans)
The Right Honourable Andrew Robathan MP
(appointed 14 May 2010).

Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment, Support and Technology)
Mr Peter Luff MP
(appointed 26 May 2010).

Parliamentary Under-Secretary of State and Spokesperson on Defence in The Lords
The Lord Astor of Hever DL
(appointed 26 May 2010).

8.134 During the year, in addition to the Secretary of State for Defence and the Minister of State for the Armed Forces, the following served as members of the new Defence Board:

Permanent Under-Secretary of State
Mrs Ursula Brennan
(appointed 29 October 2010).

Chief of the Defence Staff
General Sir David Richards GCB CBE DSO ADC Gen
(appointed 29 October 2010).

Vice Chief of the Defence Staff
General Sir Nicholas Houghton GCB CBE ADC Gen
(re-appointed on 20 January 2012).

Chief of Defence Materiel
Mr Bernard Gray
(appointed 4 January 2011).

Director General Finance
Mr Jonathan Thompson
(appointed 5 January 2009).

Non-Executive Board Members:
Mr Gerry Grimstone
(appointed 15 September 2011).

Mr Graham Williams
(appointed 21 December 2011).

Dr David Allen
(appointed 11 January 2010).

Mr Ian Rushby
(appointed 29 January 2007 and served until 31 July 2011).

8.135 Prior to its restructuring on 20 June 2011, the Defence Board included the following individuals whose pay and pension details have been included in the disclosure tables in accordance with the FReM:

First Sea Lord and Chief of the Naval Staff
Admiral Sir Mark Stanhope GCB OBE ADC
(appointed 21 July 2009).

Chief of the General Staff
General Sir Peter Wall KCB CBE ADC Gen
(appointed 15 September 2010).

Chief of the Air Staff
Air Chief Marshal Sir Stephen Dalton GCB ADC BSc FRAeS CCMI RAF
(appointed 31 July 2009).

Vice Chief of the Defence Staff
General Sir Nicholas Houghton GCB CBE ADC Gen
(served from 5 May 2009 to 19 June 2011).

Second Permanent Under-Secretary of State
Mr Jon Day CBE
(appointed 10 January 2011)

Chief Scientific Adviser
Professor Sir Mark Welland FRS FREng
(appointed 7 April 2008)

Ministerial Salaries, Allowances and Taxable Benefits

(This section has been subject to audit)

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

	2011-12 Salary* (£)	**2011-12 Benefits-in-kind (to the nearest £100)***	2010-11 Salary* (£)	2010-11 Benefits-in-kind (to the nearest £100)*
Secretary of State for Defence				
The Rt Hon Phillip Hammond MP				
(from 15 October 2011)	31,823	Nil	Nil	Nil
Full year equivalent salary	68,827			
The Rt Hon Dr Liam Fox MP				
(to 14 October 2011)	37,004	Nil	61,056	Nil
Full year equivalent salary	68,827		68,827	
Minister of State for the Armed Forces				
Mr Nick Harvey MP				
(from 13 May 2010)	33,002	Nil	29,187	Nil
Full year equivalent salary			33,002	
Parliamentary Under-Secretary of State for Defence (Minister for International Security Strategy)				
Mr Gerald Howarth MP				
(from 14 May 2010)	23,697	Nil	20,894	Nil
Full year equivalent salary			23,697	
Parliamentary Under-Secretary of State for Defence (Minister for Defence Personnel, Welfare and Veterans)				
The Rt Hon Andrew Robathan MP				
(from 14 May 2010)	23,697	Nil	20,894	Nil
Full year equivalent salary			23,697	
Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment, Support and Technology)				
Mr Peter Luff MP				
(from 26 May 2010)	23,697	Nil	20,130	Nil
Full year equivalent salary			23,697	
Parliamentary Under-Secretary of State and The Lords Spokesperson on Defence				
The Lord Astor of Hever DL**				
(from 26 May 2010)	Nil	Nil	Nil	Nil

*Disclosures cover the period during which individuals served as Ministers in the MOD.
**The Lord Astor of Hever did not draw the £84,524 Ministerial salary to which he is entitled.

8.137 Ministers who, on leaving office, have not attained the age of 65 and are not appointed to a relevant Ministerial or other paid office within three weeks, are eligible for a tax free severance payment of one quarter of the annual salary being paid. One payment was made in 2011-12 (2010-11–four).

Ministerial Salary

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

8.139 The figures above are based on payments made by the Department and thus recorded in the accounts. In respect of Ministers in the House of Commons, the Department bears only the cost of the additional Ministerial remuneration; the salary for their services as an MP – £65,738 pa with effect from 1 April 2011 (£65,738 pa with effect from 1 April 2010) and various allowances to which they are entitled, are borne centrally. The arrangements for Ministers in the House of Lords are different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and shown in full above.

Benefits-in-Kind for Ministers

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

Ministerial Pensions

(This section has been subject to audit)

8.141 The real increase in the value of the accrued pension compared to the 2010-11 value, is shown *in italics* (in bands of £2,500).

8.142 Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute (the regulations are set out in Statutory Instrument SI 1993 No 3253, as amended). Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF; this pension is not included in the table below. The accrued pension quoted is the pension the Minister is entitled to receive when they reach the age of 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

8.143 The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change). Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of employee contribution. An additional 1/60th accrual rate option (backdated to 1 April 2008) was introduced from 1 January 2010.

	Total Accrued Pension at Retirement as at 31 Mar 12 £000	CETV* at 31 Mar 11 or date of Appointment if Later £000	CETV* at 31 Mar 12 or on Cessation of Appointment if Earlier £000	Real Increase in CETV* £000
Secretary of State for Defence The Rt Hon Phillip Hammond MP (from 15 October 2011)	**0 - 5** *0 - 2.5*	**30**	**44**	**8**
The Rt Hon Dr Liam Fox MP (to 14 October 2011)	**5 - 10** *0 - 2.5*	**33**	**75**	**36**
Minister of State for the Armed Forces Mr Nick Harvey MP (from 13 May 2010)	**0 - 5** *0 - 2.5*	**12**	**23**	**7**
Parliamentary Under-Secretary of State for Defence (Minister for International Security Strategy) Mr Gerald Howarth MP (from 14 May 2010)	**0 - 5** *0 - 2.5*	**13**	**26**	**9**
Parliamentary Under-Secretary of State for Defence (Minister for Defence Personnel, Welfare and Veterans) The Rt Hon Andrew Robathan MP (from 14 May 2010)	**0 - 5** *0 - 2.5*	**53**	**83**	**23**
Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment, Support and Technology) Mr Peter Luff MP (from 26 May 2010)	**5 - 10** *0 - 2.5*	**69**	**104**	**26**
Parliamentary Under-Secretary of State and The Lords Spokesperson on Defence The Lord Astor of Hever DL (from 26 May 2010)	**Nil**	**Nil**	**Nil**	**Nil**

*CETV – Cash Equivalent Transfer Value.

8.144 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 from age 65. Pensions are revalued annually in line with changes in Pensions Increase legislation. From 1 April 2009 members pay contributions of 5.9% of their Ministerial salary if they have opted for the 1/60th accrual rate, 7.9% of salary if they have opted for the 1/50th accrual rate or 11.9% of salary 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 as advised by the Government Actuary. This is currently 28.7% of the Ministerial salary. Increases to member and Exchequer contributions will apply from 1 April 2012.

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

8.145 During the year the following served as members of the Defence Board. The details are listed in two tables; the first uses the format of the revised Defence Board, established in June 2011, and includes members who served throughout the year; the second identifies individuals who only served as members of the previous Board. (This section has been subject to audit)

	2011-12 Salary £000	**2011-12 Annual Performance Award**	**2011-12 Benefits-in-kind (to the nearest £100)**	2010-11 Salary £000	2010-11 Annual Performance Award	2010-11 Benefits-in-kind (to the nearest £100)
Secretary of State for Defence The Rt Hon Phillip Hammond MP (from 15 October 2011) *Full year equivalent salary*	See the Ministerial salaries, allowances and benefits-in-kind table above					
Minister of State for the Armed Forces Mr Nick Harvey MP (from 20 June 2011) *Full year equivalent salary*	See the Ministerial salaries, allowances and benefits-in-kind table above					
Permanent Under-Secretary of State Mrs Ursula Brennan (from 29 October 2010) *Full year equivalent salary*	175 - 180	Nil	22,100	75 - 80 175 - 180	Nil	8,000
Chief of the Defence Staff General Sir David Richards GCB CBE DSO ADC Gen (from 29 October 2010) *Full year equivalent salary*	235 - 240	Nil	86,600	100 - 105 235 - 240	Nil	28,200
Vice Chief of the Defence Staff General Sir Nicholas Houghton GCB CBE ADC Gen* (from 20 January 2012) *Full year equivalent salary*	35 - 40 180 - 185	Nil	11,300	175 - 180	Nil	54,000
Chief of Defence Materiel Mr Bernard Gray**** (from 4 January 2011) *Full year equivalent salary*	225 - 230 240 - 245	Nil	36,000	50 - 55 215 - 220	Nil	8,600
Director General Finance Mr Jonathan Thompson	175 - 180	Nil	Nil	175 - 180	5 - 10	Nil
Non-Executive Board Members Mr Gerry Grimstone (From 15 September 2011)** *Full year equivalent fees*	Nil Nil	Nil	Nil	Nil	Nil	Nil
Dr David Allen*** *Full year equivalent fees*	20 - 25 20 - 25	Nil	Nil	25 - 30	Nil	Nil
Mr Graham Williams (From 21 December 2011) *Full year equivalent fees*	0 - 5 10 - 15	Nil	Nil	Nil	Nil	Nil
Mr Ian Rushby (to 31 July 2011) *Full year equivalent fees*	10 - 15 35 - 40	Nil	Nil	35 - 40	Nil	Nil

*The Vice Chief of the Defence Staff was re-appointed to the Defence Board on 20 January 2012.
**Mr Gerry Grimstone has elected to waive the £15,000 fee to which he is entitled.
***During the year Dr Allen elected to waive his entitlement to future fees.
**** The benefits-in-kind for CDM were based on the continued use of a higher value car for which a lease was in place on his appointment. This lease has now expired, and we expect next year's figure to be lower. Approval for the remuneration package, (including an allowance, shown net of tax, pending review), is being sought from the Chief Secretary to the Treasury.

	2011-12 Salary £000	2011-12 Annual Performance Award	2011-12 Benefits-in-kind (to the nearest £100)	2010-11 Salary £000	2010-11 Annual Performance Award	2010-11 Benefits-in-kind (to the nearest £100)
First Sea Lord and Chief of the Naval Staff Admiral Sir Mark Stanhope GCB OBE ADC (to 19 June 2011) *Full year equivalent salary*	40 - 45 185 - 190	Nil	13,000	185 - 190	Nil	59,500
Chief of the General Staff General Sir Peter Wall KCB CBE ADC Gen (to 19 June 2011) *Full year equivalent salary*	45 - 50 185 - 190	Nil	20,100	110 - 115 205 - 210	Nil	49,200
Chief of the Air Staff Air Chief Marshal Sir Stephen Dalton GCB ADC BSc FRAeS CCMI RAF (to 19 June 2011) *Full year equivalent salary*	35 - 40 180 - 185	Nil	12,700	185 - 190	Nil	57,800
Vice Chief of the Defence Staff General Sir Nicholas Houghton GCB CBE ADC Gen (to 19 June 2011) *Full year equivalent salary*	35 - 40 180 - 185	Nil	12,100	175 - 180	Nil	54,000
Second Permanent Under-Secretary of State Mr Jon Day CBE (to 19 June 2011) *Full year equivalent salary*	30 - 35 140 - 145	Nil	Nil	30 - 35 140 -145	Nil	Nil
Chief Scientific Adviser Professor Sir Mark Welland FRS FREng* (to 19 June 2011)	30 - 35 140 - 145	Nil	3,500	140 - 145	Nil	16,000

* The full year equivalent salary for the Chief Scientific Adviser has been calculated on a full time basis although for the period from 1 September 2011 until he left the MOD Professor Sir Mark Welland worked part time.

Defence Board Salary

8.146 Salary includes gross salary, taxable allowances and payment in lieu of untaken leave (if applicable). Any annual performance award paid is shown separately and is in respect of amounts paid in 2011-12 but based on performance in an assessment period ended prior to the start of the financial year. Each year, effective from the 2008-09 performance year Permanent Secretaries have waived their right to any non-consolidated performance related pay award. The payment of business expenses e.g. travel costs incurred on duty, is not part of salary and is not disclosed above.

Defence Board Benefits-in-Kind

8.147 For civilian members of the Board the figures for benefits-in-kind represent the taxable benefit attributed to individuals where an official car is available for private use (the benefit accrues even if the individual chooses not to make use of the car). For military Board members the figures disclosed as benefits-in-kind combine the taxable value in respect of their occupation of official residences and the value attributed to individuals for their private use of official cars. For the disclosed benefits-in-kind the Department has arrangements under which MOD pays the tax liability that would normally be paid by the individual; this liability is included in the figures quoted.

Pay Multiples

8.148 The following table contains details of pay multiples – the ratio between the highest paid Board member and the median remuneration of the workforce. Remuneration of the highest paid directors is based on annual equivalents, improving comparability from year to year where, for example, individuals serve for part of a year. A separate multiple has been calculated for the Armed Forces – comparing the Chief of the Defence Staff to the military pay median. The civilian multiple uses a median based on civil service pay i.e. it excludes staff who are paid under arrangements outside the Department's control, for example: medical personnel, fire fighters, police and teachers; it also excludes overseas locally employed civilians and agency staff covering permanent posts.

	2011-12	2010-11
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning military Board member in the table above.	322,500	302,500
Median total remuneration of Armed Forces personnel	31,261	31,341
Ratio	10.3	9.7
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning civilian Board member in the table above.	282,500	247,500
Median total remuneration of civilian staff	26,870	25,928
Ratio	10.5	9.5

8.149 The military pay ratio has increased slightly as a result of the effect on the median of the inflow and outflow (including redundancies) to the Armed Forces but the increase in the additional taxable benefits in kind attributed to the highest paid military board member is the most significant factor in the movement of the multiple.

8.150 The median remuneration of civilian staff has increased as a result of the inflow and outflow (including early release) of staff. The remuneration of the highest paid civilian board member has increased as a result of a change in taxable benefits in kind and the inclusion, for the first time, of an allowance (net of tax). Overall the civilian pay ratio has increased.

Defence Board – Pension Benefits

(This section has been subject to audit)

8.151 Pension benefits for individuals who served on the Defence Board (split on the same basis as above) are included in the two tables below. The real increase in the pension, from 2010-11, and where applicable the real increase in the lump sum payment, are shown in *italics*.

	Total Accrued Pension at Retirement as at 31 Mar 12 £000	CETV at 31 Mar 11 or date of Appointment if Later* £000	CETV at 31 Mar 12 or on Cessation of Appointment if Earlier £000	Real Increase in CETV* £000
Secretary of State for Defence The Rt Hon Phillip Hammond MP (from 15 October 2011)	See the Ministerial pensions table above			
Minister of State for the Armed Forces Mr Nick Harvey MP (from 20 June 2011)	See the Ministerial pensions table above			
Permanent Under-Secretary of State Mrs Ursula Brennan	Pension **85 - 90** *2.5 - 5* Lump Sum **265 - 270** *12.5 - 15*	**1,718**	**1,962**	**92**
Chief of the Defence Staff General Sir David Richards GCB CBE DSO ADC Gen	Pension **125 - 130** *15 - 17.5* Lump Sum **385 - 390** *47.5 - 50*	**1,628**	**2,071**	**41**
Vice Chief of the Defence Staff General Sir Nicholas Houghton GCB CBE ADC Gen (from 20 January 2012)	Pension **95 - 100** *0 - 2.5* Lump Sum **295 - 300** *0 - 2.5*	**1,388**	**1,404**	**0**
Chief of Defence Materiel Mr Bernard Gray	Pension **5 - 10** *5 - 7.5* Lump Sum **Nil**	**15**	**75**	**52**
Director General Finance Mr Jonathan Thompson	Pension **35 - 40** *0 - 2.5* Lump Sum **Nil**	**426**	**485**	**19**
Non-Executive Board Members				
Mr Gerry Grimstone	N/A	N/A	N/A	N/A
Dr David Allen	N/A	N/A	N/A	N/A
Mr Graham Williams	N/A	N/A	N/A	N/A
Mr Ian Rushby	N/A	N/A	N/A	N/A

* The actuarial factors used to calculate CETVs were changed in 2011-12. CETVs as at 31 March 2011 have been recalculated using the new factors and therefore differ from the figures disclosed in the 2010-11 Accounts.

	Total Accrued Pension at Retirement as at 31 Mar 12 £000	CETV at 31 Mar 11 or date of Appointment if Later* £000	CETV at 31 Mar 12 or on Cessation of Appointment if Earlier £000	Real Increase in CETV* £000
First Sea Lord and Chief of the Naval Staff Admiral Sir Mark Stanhope GCB OBE ADC (to 19 June 2011)	Pension **105 - 110** *-0 - -2.5* Lump Sum **315 - 320** *-0 - -2.5*	**1,614**	**1,625**	**-1**
Chief of the General Staff General Sir Peter Wall KCB CBE ADC Gen (to 19 June 2011)	Pension **90 - 95** *0 - 2.5* Lump Sum **275 - 280** *0 - 2.5*	**1,178**	**1,193**	**0**
Chief of the Air Staff Air Chief Marshal Sir Stephen Dalton KCB ADC BSc FRAeS CCMI RAF (to 19 June 2011)	Pension **95 - 100** *0 - 2.5* Lump Sum **285 - 290** *0 - 2.5*	**1,289**	**1,360**	**0**
Vice Chief of the Defence Staff General Sir Nicholas Houghton GCB CBE ADC Gen (to 19 June 2011)	Pension **95 - 100** *0 - 2.5* Lump Sum **285 - 290** *0 - 2.5*	**1,273**	**1,289**	**0**
Second Permanent Under-Secretary of State Mr Jon Day CBE (to 19 June 2011)	Pension **40 - 45** *2.5 - 5* Lump Sum **120 - 125** *7.5 - 10*	**772**	**860**	**57**
Chief Scientific Adviser Professor Sir Mark Welland FRS FREng (to 19 June 2011)	Pension **15 - 20** *2.5 - 5* Lump Sum **Nil**	**145**	**177**	**33**

* The actuarial factors used to calculate CETVs were changed in 2011-12. CETVs as at 31 March 2011 have been recalculated using the new factors and therefore differ from the figures disclosed in the 2010-11 Accounts.

Civil Service Pensions

8.152 Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, or classic plus) or a 'whole career' scheme (nuvos). Classic, premium and classic plus are now closed to new members. These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under nuvos, classic, premium, and classic plus are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account). The accrued pensions quoted above are the pensions the members are entitled to receive when they reach 60 (nuvos 65), or immediately on ceasing to be an active member of the scheme if they are already 60 (nuvos 65).

8.153 Employee contributions for 2011-12 were set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Employer contributions are calculated using four percentage rates (16.7%, 18.8%, 21.8% and 24.3%) of pensionable pay, based on four salary bands. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service; in addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service; unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is increased in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

8.154 The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but, where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

8.155 Further details about the Civil Service pension arrangements, including pensions reforms e.g. the increases in contribution rates effective from 1 April 2012 can be found at the website www.civilservice-pensions.gov.uk.

Armed Forces Pension Scheme (AFPS)

8.156 From 6 April 2005, the Armed Forces Pension Scheme known as AFPS 05 was introduced for all new members of the Armed Forces; those in service before this date have been given the opportunity to transfer, from AFPS 75, to the new scheme. Both schemes are defined benefit, salary-related, contracted out, occupational pension schemes. The AFPS is non-contributory for members; the cost of accruing benefits are met by the employer at rates approximately equivalent to 42.8% for Officers and 30.8% for Other Ranks of pensionable pay for regular personnel. Members are entitled to a taxable pension for life and a tax-free pension lump sum if they leave the Armed Forces at or beyond either the Early Departure Point or the Immediate Pension Point. If a scheme member leaves before these points, they will be entitled to a preserved pension and related lump sum. Further details about Armed Forces Pensions can be found at the website www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/SPVA/Pensions.htm

Cash Equivalent Transfer Value

8.157 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 figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the AFPS or Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

8.158 This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Jon Thompson *30 November 2012*
Accounting Officer

Part Two – Annual Accounts

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Ministry of Defence to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agencies) and its sponsored non-departmental and other arm's length public bodies designated by order made under the GRAA by Statutory Instrument 2012 No. 717 (together known as the 'departmental group', consisting of the department and sponsored bodies listed at Note 30 to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and the departmental group and of the net resource outturn, resources applied to objectives, recognized gains and losses and cash flows of the departmental group for the financial year.

In preparing the accounts, the Accounting Officer of the Department is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by arms length public bodies;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed PUS as Accounting Officer of the Ministry of Defence. The Accounting Officer of the department has appointed some Chief Executives (or equivalents) of its sponsored arm's length public bodies as Accounting Officers of those bodies. The Accounting Officer of the department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the department or arms length public bodies for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

Governance Statement

1. Introduction

This Governance Statement is a key feature of the annual report and accounts. Although it has been prepared by my predecessor, Mrs Ursula Brennan, in my role as DG Finance I was closely involved in the preparation of this statement and attended all meetings where senior management sought advice. I am therefore confident that I have sufficient assurance to sign this statement as Accounting Officer.

The AO delegates responsibilities within the MOD in order to control its business and meet the required standards. The systems used to do this give insight into the business of the Department and its use of resources and allow the Defence Board to make informed decisions about progress against Departmental objectives, and if necessary to steer performance back on track.

As set out in Chapter 7 of the main report, the MOD is going through a period of rapid change. Once complete, this will strengthen the internal control framework by making it clearer who is responsible for what, ensuring that budget holders are held effectively to account and by improving the quality of financial and other management information. As part of this change the Department has created or changed boundaries between its component parts. This introduces some risk as relationships and processes across those boundaries bed-in, and new behaviours mature. We have drawn this change together under the umbrella of Transforming Defence to allow the Defence Board to monitor this risk closely and take any necessary corrective action.

2. Governance Framework

During the 2011-12 financial year the Department's outputs were primarily delivered through seven Top Level Budgets (TLBs). The seven TLBs are the core financial structure of Defence and consist of:

- Navy Command
- Land Forces
- Air Command
- Chief of Joint Operations
- Defence Infrastructure Organisation
- Defence Equipment and Support
- Central

Top Level Budget Holders operated within a framework of responsibilities delegated by me. To assist me in assessing the adequacy of control arrangements across the Department, they submitted an annual statement of assurance, endorsed by their Audit Committee and Management Board. Following removal of agency status from the People Pay and Pensions Agency in July 2011, the Service Personnel and Veterans Agency in June 2011, the Defence Vetting Agency in October 2011 and the Ministry of Defence Police and Guarding Agency in April 2012, there is now one on-vote agency: the Service Children's Education. The Chief Executive of this agency is responsible for producing annual accounts which are laid before Parliament, but which also form part of the Departmental Accounts. The Top Level Budget Holders are responsible for setting the operating framework of the Agencies in their area through a Framework Document and agreeing performance targets and for monitoring progress.

Command and administration of the Armed Forces is vested, by Letters Patent, in the Defence Council, chaired by the Secretary of State for Defence, and beneath that in the three Service Boards, each chaired by a Minister. Membership of the Defence Council comprises all Defence Ministers and the executive members of the Defence Board, both military and civilian. The Chief of the Defence Staff is the Government's and the Secretary of State's principal adviser on military operations. He is responsible for the maintenance of military operational capability and for the preparation and conduct of military operations, including managing risks to their success. The Chiefs of Staff Committee is chaired by the Chief of the Defence Staff and is the main forum in which the collective military advice of the Chiefs is obtained on operational issues. The Chief of Defence Staff also chairs the Armed Forces Committee which is designed to lead and direct the Armed Forces in his capacity as their head and as the UK's strategic military commander. The individual Service Chiefs also advise the Chief of the Defence Staff, the Secretary of State and, when required, the Prime Minister on the operational employment of their Service.

At the start of the financial year, the Department was also responsible for four Trading Fund Agencies, three Executive Non-Departmental Public Bodies (NDPBs) and one Public Corporation.

- The four MOD Trading Funds (The Defence Support Group (DSG), the Defence Science and Technology Laboratory (Dstl), the UK Hydrographic Office, and the Met Office) fall outside the Departmental Accounting Boundary and their Chief Executives are Accounting Officers in their own right. Given their close integration into the MOD's business, potential impact on MOD outputs and their extensive use of Departmental personnel and assets, their Chief Executives provided me with their Governance Statements which were prepared for their Annual Accounts. In addition, a departmental representative sits on their Management Boards, whilst Ministers, supported by an Owners Board, are responsible for setting the Trading Funds' top level objectives, approving major business decisions including their Corporate Plans and setting annual key targets. The Met Office transferred to the Department of Business, Innovation and Skills in July 2011. I retained accounting officer responsibilities until the supplementary estimate was approved in February 2012.

- The three Executive NDPBs (National Museum of the Royal Navy, National Army Museum, and Royal Air Force Museum) are sponsored by the Department and now fall within the Departmental Boundary for the first time. We have one Public Corporation (Oil and Pipelines Agency), which is also sponsored by the Department, but falls outside the Departmental Boundary and their accounts are published separately. The NDPBs operate within a financial memorandum agreed between their respective Boards of Trustees and the MOD. The Public Corporation has a Board of Directors on which the MOD is represented.

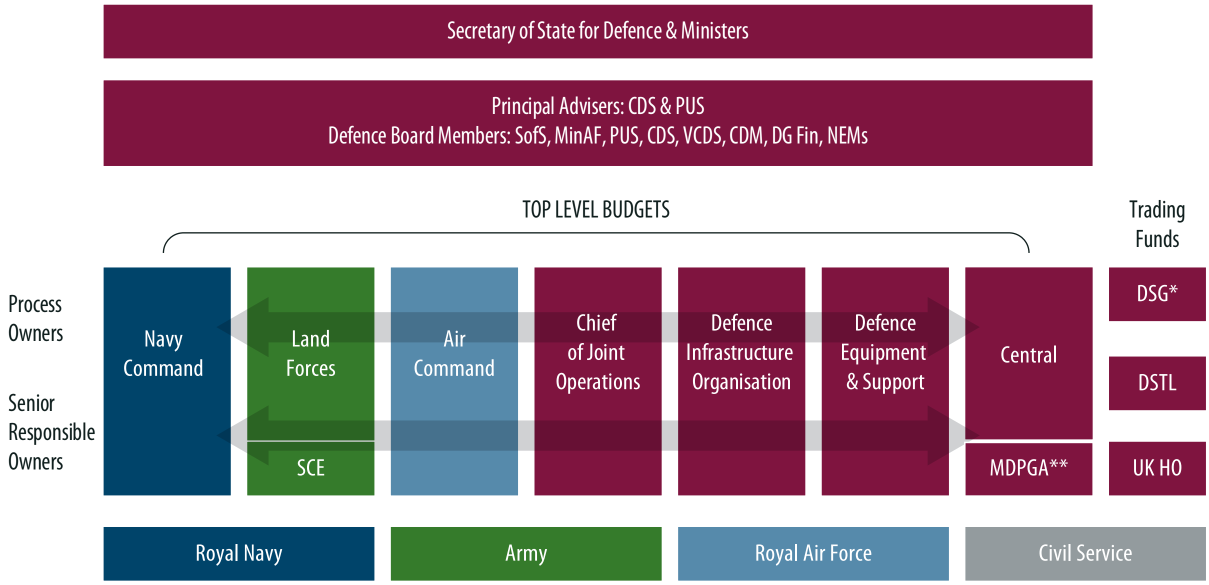
- The Armed Forces Pension Scheme (AFPS) and the Armed Forces Compensation Scheme (AFCS) are administered by the Service Personnel and Veterans Agency (SPVA). Agency status was removed from the SPVA in June 2011. Payments to eligible individuals under AFPS and AFCS fall outside the Departmental Accounting Boundary and have separate, published accounts for which I am also the Accounting Officer. The administration costs of both schemes and employer's contributions are within the scope of the Departmental boundary and fall within the Central Top Level Budget.

The AO also appoints senior individuals as Process Owners to ensure that activities in certain enabling business areas are carried out on a coherent and consistent basis across Defence. Process owners are responsible for maintaining or improving the overall effectiveness and efficiency of their processes, which include human resources, procurement, IT, finance, health services, logistics and security. Process owners are also responsible for ensuring compliance with relevant legislation and other external requirements.

Under the new operating model being introduced from April 2013, process owners will set the corporate framework of pan-Defence policies, rules and standards. They will be held to account for delivery by me and will continue to report annually on compliance with these across Defence.

A chart showing the structure of Defence is on the next page.

Organisation of Defence



Key

SofS	Secretary of State	CDM	Chief of Defence Materiel	DSG	Defence Support Group
Min(AF)	Minister of State for the Armed Forces	DG Fin	Director of Finance	DSTL	Defence Science and Technology Laboratory
CDS	Chief of Defence Staff	NEMs	Non Executive Members	UK HO	UK Hydrographic Office
PUS	Permanent Secretary	SCE	Service Children's Education		
VCDS	Vice Chief of Defence Staff	MDPGA	MOD Police and Guarding Agency		

*DSG which the Department plans to sell by 2013/14
**MDPGA ceased to be an Agency on 1 April 2012

3. The Defence Board

The Defence Board, chaired by the Secretary of State since July 2011, ensures that the Strategy for Defence and the Defence Plan are carried out by using a corporate governance system that has two inter-related processes: performance and risk management (Defence Performance Framework) and assurance. The Board comprises senior executive members of the Department and three external independent members. The treatment, for tax purposes, of an accommodation allowance paid to one Board member, for the first time this year, has resulted in an increase in salary. This requires retrospective approval from the Chief Secretary to the Treasury, which the Department is currently seeking. I present a monthly spot report to the Board, which provides a succinct overview of key issues and activity since its last meeting and looks ahead to highlight issues that the Board will wish to address. The Board also considers a quarterly performance and risk report against the Departments objectives and aims as set out in the Defence Strategic Direction and the Defence Plan. While it is rooted in performance and risk reporting from across the Department, it has a strong forward look. This ensures that the Board has a view of progress against the delivery of SDSR outcomes and provides information and insight enabling the Board to provide timely direction and guidance.

Three key sub-committees sit beneath the Defence Board:

- The Investment Approvals Committee, chaired by DG Finance which takes the lead in examining investment proposals and providing advice on them to Ministers;

- The Defence Audit Committee (DAC), chaired by a Non-Executive member of the Defence Board which has a remit to review and challenge constructively the adequacy of internal controls and risk management and assurance processes within the Department, and;

- The People Committee, chaired by a Non-Executive member of the Defence Board which provides assurance that talent management systems for military and civilian personnel are effective in delivering the workforce which Defence needs in terms of skills, experience and behaviours.

4. The Board's Performance

In July, the Defence Board asked the lead non-executive board member, Gerry Grimstone, to review its effectiveness. He provided the following statement:

"This is my first statement for the Departmental annual report since my appointment as the Lead Non-Executive for Defence in September 2011.

The Defence Board has been considerably overhauled during the period covered by this annual report following the recommendations of the Levene Review. It is ably chaired by the Secretary of State for Defence, it is smaller and much better focussed, and unifies the Ministerial, civilian and military aspects of the Department's activities with a strong independent voice.

The Board sees its primary role to advise and assist Philip Hammond and Ursula Brennan in their accountabilities. It does this by overseeing future plans for generating contingent Military Capability and for the corporate management of Defence with an increasing emphasis on appropriate delegation balanced by tight accountabilities. We are very conscious of the importance of our role in ensuring that Defence fulfils the requirements of the strategic Defence posture directed by the Prime Minister's National Security Council, so that our military forces can continue to deliver operational success.

Since our formation, a major part of our time has been preoccupied by helping the Department deliver a balanced budget for the first time in many years. The Board has challenged the Department to think in a genuinely new way about how it plans and programmes the delivery of future capability within the limits of what can be afforded and what it would like to have. Some hard decisions have been taken and there is now a sensible basis on which the Department can properly plan for the future.

It is very clear to the Board that Defence has to change the way in which it operates, and Transforming Defence is a major part of our agenda. Because of the variety of stakeholders in Defence, both military and civilian, Transformation is both complex and demanding. The Board is monitoring the progress of Transformation at each of its meetings and we won't hesitate to intervene to unblock obstacles to progress and to make sure that everyone in Defence is exhibiting the right behaviours.

Part of transforming Defence involves changes in organisational structure and drawing more closely on private sector skills. The Board has been actively considering whether the effectiveness of Defence and the efficiency of its outputs would benefit from DE & S and the DIO being moved to a more arms-length relationship with the Department. This would require completely different ways of working and the Board is working to satisfy itself where the balance of advantage lies within the various options being considered.

The Board has three sub-committees, Investment Approvals, Audit and People. We have formalised the work of these Committees and introduced more rigorous reporting-back to the Board. The Investment Approvals committee (which is responsible for scrutinising and advising on all major investment decisions) has developed under the chairmanship of the Director General Finance into a better, more challenging body. The Audit Committee has a new membership, and under the chairmanship of Graham Williams, has conducted a thorough programme of work to support the Governance Statement that you will see elsewhere in the report. The newly-formed People Committee, chaired by David Allen, is overseeing the process to manage the senior cohorts of the Department and the Armed Forces, and to scrutinise wider workforce planning work.

As part of the new Board arrangements within Defence, an Armed Forces Committee has been set up chaired by the Chief of the Defence Staff, on which sit the Vice Chief of the Defence Staff, the single Service Chiefs and the Commander Joint Forces, along with the Permanent Under Secretary and the Chief of Defence Materiel. Its work has allowed a clear, coherent Military Voice to be heard at the Board which has been of great benefit to our deliberations.

The Board meets monthly for at least half a day and has a busy agenda. Together with their other Committee duties, I am very conscious of the work load this has placed on David Allen and Graham Williams, my other non-executive colleagues, and I'm very grateful for their commitment, help, and support.

An ineffective Board is worse than useless and, on behalf of the Board, I have conducted a review of our effectiveness. I sought views from both Board members and for those others whose work brings them into close contact with the Board and its outputs. Although it is clear that we have made a reasonable start there is still a lot we need to do to demonstrate this to the Department and to clarify exactly what we are doing and why. Our feedback suggests that the Department wants the Board to become more embedded in its accountability structure and to provide tangible leadership. We have developed an action plan to help us do this and to work together better as a team. I will report back on progress in this area in my report next year.

As we complete our first year of activity, we will strive to develop the clarity of our thinking, and, together with the Board Secretariat, to improve further the quality and timeliness of our papers. Our future agendas must reflect our strategic priorities and ensure good quality data and reliable financial information are always put before us. We know this hasn't always been the case in the past and we are determined to do better going forward.

Very high quality people work at all levels in the Ministry of Defence in both the civilian and military sides of our Department. We have a responsibility to ensure that they are well-served by the quality of our decision-taking".

The Defence Board has considered Gerry Grimstone's statement, which it endorses in full. The action plan he has developed is being progressed. As he makes clear, a full report on progress against the action plan will be provided in next year's Governance Statement.

The Defence Board attendance statistics for financial year 2011-12 can be found in the table below.

Defence Board Attendance Record 2011-12
Statistics starting from the 1st meeting of the new Defence Board on 16 Sep 2011

	Name/Appointment	Total*
	Secretary of State	14/14
	Minister Armed Forces	13/14
3	Other Mins	6/6
	Permanent Secretary	14/14
	Chief of Defence Staff	12/14
1	Vice Chief of Defence Staff	9/9
	Chief Defence Materiel	13/14
	DG Finance	14/14
	Lead Non-Executive Member	13/14
	Non-Executive Member	10/14
2	Non-Executive Member	9/9
	Total	**127/136**

1 Joined the Board on 20 Jan 12
2 Joined the Board on 21 Dec 11
3 Other Ministers are not formal members of the Board, but are invited to attend
* The stats cover the period of Sep 2011 until Oct 2012 for completeness

5. Highlights of Board Committee Reports.

Main sub-committees of the Board

Defence Audit Committee (DAC)
Although the Defence Audit Committee did not present any formal reports to the Board in the reporting period, it issued its annual performance report in June 2012. As a member of the Defence Board, the Committee Chair has given regular oral updates to the Board, including the issues that caused the National Audit Office to qualify their opinion of the Accounts. The DAC has provided extensive advice to the previous Accounting Officer on this Governance Statement, particularly about the section on major risks and weaknesses in control. The DAC also spent a considerable amount of time working with Defence Equipment and Support on the way forward in improving financial discipline.

The Committee reviewed a number of items in the course of the year in order to assure itself of the adequacy of the Department's internal control arrangements. There had been a series of issues raised in the previous year's Statement on Internal Control that the Committee had to consider, including:

- The effect of continuing Manpower reductions on: the Department's ability to retain the right skills; morale in the Civil Service and Armed Forces; and the safety risk of a shortage of suitably qualified and experienced personnel within specific safety environments;

- Progress in addressing Stock, Assets and Inventory Control issues;

- The unauthorised disclosure of information from within the Department which had reached new levels during the SDSR;

- The environment and safety risk posed by aging infrastructure in the fuels and explosives estates.

In addition, the Committee carried out its annual stewardship of the Process Owner assurance reports to assure itself of the adequacy of internal control arrangements and the conclusions it reached.

Investment Approvals Committee (IAC)
The chair of the IAC has provided regular oral updates to the Board on its work. There have been no individual investment decisions that have had to be escalated to the main Defence Board this year. The Defence Board made strategic balance of investment decisions as part of the Planning Round 2012 process, which culminated in the Secretary of State announcing that the Defence Budget was in balance on 14 May 2012.

The IAC considered a wide range of projects, including the Queen Elizabeth Class aircraft carrier programme, the Type 26 (Global Combat Ship), the Chinook New Buy, the Complex Weapons Programme and Defence Core Network Services (DCNS). In total, the IAC considered 88 submissions on projects worth over £400M, including 20 Main or Initial Gate Business Cases. Of those Business Cases, 10 were approved, 6 were approved with caveats and 4 were rejected. Where the IAC does not give approval it directs the project to undertake specific actions before they seek approval again. Examples of projects where the IAC directed further work before endorsement was given are the Type 26 Global Combat Ship, Military Flying Training Service, Project Vanguard (a training estate contract), and Logistics Commodity Services (Transformation).

People Committee
During 2011-12, the ground work was laid for the new People Committee, as recommended by Lord Levene's report of June 2011. At the same time, work has also been done to put in place the new Joint Assured Model for military appointments and work on civilian workforce planning; both of which will feature heavily on the agenda of the People Committee in the coming year.

6. Compliance with Corporate Governance Code

I reviewed the Department's compliance with the Corporate Code issued by the Cabinet Office in July 2011. The Department complies with all of the requirements except:

- Section 2.8 of the Code requires us to collectively affirm and document the Board's understanding of the Department's purpose and document the Board's role and responsibilities in a Board operating framework. The Defence Board's operating framework is still in draft, and will be published later this year. Until this is done, the requirements in section 2.8 are not met in full;

- The Department only has three non-executive Board members, in contravention of section 3.3 of the Code, which requires four. We will not be appointing a fourth;

- Section 5.9 of the Code requires at least one non-executive Defence Board member to sit on the Defence Audit Committee apart from the Chair. The Department does not currently meet this requirement.

7. The risk and control framework

The Department's system of internal control is designed to manage risk to a reasonable level. Internal control is based on processes designed to identify and prioritise the risks to the achievement of Departmental aims, to evaluate the likelihood of those risks being realised and the impact this would have, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the MOD for the year ended 31 March 2012 and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

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. Guidance on the Department's approach to risk is detailed in a Joint Service Publication. This guidance is cascaded down through Top Level Budget Holders and is available to all staff on the MOD's intranet. Individual training is available to all staff via the Department's in-house training provider.

The Defence Board has identified 8 Risks to Strategic Aims and 6 Major Failure Risks. These are monitored and reviewed by the Board during the quarterly and annual performance and risk reviews. These strategic risks are not published for reasons of national security.

The Department's tolerance of risk varies between the different areas of Defence business. Military operations are inherently risky. The level of risk that Ministers agree to accept is based on advice from senior military and civilian officials. Every effort is made to provide personnel and assets with proper protection through planning, equipment and training, but we ultimately rely on the judgment of Force Commanders to manage the risks on a day to day basis. On the non-operational side, the Defence Board receives regular Security, Business Continuity and Health & Safety reports. This year has seen a fall in the number of non-operational fatalities from sixteen to eleven. There is no common factor that explains the fall. Because the absolute number of fatalities is small, the fall may not be statistically significant.

Defence Internal Audit, supported by Price Waterhouse Coopers, conducted a review of risk management that concluded in April 2011. The main workstreams included: establishing a Risk Group, chaired by me in my role as DG Finance to identify the Department's key risks and drive a risk focussed culture into the business; a review of the Defence Board's set of Strategic Risks, to drive top down risk management, and; defining the department's tolerance of risk. These workstreams continue to be implemented. KPMG also produced a major piece of work for the Department on improving the way that the risk of fraud is managed. As a result of this work, I approved the creation of a Counter Fraud and Loss Team (CFLT). This will be led by a senior civil servant who will support and take direction from an Anti Fraud Group, which will meet quarterly. The CLFT will own and maintain a comprehensive analysis of Defence's fraud vulnerability and use this to prioritise and deliver an integrated service of crime and fraud reporting, intelligence, analysis, prevention, education, enforcement and asset recovery through a multi-disciplinary and mixed police/civilian team.

The Defence Audit Committee, chaired by an external independent member of the Defence Board, reviews the Department's approach to internal control and provides independent advice both to the Defence Board and the Accounting Officer. The Committee adopts a strategic approach, challenging the overall risk identification and assessment processes and pulling together all the strands of independent assurance. It co-ordinates the activities of internal audit, and draws on annual reports from the eleven pan-Departmental Process Owners and specialist assurance sources, such as Defence Internal Audit. Most Top Level Budget Holders are supported by an Audit Committee, which is chaired by a non-executive member and at which representatives from the internal and external auditors are present. Like the Defence Audit Committee, these committees focus their activities to provide advice on wider-business risk and assurance processes. The Defence Audit Committee has a meeting with the Chairs of the TLB audit committees once a year to seek their perspective on potential issues to be raised in this Governance statement.

The Department has a major programme in place to transform the way finance is managed. As part of this work, the Defence Audit Committee reviewed how assurance should be provided and the executive is undertaking further work, which the Defence Audit Committee are currently considering.

An annual risk-based programme of internal audit is provided by Defence Internal Audit, who are the primary source of independent assurance. The overall opinion provided by the Group Head of Internal Audit is that of Limited Assurance, based upon the audit and consultancy tasks undertaken throughout 2011-12. In particular DIA found:

- Further work was required to develop and fully embed risk management;
- Fraud risk management arrangements required improvement in the areas of risk assessment, prevention and detection, which stimulated the KPMG review;
- Governance and accountability arrangements needed strengthening together with the quality and use of management information;
- Further work was required to address fundamental Inventory control system weaknesses;
- Evidence indicated a need to improve the Department's contract monitoring processes across a range of activities, in particular the management of the Framework Agreement for technical Support was found to have significant weaknesses.

The Department's external audit function is provided on behalf of Parliament by the Comptroller and Auditor General, supported by staff from the National Audit Office (NAO). As part of the assurance process, the NAO see all Defence Audit Committee and TLB Audit Committee papers and attend their meetings.

8. Significant Risks

As set out above, we do not publish all of our major risks for security reasons. I identified the following risks that affect the control framework:

Accounting for Accruals
Following the application of Clear Line of Sight the budgeting regime has come within the scope of the external Audit for the first time. The NAOs audit of the value of accruals recorded in the draft accounts found evidence of potentially material errors. As part of my strenuous efforts to improve financial discipline in the MOD, I decided to delay the laying of the Accounts until we had greater confidence that the accruals figure is correct. We retained KPMG to conduct an independent review of accruals balances reported by Defence Equipment and Support. This is now complete, and the relevant journal entries have been adjusted in the light of its findings. The NAO have confirmed that the revised figure for accruals is true and fair.

Errors in the draft Accounts of this scale raises questions about the effectiveness of the control framework and revealed weaknesses in the quality and capacity of finance staff. Subsequent analysis suggests there has been an accumulation of errors over time which were in themselves not material, but whose cumulative effect now needed to be addressed. The accounting consequences of changes made in the SDSR and subsequent planning rounds may have diverted attention away from the accurate reporting of accruals and compounded acknowledged issues arising from skills shortages in the finance area. We will be expending additional effort in ensuring that all financial transactions are correctly accounted for throughout this financial year and ensuring that staff receive training. We will also be reviewing the internal processes in Defence Equipment and Support to ensure that any underlying issues which may result in accruals and other financial information being mis-reported are addressed. In the longer term, the Materiel Strategy is expected to result in a step change in financial discipline in DE&S. I expect to be able to lay next year's Accounts before the summer parliamentary recess in 2013.

Unauthorised Disclosures
My predecessor reported last year that leaks from within the Department remained damaging and resource intensive to manage. Leaks have remained a problem this year, particularly those surrounding the Joint Strike Fighter variant. Leaking damages trust between Ministers, civil servants and the Military, undermines the Chain of Command and can have a material effect on the quality and timeliness of decision making. They have also made internal communications more difficult, which raises the risk to morale. We continue to take vigorous steps to ensure that the rules are rigorously enforced and there is work being taken forward as part of Transforming Defence to tackle the behaviours that cause leaking.

Fuel Estate
My predecessor also reported last year concerns about the fuels estate. Resource constraints have led to a lack of investment in fuels infrastructure, posing a risk to both the environment and safety. The single greatest challenge remains the age of the infrastructure, which continues to operate through a mix of stop-gap maintenance, careful risk management and reactive funding. This risk has been mitigated to an extent by an improved reporting and assurance regime, and I expect this to improve with the unification of key responsibilities within the Defence Infrastructure Organisation. Meanwhile, the overall level of non-compliance with Regulations at some level at 151 out of 238 sites remains a concern.

Staff Reductions
The Department has made significant progress in making the reductions in both civilian and military staffing levels set out in the SDSR. The effect that this has had on morale remains a concern. A further concern is that many areas report shortages of Suitably Qualified and Experienced Personnel for example, finance and commercial staff, despite systems in place designed to ensure that these people cannot apply for paid exits, and that recruitment is permitted for business critical skills. The shortage of finance skills has contributed to the accounting for accruals issue referred to above. On the civilian side, work is in hand to ensure that all Top Level Budget holders have comprehensive Workforce Management Plans, which should mitigate this risk to a degree. The Armed Forces already have a clearer view of where their shortages lie, and have targeted measures in place.

Inventory and Stock Control
The National Audit Office has acknowledged the Department continues to make progress in accurately accounting for inventory, which my predecessor raised in last year's Statement on Internal Control. We have now completed the reconciliation between the inventory and accounting systems for inventory and capital spares balances, and the Accounts are no longer qualified on these grounds. The NAO has also confirmed that adequate processes and systems are in place to account for Bowman radios.

Nevertheless, the NAO opinion is that the Department needs to do more to ensure that the value of the inventory and capital spares balances better reflects their material condition. This is particularly the case where there is a lack of evidence to show that holdings have been reviewed by management in light of reducing fleet sizes. Work is underway to dispose of surplus items, but until this is complete we are holding items that are no longer required and which may consequently be of less value to the MOD than is stated in the Accounts.

Summary
We continue to work hard to improve the mechanisms the Department has for controlling its resources and managing risk. Except in those areas outlined above I am, however, satisfied that our current control mechanisms are fit for purpose. I am also satisfied that adequate progress is being made on outstanding issues.

Jon Thompson *30 November 2012*
Accounting Officer

The Certificate of the Comptroller And Auditor General To The House Of Commons

I certify that I have audited the financial statements of the Ministry of Defence and of its Departmental Group for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agencies. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's and the Departmental Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

As explained in the attached report, the Department has disclosed that it has not yet obtained the requisite approvals from Cabinet Office and HM Treasury in respect of the remuneration package of the Chief of Defence Materiel. I have concluded that this expenditure is not in conformity with the authorities which govern it and is, therefore, irregular.

Qualified opinion on regularity

In my opinion, except for the payments made in respect of the Chief of Defence Materiel, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded; and

- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on financial statements

I have qualified my opinion on the financial statements in two respects:

Firstly, the Ministry of Defence has not complied with the Financial Reporting Framework as it has not accounted for the expenditure, assets and liabilities arising from certain contracts in accordance with International Financial Reporting Standards (IAS 17), Consequently, the Ministry of Defence has omitted a material value of assets and liabilities from its Statement of Financial Position as at 1 April 2010, 31 March 2011 and 31 March 2012. This has also led to a material misstatement of the Statement of Comprehensive Net Expenditure for 2010-11 and 2011-12 and Statement of Parliamentary Supply for 2011-12. I am unable to quantify the impact on the financial statements because the Ministry of Defence has not maintained the records or obtained the information required to comply with International Financial Reporting Standards in this respect.

Secondly, in respect of the valuation of inventory (£3 billion) and certain non-current assets in the form of capital spares (£7 billion) recorded in the financial statements, the evidence available to me was limited due to the Department having failed to perform an adequate impairment review on a systematic basis. Consequently I was unable to obtain sufficient, appropriate audit evidence to support the valuation of £10 billion in the Statement of Financial Position and assess the completeness and accuracy of the associated transactions in the Statement of Comprehensive Net Expenditure. I have also been unable to obtain sufficient, appropriate audit evidence for the corresponding figures for 2010-11, which were also subject to this qualification.

Qualified opinion on financial statements

In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraph:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2012 and of the Department's and Departmental Group's net operating cost for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder

My report, which follows, provides further detail of my qualified audit opinions on the financial statements.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in Part One; *Performance and Key Facts* and Part One; Section B: *Delivering Defence* and Annex D: *Sustainability Report* for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect of the absence of accounting records held by the Department to support the proper application of IAS 17; and the limitations on my work relating to inventory and non-current asset capital spares, described above:

- I have not received all the information and explanations that I considered necessary for the purposes of my audit; and
- proper accounting records have not been maintained.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Opinion on Votes A

The Ministry of Defence's Votes A is presented annually to Parliament to seek statutory authority for the maximum numbers of personnel to be maintained for service with the armed forces. Note 32 to the Accounts shows that the maximum numbers maintained during 2011-12 for the Naval, Army and Air Force Services in all active and reserve categories were within the numbers voted by Parliament. My role is to inform Parliament whether or not the approved Estimate (Vote A) has been exceeded.

In my opinion, the numbers provided for in the Estimate have not been exceeded.

Amyas CE Morse
Comptroller and Auditor General
National Audit Office
157 – 197 Buckingham Palace Road
Victoria, London SWIW 9SP

3 December 2012

Report of the Comptroller and Auditor General on the 2011-12 Accounts of the Ministry of Defence

Introduction

1. The principal activity of the Ministry of Defence (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 2011-12 the Departmental Group was responsible for £38.9 billion of net operating costs and assets of some £132.6 billion mainly consisting of land, buildings, fighting equipment and stores, together with gross liabilities of some £21.8 billion.

2. The Department is required to prepare its financial statements in accordance with the Government Financial Reporting Manual (FReM). Under the FReM, the Department is required to apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

The purpose of my report

3. This Report explains the basis for the qualification of my audit opinion on the Department's 2011-12 financial statements. This report also provides an update on the actions taken by the Department to address the issues identified in my Report on the 2010-11 Annual Report and Accounts[1].

Accounting for lease-type arrangements

4. I have qualified my opinion for a third year because the Department has not complied with the required accounting treatment for leases in International Financial Reporting Standards (IFRS) and has therefore omitted a material value of assets and liabilities from its Statement of Financial Position. I cannot quantify the impact of this on the accounts with certainty because, as a result of its accounting policies, the Department has not maintained the records, or obtained the information required to do so.

Accounting requirements

5. In preparing its accounts, the Department must comply with the requirements of the Government Financial Reporting Manual (FReM). Since 2009-10 the FReM has required the adoption of International Financial Reporting Standards (IFRS) by UK central government bodies. IFRS[2] requires preparers of accounts to establish whether lease-type contracts are in substance either a finance or operating lease. These decisions have a significant impact on the financial statements because if the contract is classified as a finance lease then, rather than simply recording contract expenditure as it is incurred in year in the Statement of Comprehensive Net Expenditure (SoCNE), the valuation of assets used to deliver the service would be recognised in the Statement of Financial Position (SoFP) alongside a liability for the minimum lease payments due under the contract.

6. The accounting requirements for lease type arrangements are particularly relevant to the Department. It necessarily enters into strategic arrangements with certain contractors to procure specialist defence platforms on a non-competitive basis, for example in relation to surface ships, submarines and aircraft. These arrangements may provide for the exclusive, or near exclusive use of industrial assets and capability which have only limited utility to other customers. Consequently, the contractual terms, which are covered by the Government Profit Formula and its Associated Arrangements (GPFAA)[3], may give rise to the Department controlling the significant majority of the outputs of the supplier's assets involved in the arrangement. For example, where shipyards are used exclusively on defence contracts and the pricing of the contract recognises this by allowing recovery of fixed costs other than through market rate or unit cost pricing. As such, these arrangements may be considered to contain a lease under IFRS, and may have the characteristics of a finance lease.

1 HC 992 2010-11 Ministry of Defence Annual Report and Accounts 2010-11

2 The key relevant accounting standards and interpretations are: International Financial Reporting Issues Committee Interpretation 4: *Determining whether an arrangement contains a lease (IFRIC 4)* and International Accounting Standard 17 *Leases* (IAS 17)

3 The GPFAA, also commonly referred to as the Yellow Book, is agreed by Government and industry, as represented by the CBI, and is subject to periodic review by an independent review board.

Action by the Department

7. As part of the work undertaken in 2009-10 when it first adopted IFRS, the Department assessed its Private Finance Initiatives and Public Private Partnership contracts against the revised accounting requirements but it did not carry out this assessment for other contractual arrangements. Based on the results of its work, the Department believes that there may be a number of its contracts which would require disclosure as leases, including as finance leases (notes 22-23). Given the potential number and size of the contracts involved, there is likely to be material understatement of the assets and liabilities recognised in its financial statements.

8. Since the Strategic Defence Review in 2010, the Department has been in the process of renegotiating its contracts with its principal industrial suppliers. The Department has put on hold any further work necessary to comply with the accounting requirements for lease type arrangements until those renegotiations are complete. As noted in the management commentary of the 2011-12 Annual Report and Accounts, the Department has now committed to completing an initial review by September 2013, by supplier and contract, of the industrial facilities to which IFRIC 4 is likely to apply. This review will consider the potential resources and timescales required to achieve compliance.

9. The Department does not currently have the information to measure the value of the assets and liabilities associated with these arrangements in order to comply with the financial reporting requirements. In my view, if this information were available and presented in the financial statements the consequences of any potential decision to exit or scale back a finance lease type arrangement would be more transparent to the reader of the accounts. For example the loss of asset utility would be disclosed as an impairment cost.

Non-current assets and inventory

Limitation on the scope of my opinion

10. I have limited the scope of my opinion in relation to certain non-current assets recorded within the SoFP, in the form of capital spares (£7 billion) and inventory (£3 billion). The limitation arises as a result of the Department having inadequate processes to assess the impact of impairment of non-current asset capital spares and the valuation of current asset inventories in the form of raw materials and consumables. Due to the lack of a systematic assessment the Department has been unable to provide me with sufficient evidence to support the valuation of these balances.

Accounting requirements

11. Both current and non-current assets can become impaired, most usually due to deterioration of their physical condition, because of obsolescence or simply because they have no further use. This can also include holding stock which is surplus to future business requirements and which no longer has value to the business.

12. IFRS requires that assets are reviewed on an annual basis to consider the impact of impairment on the valuations held on the Statement of Financial Position. Under IAS 36 *'Impairment of an Asset'* any non-current asset which is held at an amount in excess of its fair value or use to the business must be subject to an impairment assessment with the loss in value charged to the SoCNE. IAS 2 requires current assets in the form of raw materials and consumables to be valued at the lower of cost and net realisable value. Consequently the Department needs to assess the level of stock held and its on-going value to its business. Without such assessment there is the potential for asset values to be overstated, and for an understatement of expenditure in the SoCNE.

13. A systematic impairment assessment will also enable the Department to identify spares and inventory for disposal or repair; this will serve to reduce stock holding costs and critically to help to better inform operational decision making in respect of items available for immediate use.

14. My audit considered how the Department currently assesses its inventory and capital spares holdings to ensure that the appropriate value is reflected in its accounts and that adequate assessment of impairment has been made. As highlighted in my previous Reports on Account 2008-09 to 2010-11 the Department has not undertaken a systematic review of impairment in respect of capital spares and inventory.

15. I have previously reported limitations in management information and a lack of clarity in Departmental guidance for assessing impairment over the last four years. As part of my audit I have noted that the Department's continues to rely on the review of asset holdings undertaken by project teams within Defence Equipment and Support and documented in Annual Inventory Plans. Project teams are responsible for producing and delivering the appropriate actions following review of these plans, which require consideration of inventory and capital spares held in respect of their condition, levels of holding and future business need.

16. As a result of visits to these teams to review Annual Impairment Plans, wider discussions within the Department and the results of my own audit testing I am not satisfied that there has been sufficient consideration of impairment. I do not therefore have a suitable basis on which to consider the impact of impairment in respect of inventory and capital spares. Consequently I am unable to form an opinion on the valuation of these balances or to assess the potential impact which a systematic consideration of impairment might have on the financial statements. There were no alternative audit procedures I could adopt to assess the valuation of these balances.

Action by the Department

17. I have recently published my report on 'Managing the Defence Inventory'[4] which looks extensively at how the Department might improve its management of inventory and capital spares. In this report I have identified a number of recommendations as to how the Department should adopt a more systematic approach to the rationalisation of its holdings. Delivery against these recommendations would provide a better basis for the Department to consider the impact of impairment.

18. The Department, through the Chief of Defence of Materiel, is finalising an Inventory Strategy to improve the Department's arrangements for managing its inventory. As part of this strategy the Department will establish a systematic impairment review of inventory and capital spares by focusing review activity on specific high value inventory and capital spares, together with a statistical sampling approach for all other holdings. My audit in 2012-13 will review the Department's progress in implementing these arrangements.

Recommendations for further action

19. I continue to recommend that the Department delivers against its planned approach to undertake a systematic review of inventory and capital spares against the requirements of IAS 36 and IAS 2, in order to assess the impact of impairment.

Cabinet Office Approval for Board Member Remuneration

Qualification of my regularity opinion

20. Since May 2010 the Cabinet Office in its *Guidance for approval of senior pay*[5] has required approval of all pay packages for newly appointed Civil Servants who receive remuneration packages in excess of £142,500. In July 2010 the Department obtained outline approval for the basic salary package of the future Chief of Defence Materiel (CDM), on the basis that it would seek approval on finalisation of the package following appointment.

21. As the Department has noted in the Remuneration Report (Page 84) the Department has not yet obtained the required approval for the overall remuneration and benefits package. Consequently I am unable to give an opinion on whether the remuneration of the CDM has exceeded the Department's delegated authorities. As a consequence I have qualified my opinion on regularity in respect of these payments, which I consider to be material in the context of the Remuneration Report.

22. I will review the outcome of the approval process and in respect of the taxable allowances as part of my 2012-13 audit of the Department's Annual Report and Accounts.

Progress on Previous Areas of Qualification

23. I have reported in each of the last three years that certain key controls over inventory were ineffective and that discrepancies between inventory counts and warehouse management records at

4 HC 190 2012-13 Managing the Defence Inventory
5 Cabinet office – Guidance for approval of senior pay Version 2 – applicable from June 2010

the main Logistic and Commodity Services (LCS, formerly Joint Support Chain Services) non explosives depots did not form a reliable basis for quantifying the value of inventory held on the SoFP. In response to my previous reports the Department's Materiel and Financial Accounting Programme Board and LCS agreed a strategy to address inventory control weaknesses; the Department is now in the third year of the implementation of this strategy which has included:

- focusing effort towards higher value warehouses and inventory items;
- initiating an additional programme of location checks, with the aim of significantly reducing the levels of inventory omitted from warehouse system records; and
- approved new IT solutions which aim to reduce the risk of error and improve the efficiency of stock management.

24. As a result of these efforts I have been able to remove the limitation of scope in respect of my audit opinion in relation to the completeness of non-current asset capital spares, and current asset inventories in respect of their completeness. I have also been able to remove the limitation of scope in respect of BOWMAN radio equipment for which the Department has been able to provide me with sufficient assurance to support the valuation of these items within the Statement of Financial Position.

Completeness of inventory and capital spares

25. Last year I reported that around 7 per cent of items I tested in LCS warehouses were not recorded on the warehouse stock-recording systems, and were not recorded on the SoFP. In advance of the introduction of new systems the Department has made substantial improvements in its stock-checking and recording procedures. Following my previous report the Department has undertaken a major exercise to ensure all stock locations are visited by July 2012 and that all stock is recorded on the warehouse systems. As a consequence of this on-going work my staff have evidenced reductions in error rates between items held on the shelf and warehouse records. The results of my audit work this year have shown that the error rate has now dropped significantly. Together with analysis of the Department's own results, I have now been able to conclude that the inventory system records are materially complete. My opinion is no longer qualified in this respect.

Stock reconciliations

26. In previous years I reported on the difficulties the Department has encountered in reconciling its numerous and aged warehousing systems to its accounting systems. In previous years this has resulted in material discrepancies which the Department has been unable to explain or reconcile. During 2011-12 the Department has deployed significant resource to undertake a quarterly reconciliation across its major warehousing systems. Consequently the Department has significantly reduced the level of discrepancy and gained a better understanding of the underlying reasons for remaining differences. Although work remains to reduce these levels still further, the discrepancy is now low enough to enable me to conclude that there are no material discrepancies between the inventory systems and the financial systems.

27. The Department plans a long-term solution of fewer inventory systems, coupled with improved processes. The investment in the new Base Inventory Warehouse Management Systems (BIWMS) is underway and the Department expects it to begin operating in March 2014 with the replacement of the Air Inventory System. The aspiration is for subsequent roll-out into Land, Maritime and Explosives in 2015 subject to scoping and detailed planning. This will provide a basis for improved stock account management and rationalisation of the reconciliation processes. In the interim, the Department has undertaken to continue the quarterly comparisons with a view to further understanding and reducing any differences between these interfaces. These processes are labour intensive and will require continued resource input to ensure that balances are suitable controlled.

BOWMAN Radios

28. I have reported in each of the last three years that the Department was unable to provide sufficient information to enable me to provide an opinion on the account balances relating to BOWMAN radio equipment. The main weakness was that the Department's systems did not effectively track the existence, location and condition of a material proportion of BOWMAN radios, consequently I was unable to verify the value of assets recorded on the Statement of Financial Position.

29. Over the past two years the Department has been upgrading its BOWMAN radios to enhance capability such that all radios operate to the new 'level 5.4' build standard. Any radios not upgraded to this standard will no longer be operational. This upgrade process has provided an opportunity for the Department to cleanse the tracking data held for its BOWMAN radio assets and establish a definitive baseline against which to track and monitor the existence and condition of its radio assets. The upgrade progress was due to complete after the year-end.

30. The Department's balance of £1.343bn is based on 49,730 functioning and verifiable radio sets. This compares with 50,893 radios used as the basis for the Department's valuation of its BOWMAN assets in 2010-11. Having considered the results of the upgrade, and other data available to it the Department has written off 1,163 radio sets this year at a value of £33m (see Note 25.1 to the accounts). The Department has taken this write-off action where it has been unable to verify these radios to the required standard of evidence.

31. My audit found that the Department now has sufficiently reliable data to support the existence of 49,730 functional radios through a mix of direct verification and supportable management estimates. The value includes 41,884 upgraded radios identified by individual serial number at 31 March 2012. My audit directly verified a sample of these serially tracked assets and has undertaken verification procedures to assess the reasonableness of other supporting data in respect of estimates. I am satisfied that the evidence provided now enables me to form an opinion on these balances.

32. In response to my observations the Department has developed a plan to ensure all BOWMAN radios will be tracked individually within the future logistic systems and to depart from the use of management estimates to support these balances in the accounts. This should provide more robust data to track the location of specific radio assets for both accounting and operational purposes.

33. However, the Department remains some way from achieving its stated aim of tracking all radios electronically via their serial number. Around 84 per cent of assets were serially tracked and recorded on electronic systems at the time of my audit. Further effort will be required to improve this rate of capture on data systems. Should management be unable to achieve its aims in gathering this data electronically it will need to ensure that it is able to maintain the current level of support for its estimates, without which the Department would lack the necessary evidence on which I can form an opinion.

Other Matters

34. In my last report I noted that the Department was continuing to work to reduce the gap between the anticipated cost of the Defence Programme, and the likely available future funding which had previously been quantified as £38bn. Since then the Secretary of State has announced that, and as referenced in the Introduction by the Chief of Defence Staff and Permanent Secretary (Page 7), this gap has been closed. I have been invited by the Department to provide my view on the affordability of the Department's Equipment Plan, and I plan to publish this in the winter.

35. The Department has also made progress in addressing the qualification issues raised in my previous Reports on the Accounts. Much of this progress continues to be the result of labour intensive manual processes. With the impact of staff redundancies now being felt it is important that the longer term investment in systems and controls is delivered to allow the sustainment of these improvements.

Amyas CE Morse
Comptroller and Auditor General
National Audit Office
157 – 197 Buckingham Palace Road
Victoria, London SWIW 9SP

3 December 2012

Statement of Parliamentary Supply

Summary of Resource and Capital Outturn 2011-12

	Note	Estimate Voted £000	Estimate Non Voted £000	Estimate Total £000	Outturn Voted £000	Outturn Non Voted £000	Outturn Total £000	2011-12 Total Outturn Compared to Estimate Saving / (Excess) £000	2010-11 Outturn* £000
Departmental Expenditure Limit									
Resource	2.1	39,462,243	-	39,462,243	37,979,944	-	37,979,944	1,482,299	40,744,714
Capital	2.2	9,504,961	-	9,504,961	9,014,056	-	9,014,056	490,905	8,024,182
Annually Managed Expenditure									
Resource	2.1	2,693,536	-	2,693,536	966,837	-	966,837	1,726,699	7,891,686
Capital	2.2	-	-	-	(9,615)	-	(9,615)	9,615	114,658
Total Budget		51,660,740	-	51,660,740	47,951,222	-	47,951,222	3,709,518	56,775,240
Non-budget									
Resource		-	-	-	(422,419)	-	(422,419)	422,419	-
Total		51,660,740	-	51,660,740	47,528,803	-	47,528,803	4,131,937	56,775,240
Total Resource		42,155,779	-	42,155,779	38,524,362	-	38,524,362	3,631,417	48,636,400
Total Capital		9,504,961	-	9,504,961	9,004,441	-	9,004,441	500,520	8,138,840
Total		51,660,740	-	51,660,740	47,528,803	-	47,528,803	4,131,937	56,775,240

*The published total resource outturn for 2010-11 has been re-stated for reductions in outturn as a result of: the change in accounting policy in respect of donated assets, the transfer of Met Office to the Department of Business Innovation and Skills (BIS) and as a result of the inclusion of Arm's Length Bodies in the accounting boundary. Further details are at Note 31 – Prior Period Adjustments.

Net Cash Requirement 2011-12

	Note	Estimate £000	Outturn £000	2011-12 Outturn compared to Estimate: Savings/ (Excess) £000	2010-11 Restated Outturn* £000
Net Cash Requirement	4	39,606,144	37,608,179	1,997,965	37,585,041

*The 2010-11 Outturn has been restated as a result of the transfer of Met Office to BIS.

Administration Costs 2011-12

	Estimate £000	2011-12 Outturn £000	Outturn compared with Estimate £000	Restated 2010-11 Outturn* £000
Administration Costs	2,785,180	2,691,946	93,234	2,574,379

*The 2010-11 costs have been restated using the revised Administration Cost Regime as set out in Note 1 – accounting policy.

Notes 1 to 31 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Statement of Parliamentary Supply

The Total Net Resource outturn is £38.5Bn against an Estimate of £42.1Bn, an under spend of £3.6Bn.

The underspend consists of:

- an underspend of £1.5Bn against the approved limit for Resource DEL resulting from lower than expected outturn against the approved increase to the Supplementary Estimate in respect of non-cash Resource DEL impairments depreciation and release of provisions;
- an underspend of £1.7Bn against the approved limit for Resource AME resulting from an unexpected reduction in the value of nuclear provisions (£0.8Bn) and a balance (£0.9Bn) caused by the inclusion in the Estimates of provision for impairments and depreciation which had not materialised at year end; and
- an underspend of £0.4Bn against non-budget resulting from a Prior Period Adjustment to correct an error in an impairment; no provision was made for the correction of prior year errors.

The Total Net Capital outturn is £9Bn against an Estimate of £9.5Bn, an under spend of £0.5Bn.

The Net Cash Requirement shows an outturn of £37.6Bn against an Estimate of £39.6Bn.

The Net Administration Costs were £2.692Bn, £93M lower than the Estimate of £2.785Bn.

Further details of the Department's budget and expenditure are included in the Chapter 8 of the Annual Report.

Notes 1 to 31 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Statements of Comprehensive Net Expenditure (SoCNE)

for the year ended 31 March 2012

	Note	2011-12 Core Department £000	2011-12 Departmental Group £000	2010-11 Core Department £000	2010-11 Departmental Group £000
Administration Costs					
Staff costs	6.2	2,505,314	2,505,314	2,489,269	2,489,269
Other administration costs	7.1	18,316	18,316	23,453	23,453
Total administration costs		**2,523,630**	**2,523,630**	**2,512,722**	**2,512,722**
Programme Costs					
Staff costs	6.2	10,334,868	10,423,509	10,276,357	10,358,869
Other programme costs	7.2	26,979,082	26,961,894	34,755,481	34,731,550
Gross programme costs		**37,313,950**	**37,385,403**	**45,031,838**	**45,090,419**
Operating income	8	(1,345,504)	(1,405,930)	(1,379,584)	(1,446,450)
Net programme cost before interest		**35,968,446**	**35,979,473**	**43,652,254**	**43,643,969**
Net interest payable / (receivable)	9	479,466	479,294	462,508	462,328
Net programme cost		**36,447,912**	**36,458,767**	**44,114,762**	**44,106,297**
Net operating cost	3.1	**38,971,542**	**38,982,397**	**46,627,484**	**46,619,019**

Other Comprehensive Expenditure

for the year ended 31 March 2012

	Note	2011-12 Core Department £000	2011-12 Departmental Group £000	2010-11 Core Department £000	2010-11 Departmental Group £000
Net (gain) / loss on revaluation of property, plant and equipment	SoCiTE	(3,632,541)	(3,655,320)	(1,856,591)	(1,856,983)
Net (gain) / loss on revaluation of intangible assets	SoCiTE	(423,350)	(423,350)	(898,878)	(898,878)
Net (gain) / loss on revaluation of assets held for sale	SoCiTE	46,727	45,044	(3,524)	(5,796)
Net (gain) / loss on revaluation of inventories	SoCiTE	(238,796)	(238,796)	(629,247)	(629,247)
Net (gain) / loss on pensions	SoCiTE	5,770	5,770	(60,367)	(73,367)
Impairments / (Impairment Reversals) not included in operating costs	3.1	17,220	17,220	(3,868)	(3,868)
Transfer between reserves and asset writes-on	SoCiTE	(130,704)	(119,904)	53,718	54,901
Total Other Comprehensive Expenditure		**(4,355,674)**	**(4,369,336)**	**(3,398,757)**	**(3,413,238)**
Total Net Comprehensive Expenditure		**34,615,868**	**34,613,061**	**43,228,727**	**43,205,781**

Notes 1 to 31 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Statements of Financial Position (SoFP)

as at 31 March 2012

	Note	31 March 2012 Core Department £000	31 March 2012 Departmental Group £000	31 March 2011 Core Department £000	31 March 2011 Departmental Group £000	1 April 2010 Core Department* £000	1 April 2010 Departmental Group £000
Non-current assets							
Intangible assets	10	27,850,751	27,850,751	27,528,847	27,528,847	29,133,566	29,133,566
Property plant and equipment	11	92,069,562	92,812,600	88,300,099	89,037,842	91,652,802	92,387,366
Financial assets		141,976	163,886	147,495	169,405	158,387	180,297
Receivables due after more than one year	16.1	827,907	987,827	886,718	1,046,638	882,592	961,813
Total non-current assets		**120,890,196**	**121,815,064**	**116,863,159**	**117,782,732**	**121,827,347**	**122,663,042**
Current assets							
Financial assets held for sale	12.6	1	57,567	1	55,853	1	53,966
Non-current assets held for sale	14	91,992	91,992	122,899	122,899	83,062	83,062
Inventories	15	7,246,283	7,246,792	7,719,673	7,720,173	7,183,855	7,184,322
Trade and other receivables	16.1	2,433,296	2,440,949	2,430,698	2,438,713	2,628,133	2,634,489
Financial assets		110,585	110,585	348,407	348,407	513,611	513,611
Cash at bank and in hand	17	764,522	812,101	683,901	734,484	677,357	728,470
Total current assets		**10,646,679**	**10,759,986**	**11,305,579**	**11,420,529**	**11,086,019**	**11,197,920**
Total assets		**131,536,875**	**132,575,050**	**128,168,738**	**129,203,261**	**132,913,366**	**133,860,962**
Current liabilities							
Trade and other payables due within one year	18.1	(10,706,570)	(10,750,888)	(10,149,137)	(10,192,508)	(9,246,607)	(9,292,685)
Financial liabilities		(213,497)	(213,497)	(102,976)	(102,976)	(30,984)	(30,984)
Total current liabilities		**(10,920,067)**	**(10,964,385)**	**(10,252,113)**	**(10,295,484)**	**(9,277,591)**	**(9,323,669)**
Non-current assets plus net current assets		**120,616,808**	**121,610,665**	**117,916,625**	**118,907,777**	**123,635,775**	**124,537,293**
Non-current liabilities							
Provisions	19	(4,608,219)	(4,757,311)	(5,485,042)	(5,634,174)	(5,706,669)	(5,788,776)
Other payables	18.1	(6,121,421)	(6,121,469)	(5,539,526)	(5,539,636)	(5,396,420)	(5,396,867)
Total non-current liabilities		**(10,729,640)**	**(10,878,780)**	**(11,024,568)**	**(11,173,810)**	**(11,103,089)**	**(11,185,643)**
Assets less liabilities**		**109,887,168**	**110,731,885**	**106,892,057**	**107,733,967**	**112,532,686**	**113,351,650**
Taxpayers' equity and other reserves							
General fund	SoCiTE	84,095,437	84,095,437	83,401,034	83,401,034	88,319,464	88,319,464
Revaluation reserve	SoCiTE	25,791,731	25,791,731	23,491,023	23,491,023	24,213,222	24,213,222
Taxpayers Equity		**109,887,168**	**109,887,168**	**106,892,057**	**106,892,057**	**112,532,686**	**112,532,686**
Arm's Length Bodies restricted reserves		-	65,463	-	58,759	-	52,422
Arm's Length Bodies unrestricted reserves		-	779,254	-	783,151	-	766,542
Total Arm's Length Bodies' reserves		**-**	**844,717**	**-**	**841,910**	**-**	**818,964**
Total taxpayers' equity and other reserves		**109,887,168**	**110,731,885**	**106,892,057**	**107,733,967**	**112,532,686**	**113,351,650**

*Balances have been restated for: the transfer of Met Office to the Department for Business Innovation and Skills and changes resulting in HM Treasury's revised policy in respect of donated assets further details are at Note 1.16 and Note 31.
**The value of assets and liabilities accounted for under leases is understated because contracts, particularly strategic procurement arrangements with key contractors, have not been assessed under IFRIC 4; further details are at Notes 1.39 to 1.41 to the accounts

Jon Thompson
Accounting Officer 30 November 2012

Notes 1 to 31 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Statements of Cash Flows (SoCF)

for the year ended 31 March 2012

	Note	2011-12 Core Department £000	2011-12 Departmental Group £000	2010-11 Core Department £000	2010-11 Departmental Group £000
Cash flows from operating activities					
Net operating cost	SoCNE	38,971,542	**38,982,397**	46,627,484	46,619,019
Adjustments for non-cash transactions		(10,182,252)	**(10,194,512)**	(17,961,702)	(18,050,763)
Increase / (Decrease) in trade and other receivables		(56,213)	**(56,575)**	(182,462)	(100,104)
Less movements in receivables relating to items not passing through operating costs		20,214	**20,214**	112,244	112,252
Increase / (Decrease) in net inventory additions and consumption		(473,389)	**(473,380)**	599,289	599,313
Increase / (Decrease) in assets held for sale	14	(30,907)	**(30,907)**	137,602	137,602
(Increase) / Decrease in trade payables		(1,139,328)	**(1,140,213)**	(1,045,636)	(1,042,592)
Less movements in payables relating to items not passing through operating costs		1,153,251	**1,153,208**	(229,017)	(229,060)
Gain / (Loss) on derivatives		132,182	**132,182**	(192,182)	(192,182)
Use of provisions including movement due to change in discount rate		345,325	**345,365**	236,224	236,224
Net cash outflow from operating activities		**28,740,425**	**28,737,779**	28,101,844	28,089,709
Cash flows from investing activities					
Purchase of property, plant and equipment	11	7,780,551	**7,787,234**	8,068,447	8,085,557
Purchase of intangible assets	10	1,458,845	**1,458,845**	1,364,660	1,364,660
Less non cash movements relating to PPE and intangibles		(365,456)	**(365,456)**	(211,510)	(211,510)
Proceeds of disposal of property, plant and equipment		(300,289)	**(300,289)**	(64,267)	(65,285)
Repayments from other bodies	12.18	(5,469)	**(5,469)**	(5,423)	(5,423)
Income from investments		-	**(1,084)**	-	(3,487)
Net cash outflow from investing activities		**8,568,182**	**8,573,781**	9,151,907	9,164,512
Cash flows from financing					
From the consolidated fund (Supply) – current year		(37,461,000)	**(37,461,000)**	(37,457,400)	(37,457,400)
From the consolidated fund – settlement of prior year receivable		(127,641)	**(127,641)**	(239,885)	(239,885)
Repayment of other loans		-	**43**	-	43
Repayment of loans from the National Loans Fund	18.1	2,407	**2,407**	2,270	2,270
Adjustment to loan repayments received, to reflect the effect of changes to 2010-11 comparator figures in respect of the transfer of Met Office to BIS.		-	**-**	(5,698)	(5,698)
Capital element of payments in respect of finance leases and Service Concession Arrangements		197,006	**197,014**	197,834	197,851
Net financing		**(37,389,228)**	**(37,389,177)**	(37,502,879)	(37,502,819)
Net increase / (decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**80,621**	**77,617**	249,128	248,598
Amounts remitted to the Consolidated Fund (due 31 Mar 10)		-	**-**	(242,541)	(242,541)
Amounts remitted to the Consolidated Fund (2010-11)		-	**-**	(43)	(43)
Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**80,621**	**77,617**	6,544	6,014
Cash and cash equivalents at the beginning of the period	17	**683,901**	**734,484**	677,357	728,470
Cash and cash equivalents at the end of the period	17	**764,522**	**812,101**	683,901	734,484

Notes 1 to 31 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Statements of Changes in Taxpayers Equity (SoCiTE)

for the year ended 31 March 2012

		Core Department			Arm's Length Bodies (ALBs)			Departmental Group
	Note	General Fund £000	Revaluation Reserve £000	**Taxpayers Equity £000**	Restricted Reserves £000	Unrestricted Reserves £000	**Total of ALBs' Reserves £000**	**Total Reserves £000**
Balance at 1 April 2010		**88,319,464**	**24,213,222**	**112,532,686**	**52,422**	**766,542**	**818,964**	**113,351,650**
Parliamentary Funding – drawn down in-year		37,457,400	-	37,457,400	-	-	-	37,457,400
Parliamentary Funding – Supply receivable	16.1	127,641	-	127,641	-	-	-	127,641
Amounts due to the Consolidated Fund received and paid over in year	5	(43)	-	(43)	-	-	-	(43)
Non-cash charge – auditors remuneration	7.2	3,100	-	3,100	-	-	-	3,100
Net operating costs	SoCNE	(46,627,484)	-	(46,627,484)	202	8,263	8,465	(46,619,019)
Other net comprehensive expenditure:								
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	-	1,856,591	1,856,591	(4,573)	4,965	392	1,856,983
Net (loss) / gain on revaluation of intangible assets	SoCNE	-	898,878	898,878	-	-	-	898,878
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	3,524	3,524	53	2,219	2,272	5,796
Net (loss) / gain on revaluation of inventories	SoCNE	-	629,247	629,247	-	-	-	629,247
Net (loss) / gain on pensions	SoCNE	60,367	-	60,367	11,200	1,800	13,000	73,367
Impairments / (Impairment Reversals) not included in operating costs	SoCNE	-	3,868	3,868	-	-	-	3,868
Transfer between reserves and asset writes-on	SoCNE	4,060,589	(4,114,307)	(53,718)	(545)	(638)	(1,183)	(54,901)
Balance at 31 March 2011		**83,401,034**	**23,491,023**	**106,892,057**	**58,759**	**783,151**	**841,910**	**107,733,967**
Parliamentary Funding – drawn down in-year		37,461,000	-	37,461,000	-	-	-	37,461,000
Parliamentary Funding – Supply receivable	16.1	147,179	-	147,179	-	-	-	147,179
Non-cash charge – auditors remuneration	7.2	2,800	-	2,800	-	-	-	2,800
Net operating costs	SoCNE	(38,971,542)	-	(38,971,542)	(141)	(10,714)	(10,855)	(38,982,397)
Other net comprehensive expenditure:								
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	-	3,632,541	3,632,541	6,712	16,067	22,779	3,655,320
Net (loss) / gain on revaluation of intangible assets	SoCNE	-	423,350	423,350	-	-	-	423,350
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	(46,727)	(46,727)	83	1,600	1,683	(45,044)
Net (loss) / gain on revaluation of inventories	SoCNE	-	238,796	238,796	-	-	-	238,796
Net (loss) / gain on pensions	SoCNE	(5,770)	-	(5,770)	-	-	-	(5,770)
Impairments / (Impairment Reversals) not included in operating costs	SoCNE	-	(17,220)	(17,220)	-	-	-	(17,220)
Transfer between reserves and asset writes-on	SoCNE	2,060,736	(1,930,032)	130,704	50	(10,850)	(10,800)	119,904
Balance at 31 March 2012		**84,095,437**	**25,791,731**	**109,887,168**	**65,463**	**779,254**	**844,717**	**110,731,885**

Notes 1 to 31 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Notes to the Accounts

1. **Statement of Accounting Policies**

Introduction

1.1 These financial statements have been prepared in accordance with the 2011-12 FReM issued by HM Treasury except that IFRIC 4 – Determining whether an Arrangement Contains a Lease, has not been applied. Further information on the reasons for this non-application and its impact on the financial statements are given in Notes 1.40 to 1.41 below. The accounting policies contained in the FReM apply IFRS as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Department are described below. They have been applied consistently in dealing with items that are considered material to the accounts and comply with the requirements of the FReM except where HM Treasury has approved the following departures to enable the Department to reflect its own particular circumstances:

- The FReM's requirement for Departments to prepare accounts that present the transactions and balances by: Core Department, Agencies and Departmental Group, has not been applied in respect of Agencies because they fall within the Departmental Boundary and are on-vote and embedded within the Departmental chain of command. HM Treasury permits the two Agencies to be treated as an integral part of the Core Department. Throughout these accounts, the Departmental Group figures for the Ministry of Defence consist of the consolidation of the Core Department and its ALBs. Details of the entities within the accounting boundary are at Note 30 to these accounts.

- The Department has not fully complied with the FReM emissions cap and trade scheme accounting requirements on the grounds of materiality. Rather than registering an asset and a liability to reflect its holding of allowances and its obligation to pay for emissions, the Department has reflected the purchase and sale of allowances as expenditure and income within the Statement of Comprehensive Net Expenditure. All other costs associated with the scheme, such as compliance checking, are also charged to the Statement of Comprehensive Net Expenditure.

- On the grounds of materiality, the Department, in applying IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities – uses the cost model rather than the revaluation model to measure changes in its capitalised asset provisions.

- On the grounds of materiality, HM Treasury has also agreed that the information normally required by the FReM on Fees and Charges disclosures (paragraph 5.4.28) is not required and the disclosure provided at Note 8.1 is sufficient.

1.2 The Statement of Comprehensive Net Expenditure is analysed between administration and programme costs. Administration costs consist of the costs of civilian staff, excluding health care professionals and staff working in operational areas such as Afghanistan plus the cost of external assistance such as technical and legal services. The Armed Forces are excluded from the ACR as are the ALBs. The cost of redundancies and early release schemes is included in Administration costs.

Segmental Reporting

1.3 The Defence Board reviews performance and allocates resources at an aggregated level, varying their mix to meet prioritised changes in activities which, in combination, deliver defence capability. Although the Department is organised into separate budgetary areas for financial management purposes e.g. procurement and equipment support, Navy Command, Land Forces and Air Command, it is only by combining the activities undertaken by each of these budgetary areas that the Department is able to deliver its principal output of meeting UK defence commitments. The wider departmental group includes charities e.g. Service museums and the Commonwealth War Graves Commission; these are not considered material to the delivery of defence capability. Therefore, on the basis that the Department's business output is not organised on any specific geographic, economic, regulatory, product or service basis, it is deemed appropriate to treat it as a single operating segment.

Accounting Convention

1.4 These financial statements have been prepared under the historical cost convention, modified to include the revaluation of intangible assets, property, plant and equipment assets and inventories.

Basis of Preparation of Department's Annual Accounts

1.5 These financial statements comprise the consolidation of the Department, its Supply financed Agencies, Advisory NDPBs and ALBs sponsored by the Department. The Defence Agencies, Advisory NDPBs and ALBs which are included in the accounting boundary of the Departmental Group are listed in Note 30. The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies and requires the individual bodies to be designated for consolidation by order of HM Treasury under statutory instrument. This has implications for ALBs with subsidiaries. Subsidiaries which are public corporations, or fall outside the central government classification for some other reason have been excluded from the accounting boundary except for some minor entities where inclusion does not have a material impact on the consolidated position and the work required to exclude them is therefore not justified.

1.6 The ALBs use categories for their costs which do not always align with MOD categories. As they are not material, the costs of the Department's ALBs are split into three categories for the purpose of consolidation – 'staff costs', 'depreciation' and 'other'. Following transfer of responsibility for the Met Office from MOD to the Department for Business, Innovation and Skills the Department now has three agencies established as Trading Funds. The Trading Funds produce their own accounts and, as they fall outside Voted Supply, the Department's interests are included in the financial statements as non-current financial assets.

1.7 The AFPS is not consolidated within these financial statements. Separate accounts are prepared for the AFPS. Further details are available at: http://www.veterans-uk.info/arac/arac_contents.html

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

1.8 Preparation of the Department's Annual Accounts requires significant judgements and estimates to be applied in order to arrive at the value of Departmental assets and liabilities and likewise the amount of revenue and expenses to be reported during the accounting period. The key areas in which judgements and estimates have been used are described below.

Non-Current Assets

1.9 Intangible non-current assets and plant and equipment assets are expressed at their fair value through the application of indices produced by Defence Analytical Services and Advice (DASA). DASA supplied indices are also applied to property assets during periods between the quinquennial revaluations undertaken by external professional valuers.

1.10 The useful economic life of an equipment asset is assessed by reference to its estimated out of service date and for other assets on the basis of their estimated period of utility to the Department. There is an inherent uncertainty in estimating the annual depreciation charge and the carrying amount of a tangible non-current asset. For example an increase in the useful economic life will decrease the depreciation charged to the Statement of Comprehensive Net Expenditure during the year and increase the asset's carrying amount at financial year end.

1.11 The out of service date for tangible non-current assets is subject to change depending on factors such as strategic defence policy and predicted obsolescence. The economic lives of non-current assets are regularly reviewed and, where appropriate, revised to reflect changing circumstances such as decisions reflected in the latest finalised Planning Round.

Inventories

1.12 Where inventories have become surplus, unserviceable, defective or obsolescent, an estimated financial provision is applied to their carrying value to reduce it to net realisable value. Details of inventories balances are given in Note 15.

Accruals

1.13 Where expenditure has been incurred but not invoiced an estimate is made of the amount to be accrued. Accruals are listed in Note 18.

Nuclear Decommissioning

1.14 Provisions have been made for the cost of decommissioning facilities and for the treatment, storage, and disposal of nuclear waste arising from operations at Rosyth and Devonport dockyards and at Atomic Weapons Establishment sites. Provisions are also included for the future cost of decommissioning operational nuclear submarines and likewise for the cost of decommissioning those which have reached their out of service date.

1.15 In calculating the provisions, an estimate has been made of the cash flows required to settle the obligations. Key assumptions in this estimate are the time period over which the provisions are estimated, the costs for the future storage and decommissioning of waste, the VAT rate and the discount rate used (2.2%). While the discount rate applied to the future cash flows is subject to assumptions, the Department has used the discount rate mandated by HM Treasury. Details of how nuclear decommissioning provisions have been calculated are included in Note 19.

Changes During FY 2011-12 Which Have Affected the Preparation of These Annual Accounts

1.16 The main changes in accounting policies, estimates and conventions in 2011-12 were:

- Changes to the Statement of Parliamentary Supply include presentation of the Summary of Resource Outturn by voted/non-voted Departmental Expenditure Limit (DEL) rather than by Request for Resources (RfR). There were previously 3 RfRs; normal MOD business (RfR1), operations (RfR2) and war pension and benefits (RfR3). The prior year comparator figures in the Statement have been restated to reflect: the inclusion of Arm's Length Bodies within the accounting boundary, the change in accounting treatment for donated assets and the transfer of Met Office to BIS.

- Under Clear Line of Sight, the Accounting Boundary now includes the Department's ALBs i.e. the RAF Museum, the National Army Museum, the National Museum of the Royal Navy, the Royal Hospital Chelsea, the War Graves Commission, the Army Benevolent Fund and the Council of Reserve Forces and Cadets Associations.

- The notional cost of a donated asset is now treated as income and not a credit to the reserves. This better reflects the receipt of an asset that is essentially free to the Department.

- The method of analysing the Statement of Comprehensive Net Expenditure between administration and programme costs has been revised, see Note 1.2.

- Following the Hutton Fair Pay Disclosure review, the Remuneration Report now includes details of pay multiples i.e. the ratio between the highest paid Board member and the median remuneration for the workforce. Separate multiples are calculated for military and civilian pay.

- The Statement of Internal Control has been replaced by the Governance Statement to encourage entities to focus more specifically on key organisational concerns.

- The Management Commentary should include a Sustainability Report.

Recent Changes to Regulations Affecting the Preparation of Future Annual Accounts

1.17 The 2012-13 FReM introduces one main change:

- IAS 39 is applied to loans and investments (with the exception to Public Dividend Capital) in entities outside the Departmental Accounting Boundary. Such investments are listed in Note 12.

Net Operating Costs

1.18 Costs are charged to the Statement of Comprehensive Net Expenditure in the period in which they are incurred and matched to any related income. Details of exit packages are included at Note 6.10 to the accounts. Costs of contracted-out services are included net of recoverable VAT. Other costs are VAT inclusive, although a proportion of this VAT is recovered via a formula agreed with HMRC. Surpluses and deficits on disposal of assets classified as held for sale and inventories declared for disposal are included at Note 7 Other Administration and Programme Costs.

1.19 Income from services provided to third parties is included within operating income, net of related VAT. In accordance with IAS 10, as interpreted by the FReM, Trading Fund dividends are recognised as operating income on an accruals basis, whilst other dividends are recognised in the year in which they are declared.

Non-Current Assets

1.20 The Department's capitalisation threshold is £25,000. Intangible and property, plant and equipment assets are expressed at their fair value through the application of the Modified Historical Cost Accounting Convention (MHCA). Prospective indices, which are produced by DASA, are applied at the start of each financial year to the non-current assets which fall within the categories listed below. These indices look ahead to the Reporting Period date and include calculations to reflect the difference between the actual change in prices during the prior year and the prospective indices used for that year. In addition, where there is a material difference between the indices for year end and those used throughout the year, the MHCA calculations are performed again, using the up to date indices at the year end. The value of the overseas estate assets is similarly adjusted to take account of the year-end exchange rates. Categories of indices used are:

- Land (by region and type);
- Buildings – Non Dwellings (UK and specific overseas indices);
- Buildings – Dwellings (UK and specific overseas indices);
- Single Use Military Equipment – Air Systems;
- Single Use Military Equipment – Sea Systems;
- Single Use Military Equipment – Land Systems;
- IT and Communications Equipment – Communications Equipment;
- IT and Communications Equipment – Office Machinery and Computers;
- Plant and Machinery – specific UK index covering all assets;
- Transport – Fighting Equipment;
- Transport – Other; and
- Assets Under Construction – index applicable to the underlying tangible asset category.

1.21 Property assets are also subject to a quinquennial revaluation by external professional valuers in accordance with IAS 16 – Property, Plant and Equipment, as interpreted by the FReM. Property assets are valued in one of two ways depending on their use. Non-specialist properties are valued at fair (i.e. market) value. For in-use non specialist properties, fair value is interpreted as market value for existing use. Specialist property for which there is no external market is valued at depreciated replacement cost. The majority of Service Families Accommodation is valued at depreciated replacement cost due to the positioning of housing in certain areas or as a result of the lack of an alternative market for certain holdings due to their remote geographic locations. Where market value for existing use is more appropriate, for example for small numbers of houses in a single location, this basis of valuation has been applied.

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

Intangible Non-Current Assets

1.23 Research costs are charged to the Statement of Comprehensive Net Expenditure in the period in which they are incurred.

1.24 Development costs are capitalised where the project is expected to result in an asset which will enter service. Those not capitalised are charged to the Statement of Comprehensive Net Expenditure. Capitalised development costs are amortised, on a straight line basis, over the planned operational life of the resultant asset, e.g. class of ship or aircraft. Amortisation commences when the asset type first enters operational service within the Department. If it is decided to withdraw the whole class of an asset type early, then any residual unamortised development costs relating to that class are written off to the Statement of Comprehensive Net Expenditure, along with the value of the underlying property, plant and equipment non-current assets.

1.25 Externally purchased software including licences (other than for the operating system which is treated as part of the computer hardware and where appropriate capitalised as a tangible non-current asset) are capitalised where they contribute to the provision of services or other Departmental outputs for a period in excess of one year. Capitalised software is amortised, on a straight line basis, over the shorter of either the economic life or the licence period.

Property, Plant and Equipment Non-Current Assets

1.26 The useful economic lives of property, plant and equipment non-current assets are reviewed annually and adjusted where necessary.

1.27 It is the Departmental capitalisation threshold which determines whether or not an asset is recorded on the Department's Non-Current Asset Register (NCAR). The threshold is £25,000 although Agencies are still permitted to apply a lower capitalisation threshold to those assets which form part of their own Statement of Financial Position. Where ALBs have used a lower capitalisation threshold, the assets have also been consolidated.

1.28 The Departmental threshold of £25,000 is not applied to individual capital spares and assembled Guided Weapons Missiles and Bombs (GWMB). Instead, for accounting purposes, these items are treated as pooled assets and included within the SUME category of non-current assets. GWMB and capital spares are depreciated and the depreciation charge in the Statement of Comprehensive Net Expenditure also includes the cost of GWMB fired to destruction.

1.29 The principal asset categories, together with their useful economic lives, are set out in the table below. All the assets are depreciated on a straight line basis.

	Category	Years
Land and Buildings	Land	Not depreciated unless it is held under a finance lease.
	Buildings (dwellings and non-dwellings):	
	– permanent	40 – 50
	– temporary	5 – 20
	Leasehold	Shorter of expected life and lease period
Single Use Military Equipment (including GWMB)	Air Systems – Fixed Wing	13 – 35
	Air Systems – Rotary Wing	25 – 30
	Sea Systems – Surface Ships	24 – 30
	Sea Systems – Submarines	28 – 32
	Land Systems – Armoured Vehicles	25 – 30
	Land Systems – Small Arms	10 – 15
Plant and Machinery	Equipment	10 – 25
	Plant and Machinery	5 – 25
Transport	Air Systems – Fixed Wing	25 – 35
	Air Systems – Rotary Wing	15 – 32
	Sea Systems – Surface Ships	20 – 30
	Land Systems – Specialised Vehicles	15 – 30
	Land Systems – Other Standard Vehicles	3 – 5
IT and Communications Equipment	Office Machinery	3 – 10
	Communications Equipment	3 – 30
Capital Spares	Items of repairable material retained for the purpose of replacing parts of an asset undergoing repair, refurbishment, maintenance, servicing, modification, enhancement or conversion.	As life of prime equipment supported
Operational Heritage Assets	Operational Heritage Assets are included within the principal asset category to which they relate.	As other non-current assets

Donated Assets

1.30 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.

1.31 Income to the value of the donated assets is recognised in the year of donation except where donation is subject to conditions. Where donation is subject to conditions income is deferred to the year in which the conditions are met.

Componentisation and Subsequent Expenditure

1.32 The Department's policy on componentisation (the recognition of the cost of replacing part of an asset) is as follows:

- Newly built property assets, with the exception of specialist assets, are not subject to componentisation at the point of initial capitalisation as the cost of any potential component is not significant to the total cost of the asset. Specialist assets such as runways are considered for componentisation.

- Where a property asset is refurbished or part of it replaced, the expenditure is recognised within the carrying amount of the overall asset. For assets above £500,000, the carrying amount of the part which is replaced is de-recognised. The Quinquennial Revaluation is used to adjust any short term valuation differences.

- Material expenditure on major refits and overhauls in the sea environment are accounted for separately when their value is consumed by the Department over a different period from the life of the corresponding core asset. Refurbishment costs are expensed within the air and land environments, as these costs are considered to be equivalent to an annual depreciation charge.

Impairment

1.33 Impairment charges to the Statement of Comprehensive Net Expenditure occur in circumstances which reduce the carrying amount of property, plant and equipment assets to their recoverable amount. All impairment losses (except for those arising from a clear consumption of economic value or service potential) are written off against the Revaluation Reserve until the carrying amount of the asset reaches its depreciated historic cost. Impairment losses below this amount are charged to the net operating cost section of the Statement of Comprehensive Net Expenditure. Any reversal of an impairment charge is recognised in the Statement of Comprehensive Net Expenditure to the extent that the original charge was previously recognised there. Any remaining amount is recognised in the Revaluation Reserve.

1.34 All impairment losses arising from a clear consumption of economic value or service potential should be written off to the net operating cost section of the Statement of Comprehensive Net Expenditure. Any balance on the Revaluation Reserve (up to the level of the impairment) is transferred to the General Fund.

Disposal of Tangible Non-Current Assets

1.35 Disposal of assets is handled principally by two specialist internal organisations: the Defence Infrastructure Organisation for property assets and the Disposal Services Authority for non-property assets.

1.36 Non-current assets are reclassified as held for sale if their carrying amount will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale, subject only to terms that are usual and customary for the sale of such assets. The sale must also be highly probable, and expected to complete within one year.

1.37 When assets are classified as held for sale, they are re-classified as current assets and valued at the lower of their carrying amount and their fair value less costs to sell. No further depreciation is applied.

Leased Assets

1.38 Assets held under finance leases are capitalised as non-current assets and a corresponding liability recognised. The assets are depreciated over the shorter of the lease term and their estimated useful economic life. Payments are apportioned between reductions in the capital obligations included in payables and finance costs charged to the Statement of Comprehensive Net Expenditure. Expenditure under operating leases is charged to the Statement of Comprehensive Net Expenditure in the period to which the charge relates.

1.39 The Department may also enter into arrangements that do not take the legal form of a lease but which give the Department the right to use an asset in return for payment. IFRIC 4 – Determining whether an Arrangement Contains a Lease provides guidance on determining whether such arrangements contain leases. Where leases are identified, they should be classified as operating or finance leases in accordance with IAS 17 – Leases are accounted for in accordance with the accounting policies set out in Note 1.38.

1.40 The Department has not complied with IFRIC 4 – Determining whether an Arrangement Contains a Lease. MOD has been assessing new contracts in readiness for a more wide ranging review of the impact of IFRIC 4. The announcement of the SDSR and the continuing impact on existing contracts and the supplier base has meant that the work necessary to review existing contracts has been put on hold until contract re-negotiations have been completed. Contract negotiations will continue during 2012-13 after which the Department will be able to resume its review of the application of IFRIC 4 to existing contracts.

1.41 The impact on the financial statements of not applying IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the Statement of Financial Position. Commitments under operating leases and finance leases have also been omitted from Notes 22.1 and 22.2.

Public Private Partnerships (PPP) including Private Finance Initiative (PFI) Transactions

1.42 Where PPP including PFI arrangements fall within the scope of the IFRIC 12 – Service Concession Arrangements definition of Service Concession Arrangements, the infrastructure assets and liabilities are reported on the Department's Statement of Financial Position. Unitary charges are apportioned between reduction in the capital obligation and charges to the Statement of Comprehensive Net Expenditure for service performance and finance costs.

1.43 Where PPP including PFI arrangements are outside the scope of IFRIC 12 – Service Concession Arrangements, the arrangement is assessed to establish whether it contains a lease under IFRIC 4. If it does contain a lease, the lease is accounted for as either a finance or an operating lease in accordance with IAS 17. Where the arrangement does not contain a lease, the expenditure will be recognised as it falls due.

Financial Instruments

1.44 The Department has foreign currency forward purchase contracts, denominated in US Dollars and Euros, and fuel fixed price swap contracts denominated in US Dollars which are accounted for as derivatives and classified as Held For Trading financial instruments.

1.45 The foreign currency forward purchase contracts are measured at fair value with movements in fair value being charged or credited to the Statement of Comprehensive Net Expenditure. The fair value is measured as the difference between the currency's closing mid-market rate at the date of valuation (representing the spot rate) and the rate stipulated in the contract multiplied by the number of contracted units of currency. The Department obtains the closing mid-market rate from the Financial Times. The forward contracts will only have a fair value up to their date of settlement. Once each contract has been settled, the derivative is removed from the Department's Statement of Financial Position. The forward contracts were purchased from the Bank of England. Details of existing contracts are at Notes 12.9 to 12.11 to the accounts.

1.46 The Department uses fixed price swap contracts to manage its risk of fuel price movements in respect of Aviation Turbine Fuel and Gas Oil. The contracts are measured at fair value with movements in fair value being charged or credited to the Statement of Comprehensive Net Expenditure. The fair value is measured as the difference between the closing average mid-market rate for the two commodities for the calendar month ending with the date of valuation (representing the spot rate) and the rate stipulated in the contract, multiplied by the contracted volumes, in the contracted currency. These values are converted to sterling using the closing mid-market rate obtained from the Financial Times. The swap contracts will only have a fair value up to their date of settlement. Once each contract is settled, it is removed from the Statement of Financial Position. Swap contracts are purchased by competitive tender using a panel of banks (the latter chosen following a comprehensive assessment) and the contracting process began in 2010-11 for supply in 2011-12 onwards. Details of existing contracts are at Notes 12.12 and 12.13 to the accounts.

1.47 The Department's loans to Trading Funds are classified within Loans and Receivables and carried at historic cost, less any impairment. Public Dividend Capital is not treated as a financial instrument in the Department's accounts because of the statutory rather than contractual basis of the investment. The Department's investments in special or 'golden' shares are not recognised on the Statement of Financial Position. The entities in which the Department holds special shares are listed at Note 12.22.

1.48 Receivables, including trade receivables, staff loans and advances are classified as Loans and Receivables and are initially measured at fair value and subsequently at amortised cost. Discounting is relevant to those receivables and loans which carry no rate of interest or a subsidised rate. However, the Department's receivables that are due within 1 year are not discounted on the grounds of materiality. Provisions are only made for specific bad debts.

1.49 Liabilities covering trade payables and accruals are classified as Payables and Accruals and are initially measured at fair value and subsequently at discounted cost. This applies to those liabilities carrying a nil or a subsidised rate of interest. On the grounds of materiality, the Department's liabilities falling due within 1 year are not discounted.

1.50 The Department has not made a provision for arrangements that fall within the scope of a financial guarantee contract on the grounds that there is a very low probability of a claim maturing.

Inventories

1.51 Inventories are recognised on the Department's Statement of Financial Position from the point of acquisition to the point of issue for consumption, sale, write-off or disposal. During the year the consumption for Land Forces' inventories is recorded as the point at which inventory is issued from depots, an 'add back' is made at year end to reflect the value of inventory issued but not yet consumed. For Navy Command and Air Command the point of consumption is when inventories are issued from final depots such as an air base or a ship's hold.

1.52 Inventory which is expected to be used is valued at the cost of replacing the materiel – i.e. at current cost or historic cost if not materially different. However, where there is no expectation of consumption or sale in the ordinary course of business, the value is abated by the creation of a financial provision to reduce it to Net Realisable Value. The creation of the financial provision is a charge to the Statement of Comprehensive Net Expenditure. On actual disposal both the gross carrying amount and the previously created provision are written off/released to the Statement of Comprehensive Net Expenditure.

1.53 Some items of inventory, for example munitions, have a limited shelf life and a financial provision is applied throughout the life of the item. This provision is created on a straight line basis. When the item is consumed, written off or disposed of the current cost is charged to the Statement of Comprehensive Net Expenditure along with the credit of any accumulated provision.

Cash and Cash Equivalents

1.54 The Department determines cash as cash in hand and demand deposits (repayable on demand) with any commercial bank or other financial institution. This includes gold coins and deposits denominated in foreign currencies after allowing for unpresented payments and uncleared deposits.

1.55 Cash equivalents are determined as short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents in the Department's Statement of Financial Position comprise balances held by the Government Banking Service, commercial banks and cash in hand.

Provisions for Liabilities and Charges

1.56 Provisions for liabilities and charges have been established under the criteria of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and are based on realistic estimates of the expenditure required to settle legal or constructive obligations that exist at the Reporting Period date.

1.57 On initial recognition, provisions are charged to the Statement of Comprehensive Net Expenditure unless the expenditure will provide access to current and future economic benefits, in which case a capitalised asset is created. The carrying amount of any capitalised asset provision is depreciated and charged to the Statement of Comprehensive Net Expenditure over the remaining estimated useful economic life of the underlying asset. Provisions are discounted at rates advised by HM Treasury, the general rate for the year is 2.2%. The rate for provisions relating to employee benefits was 2.9% for the year and changed to 2.8% on 31 March 2012. The discount is unwound over the remaining life of the provision and shown as an interest charge in the Statement of Comprehensive Net Expenditure.

Reserves

1.58 The Revaluation Reserve reflects the unrealised element of the cumulative balance of revaluation and indexation adjustments on non-current assets and inventories.

1.59 The General Fund represents the balance of the Taxpayers' Equity in the Core Department. Reserves relating to the ALBs split into 'Restricted' and 'Unrestricted' reserves, where restricted reserve have limitations, e.g. covenants and other legal restrictions, on their use.

Pensions

1.60 Present and past employees are mainly covered by the Civil Service pension arrangements for civilian personnel and the AFPS for Service personnel. There are separate scheme statements for the AFPS and Civil Service pensions. Further details can be found at: www.civilservice-pensions.gov.uk and http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions

1.61 Both the AFPS and the main Civil Service pension schemes are unfunded defined benefit pension schemes although, in accordance with the HM Treasury FReM, the Department accounts for the schemes in its accounts as if they were defined contribution schemes. The employer's charge is met by payment of an estimated Superannuation Contribution Adjusted for Past Experience (SCAPE), which represents the cost of providing future superannuation protection for all personnel currently in pensionable employment. For the Principal Civil Service Pension Scheme employer contributions (SCAPE) are calculated using four percentage rates (16.7%, 18.8%, 21.8% and 24.3%) of pensionable pay, based on four salary bands; for the AFPS the rates are approximately equivalent to 42.8% (Officers) and 30.8% (Other Ranks) of pensionable pay. 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, classic plus or nuvos; these contributions will increase from 1 April 2012. The Department's Statement of Financial Position will only include a payable in respect of pensions to the extent that the contributions paid to the pension funds in the year fall short of the SCAPE and widow/widower's pension charges due. Money purchase pensions delivered through employer-sponsored stakeholder pensions have been available as an alternative to all new Civil Service entrants since October 2002.

1.62 The pension schemes undergo a reassessment of the SCAPE contribution rates by the Government Actuary at regular intervals. Provisions are made for costs of early retirement programmes and redundancies up to the normal retirement age and are charged to the Statement of Comprehensive Net Expenditure.

1.63 The Department operates a number of small pension schemes for civilians at overseas locations. The scheme liabilities are included in the total provisions figure reported at Note 19 – Provisions for Liabilities and Charges. The gain or loss on the change in the discount rate is shown as a movement in the reserves (General Fund). Further information on these pension schemes and other schemes for example those operated by CWGC and CRFCA is included in Note 20.

1.64 The disclosures for the main pension schemes are included in: the Remuneration Report, Note 6 – Staff Numbers and Costs, (see paragraphs 6.3 and 6.4) and on the websites of the Civil Service Pension Scheme and the Armed Forces Pension Scheme.

Early Departure Costs

1.65 The Department provides in full for the cost of meeting pensions up to the normal retirement age in respect of military and civilian personnel early retirement programmes. Early departure provisions under pension scheme rules are discounted at the pensions' discount rate, issued annually by HM Treasury, 2.8% from 31 March 2012 (2.9% from 31 March 2011). Pensions payable after the normal retirement age are met by the Armed Forces Pension Scheme for military personnel and by the Civil Service pension arrangements for civilian personnel. However, any additional element payable beyond normal retirement age, which derives from the enhancement of reckonable service, continues to be met by the Department. Redundancies are provided for in full.

Foreign Currency

1.66 All transactions that are denominated in a foreign currency are translated into Sterling using the General Accounting Rate (GAR) prevailing at the date of each transaction. For each currency, the GAR is updated monthly based on spot rates. In respect of US Dollars and Euros the GAR is based on the average of the published spot rates in the week immediately preceding the new month. Exchange differences will arise when a currency transaction is settled at a GAR which differs from the rate used when the transaction was initially recorded. In addition, monetary assets and liabilities are translated at the mid-market closing rate applicable at the Reporting Period date and the exchange differences are reported in the Statement of Comprehensive Net Expenditure.

1.67 Overseas non-monetary assets and liabilities are subject to annual revaluation and are translated at the mid-market closing rate applicable at the Reporting Period date. Nuclear inventories are revalued using the GAR. Exchange differences are taken to the Revaluation Reserve.

VAT

1.68 The Department is registered for VAT and pays tax on its purchases in accordance with Value Added Tax Act 1994 (VATA94). As it is a non-business organisation, most of the VAT the Department incurs is non-recoverable and therefore a cost to the Department.

Third Party Assets

1.69 Third party assets are those for which the Department acts as custodian or trustee but in which neither the Department nor the government has a direct beneficial interest. As they are not public assets they are not recorded in the Statement of Financial Position.

Heritage Assets

1.70 Operational heritage assets are valued at fair value using the same methodology applied to other assets of the same general type. Non operational heritage assets are valued at fair value if information is available and if valuation is considered beneficial. Further details of heritage assets are at Note 29.

2. Analysis of Net Resource and Capital Outturn

2.1 Analysis of Net Resource Outturn

Spending in Departmental Expenditure Limits (DEL)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	2011-12 Total Net Outturn Compared with Estimate £000	2010-11 Total Net Resource Outturn £000
Voted Expenditure							
A Provision of Defence Capability – Service Personnel Costs	-	9,822,628	-	**9,822,628**	9,748,371	(74,257)	9,687,230
B Provision of Defence Capability – Civilian Personnel Costs	-	214,603	-	**214,603**	117,520	(97,083)	188,600
C Provision of Defence Capability – Infrastructure Costs	-	4,365,665	-	**4,365,665**	4,222,354	(143,311)	4,131,898
D Provision of Defence Capability – Inventory Consumption	-	1,740,806	-	**1,740,806**	1,647,246	(93,560)	1,560,057
E Provision of Defence Capability – Equipment Support Costs	-	5,625,988	-	**5,625,988**	5,417,796	(208,192)	5,657,989
F Provision of Defence Capability – Other Costs and Services	-	1,339,555	-	**1,339,555**	1,877,727	538,172	1,597,415
G Provision of Defence Capability – Receipts and Other Income	-	-	(1,283,873)	**(1,283,873)**	(1,306,138)	(22,265)	(1,351,608)
H Provision of Defence Capability – Depreciation and Impairment Costs	-	9,291,756	-	**9,291,756**	10,271,336	979,580	12,380,908
I Provision of Defence Capability – Cash Release of Provisions	-	176,464	-	**176,464**	321,033	144,569	192,594
N Operations and Peace-keeping – Service Personnel Costs	-	278,285	-	**278,285**	269,186	(9,099)	198,998
O Operations and Peace-keeping – Civilian Personnel Costs	-	25,570	-	**25,570**	35,871	10,301	46,376
P Operations and Peace-keeping – Infrastructure Costs	-	214,071	-	**214,071**	266,875	52,804	346,331
Q Operations and Peace-keeping – Inventory Consumption	-	794,614	-	**794,614**	804,818	10,204	786,431
R Operations and Peace-keeping – Equipment Support Costs	-	630,108	-	**630,108**	743,154	113,046	626,827
S Operations and Peace-keeping – Other Costs and Services	-	492,251	-	**492,251**	547,069	54,818	528,353
T Operations and Peace-keeping – Receipts and Other Income	-	-	(42,806)	**(42,806)**	(34,657)	8,149	(33,264)
U Operations and Peace-keeping – Depreciation and Impairment Costs	-	532,998	-	**532,998**	609,716	76,718	278,951
V Operations and Peace-keeping – Cash Release of Provisions	-	2,827	-	**2,827**	6,390	3,563	-
Y Global Pool – Resource	-	45,561	651	**46,212**	46,253	41	59,705
Z Arm's Length Bodies	-	186,791	-	**186,791**	176,320	(10,471)	161,561
AA Provision of Defence Capability – Research and Development Costs	-	833,485	-	**833,485**	888,823	55,338	1,124,983
Administration Costs							
B Administration Costs – Civilian Personnel Costs	2,505,314	-	-	**2,505,314**	2,759,399	254,085	2,489,269
I Administration Costs – Cash Release of Provisions	168,316	-	-	**168,316**	-	(168,316)	61,657
F Administration Costs – Other Costs and Services	18,316	-	-	**18,316**	25,781	7,465	23,453
Total Voted Expenditure in DEL	**2,691,946**	**36,614,026**	**(1,326,028)**	**37,979,944**	**39,462,243**	1,482,299	40,744,714
Total Spending in DEL	**2,691,946**	**36,614,026**	**(1,326,028)**	**37,979,944**	39,462,243	1,482,299	40,744,714

Spending in Annually Managed Expenditure (AME)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	2011-12 Total Net Outturn Compared with Estimate £000	2010-11 Total Net Resource Outturn £000
Voted Expenditure							
AB Provision of Defence Capability – Depreciation and Impairment Costs	-	509,557	-	**509,557**	2,043,861	1,534,304	7,080,629
AC Provision of Defence Capability – Provisions Costs	-	(467,009)	-	**(467,009)**	(243,817)	223,192	9,607
AD Provision of Defence Capability – Cash Release of Provisions Costs	-	(342,499)	-	**(342,499)**	(300,053)	42,446	(253,312)
AE Provision of Defence Capability – Movement on the Fair Value of Financial Instruments	-	347,133	-	**347,133**	218,879	(128,254)	50,481
AF Operations and Peace-keeping – Provisions Costs	-	6,799	-	**6,799**	15,056	8,257	69,215
AG Operations and Peace-keeping – Cash Release of Provisions Costs	-	(2,827)	-	**(2,827)**	(6,390)	(3,563)	-
AH War Pensions Benefits	**-**	**915,683**	**-**	**915,683**	**966,000**	**50,317**	**935,066**
Total Voted Expenditure in AME	**-**	**966,837**	**-**	**966,837**	**2,693,536**	**1,726,699**	**7,891,686**
Total Spending in AME	**-**	**966,837**	**-**	**966,837**	**2,693,536**	**1,726,699**	**7,891,686**
Total Resource Outturn	**2,691,946**	**37,580,863**	**(1,326,028)**	**38,946,781**	**42,155,779**	**3,208,998**	**48,636,400**

2.2 Analysis of Net Capital Outturn

Capital Spending in Departmental Expenditure Limits (DEL)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	2011-12 Total Net Outturn Compared with Estimate £000	2010-11 Total Net Capital Outturn £000
Capital Voted Expenditure							
J Provision of Defence Capability – Capital Single Use Military equipment (SUME)	-	4,829,138	(389)	**4,828,749**	4,918,500	89,751	3,459,641
K Provision of Defence Capability – Capital Other (Fiscal)	-	3,561,231	-	**3,561,231**	3,582,013	20,782	3,554,924
L Provision of Defence Capability – Capital Asset / Estate Disposal Costs	-	-	(149,657)	**(149,657)**	(185,612)	(35,955)	-
M Provision of Defence Capability – Capital New Loans and Loan Repayments	-	(5,469)	-	**(5,469)**	5,591	11,060	(11,121)
W Operations and Peace-keeping – Capital Single Use Military equipment (SUME)	-	454,911	-	**454,911**	662,594	207,683	572,866
X Operations and Peace-keeping – Capital Other (Fiscal)	-	322,068	-	**322,068**	519,652	197,584	446,558
Z Arm's Length Bodies	-	2,223	-	**2,223**	2,223	-	1,314
Total Capital Spending in DEL	**-**	**9,164,102**	**(150,046)**	**9,014,056**	9,504,961	490,905	8,024,182

Capital Spending in Annually Managed Expenditure (AME)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	2011-12 Total Net Outturn Compared with Estimate £000	2010-11 Total Net Capital Outturn £000
Capital Voted Expenditure							
Provision of Defence Capability – Provisions Costs (release)	-	(9,615)	-	**(9,615)**	-	9,615	114,658
Total Capital Voted Expenditure in AME	-	**(9,615)**	-	(9,615)	-	9,615	**114,658**
Total Capital Spending in AME	-	**(9,615)**	-	**(9,615)**	-	9,615	114,658
Total Capital Outturn	-	**9,154,487**	**(150,046)**	**9,004,441**	**9,504,961**	**500,520**	**8,138,840**

3. Reconciliation of Outturn to Net Operating Cost and Administration Budget

3.1 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	Outturn £000	Supply Estimate £000	Restated 2010-11 Outturn £000
Net Resource Outturn (Statement of Parliamentary Supply)	2	**38,524,362**	**42,155,779**	**48,636,400**
Adjustment for changes in discount rates not passing through net operating costs		**235**	-	-
Adjustment for Service Concession Arrangements treated as on-SoFP for Accounts but treated as off-SoFP for Estimates and Budgets and therefore excluded from the resource outturn but included in operating costs		**110,203**	-	**80,067**
Income in respect of donated assets treated as capital income		**(26,033)**	-	-
Gain on foreign exchange contracts in respect of Capital purchases		**(58,792)**	-	-
Adjustment for impairments and impairment reversals included in resource outturn but not passing through Net Operating Cost	SoCiTE	**(17,220)**	-	**3,868**
Add capital grants included in operating costs but excluded from resource outturn	SoCiTE	**27,223**	-	**1,314**
Prior year – add the additional cost (depreciation and impairment less the movement in payables not passing through the OCS) resulting from the change in accounting policy in respect of leased land.	SoCNE	-	-	**(1,680,211)**
Prior Period Adjustment to correct an impairment error		**422,419**	-	**(422,419)**
Net Operating Cost		**38,982,397**	**42,155,779**	46,619,019

3.2 Outturn Against Administration Budget and Administration Net Operating Cost

	Note	2011-12 £000	2010-11 £000
Estimate – Administration Cost Limit		2,785,180	2,182,586
Outturn – Administration Costs	2	2,691,946	2,574,379
Less release of early retirement provisions	19	(168,316)	(61,657)
Administration Net Operating Costs	SoCNE	**2,523,630**	**2,512,722**

Administration costs consist of the costs of civilian staff, excluding: health care professionals, movement on provisions and staff working in operational areas (including Royal Fleet Auxiliary personnel) such as Afghanistan plus the cost of external assistance such as technical and legal services. The Armed Forces are excluded from the Administration Cost Regime as are the ALBs. The cost of redundancies and early release schemes is included in Administration costs.

4. Reconciliation of Net Cash Requirement to Increase / (Decrease) in Cash

	2011-12 £000	2010-11 £000
Net Cash Requirement – Core Department	(37,608,179)	(37,585,041)
From the Consolidated Fund to clear prior year receivable	127,641	239,885
From the Consolidated Fund (Supply) – current year	37,461,000	37,457,400
Amounts due to the Consolidated Fund – received in the prior year and paid over	-	(242,541)
Movement in balances held for collaborative projects	100,159	136,841
Increase / (decrease) in cash held by the Core Department	80,621	6,544
Increase / (decrease) in cash held by Arm's Length Bodies	(3,004)	(530)
Increase / (decrease) in cash held by the Departmental Group	77,617	6,014

5. Analysis of Income Payable to the Consolidated Fund

From 2011-12 the budgeting and Estimates treatment for some income streams changed, permitting departments to retain income that might previously have been surrendered to the Consolidated Fund. Departmental Estimates are now produced on a net basis, allowing departments to retain income that is within the budget and ambit, and to spend this income on delivery of services. During 2011-12 the Department had no income which required surrendering to the Consolidated Fund.

6. Staff Numbers and Costs

6.1 The average number of full-time equivalent persons employed during 2010-11 and 2011-12 are set out in the following table. Source: Defence Analytical Services and Advice (DASA).

	2011-12		2010-11	
	Core Department	Departmental Group	Core Department	Departmental Group
Civilian Staff				
Permanent staff	69,580	72,281	74,670	77,372
Temporary staff	70	96	180	211
Ministers and special advisors	8	8	8	8
Armed Forces	189,650	189,650	194,690	194,690
Totals	259,308	262,035	269,548	272,281

In order to align with the total pay costs incurred during the year, shown at paragraph 6.2 below, the calculation of the number of staff uses monthly statistics to identify an average number employed for the year. The figures reflect the number of personnel in organisations within the Departmental Boundary for the Annual Accounts and therefore exclude those in the Trading Funds. The figures for Armed Forces personnel are subject to a review which is due to complete by the end of 2012; any changes required will be made in the 2012-13 accounts. Locally Employed Civilians are included as permanent staff because the additional detail required to analyse the figures between permanent and temporary is not available. More information on the Department's staff numbers, and the statistical calculations used, is available on the website: http://www.dasa.mod.uk

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

		2011-12		2010-11
	Core Department	Departmental Group	Core Department	Departmental Group
	£000	£000	£000	£000
Staff costs – Administration	2,505,314	2,505,314	2,489,269	2,489,269
Staff costs – Programme	10,334,868	10,423,509	10,276,357	10,358,869
	12,840,182	**12,928,823**	**12,765,626**	**12,848,138**
Made up of:				
Salaries and wages	9,446,052	9,527,584	9,710,409	9,785,918
Social security costs	686,260	689,224	678,689	681,663
Pension costs	2,414,081	2,418,226	2,187,308	2,191,337
Redundancy and severance payments	293,789	293,789	189,220	189,220
	12,840,182	**12,928,823**	**12,765,626**	**12,848,138**
Paid to:				
Armed Forces	10,116,441	10,116,441	9,888,009	9,888,009
Civilian	2,723,741	2,812,382	2,877,617	2,960,129
	12,840,182	**12,928,823**	**12,765,626**	**12,848,138**

Principal Civil Service Pension Scheme

6.3 The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The Ministry of Defence is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary Aon Hewitt Limited reviewed the scheme as at 31 March 2007; details can be found at www.civilservice-pensions.gov.uk.

6.4 For the year to 31 March 2012, of the total pension contributions for the Departmental Group in the table above, £313M (the re-stated amount for 2010-11 was £338M) were payable in respect of the various schemes in which civilian staff were members. Contributions to the PCSPS in the same period were £303M (the re-stated amount for 2010-11 was: £316M) calculated using four percentage rates (16.7%, 18.8%, 21.8% and 24.3%) of pensionable pay, based on four salary bands. The salary bands were revised for 2011-12; percentage contribution rates remain unchanged. The scheme's Actuary reviews employer contributions, usually, every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing, to be paid when the member retires, not the benefits paid during the period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £1.6M (2010-11 £1.7M) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (2010-11 from 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £0.1M (2010-11 £0.1M) of pensionable pay were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

Armed Forces Pension Scheme

6.5 The Armed Forces Pension Scheme is an unfunded, non-contributory, defined benefit, salary-related, contracted out, occupational pension scheme. A formal valuation of the AFPS was carried out as at 1 April 2005 (formal valuations for unfunded public service pension schemes have been suspended, by HM Treasury, on value for money grounds) by the scheme's actuary, the Government Actuary's Department. Scheme members are entitled to a taxable pension for life and a tax-free pension lump sum if they leave the Regular Armed Forces at or beyond normal retirement age; those who have at least two years service who leave before age 55 will have their pensions preserved until age 65. Pensions may be payable to the spouse, civil partner, partner or to eligible children. Death-in-service lump sums are payable subject to nomination. AFPS

05 offers ill-health benefits if a career is cut short by injury or illness, irrespective of cause. Additionally, if the injury or illness is mainly attributable to service, compensation for conditions caused on or after 6 April 2005 will be considered under the Armed Forces Compensation Scheme (AFCS). The MOD and HM Treasury have reached agreement on the protection of accrued rights in AFPS 05 (and the previous scheme, AFPS 75) and are currently consulting on the introduction of a new Armed Forces Pension Scheme (currently referred to as Future AFPS) – further details on the consultation are available via the link in note 6.7 below.

6.6 AFPS 05 members who leave before the age of 55 may be entitled to an Early Departure Payment, providing they have at least 18 years service and are at least 40 years of age. The Early Departure Payment Scheme pays a tax-free lump sum and income of between 50% and 75% of preserved pension between the date of the individual's departure from the Armed Forces and age 55. The income rises to 75% of preserved pension at age 55 and is index linked. At age 65, the Early Departure Payment stops and the preserved pension and preserved pension lump sum are paid.

6.7 For the year to 31 March 2012 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £2.1Bn (2010-11: £1.9Bn) based on employer's contribution rates determined by the Government Actuary. For 2011-12, the employer's contribution rates were 42.8% of pensionable pay for Officers (2010-11 40.1%) and 30.8% of pensionable pay for Other Ranks (2010-11 25.6%). The contribution rates reflect benefits as they are accrued, not costs actually incurred in the period, and reflect past experience of the scheme. Further information on the AFPS and the AFCS can be found at: www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions.

Other Pension Schemes

6.8 The Armed Forces Pension Scheme incorporates the following schemes: the Non-Regular Permanent Staff Pension Scheme, the Gurkha Pension Scheme and the Reserve Forces Pension Scheme. The membership of these schemes is approximately 4% of the AFPS total membership and the employer's contributions to the schemes are included in the figure payable to the AFPS, at paragraph 6.7.

Certain other employees are covered by schemes such as the National Health Service Pension Scheme and the Teachers' Pension Scheme. The figure for total employers' pension contributions at paragraph 6.4 includes contributions in respect of these schemes. Some employees are members of other schemes, for example Locally Employed Civilians in Germany, Cyprus and Gibraltar and the Merchant Navy Ratings Pension Fund; estimates of the liabilities for these schemes are included in the figure for provisions for liabilities and charges and additional details are provided at Note 20 – Pensions.

Civil Service and Other Compensation Schemes – Exit Packages

6.9 The figures in the following table include redundancy and other departure costs paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS). Where the Department has agreed early retirements the costs are met by the MOD and not by the Civil Service Pension Scheme. The table includes 172 individuals who retired early on ill-health grounds during 2011-12 (2010-11 166); their total accrued pension liabilities for the year were £0.3M, (2010-11 £0.98M)

6.10 Prior to 2011-12 the value of exit packages for staff who left under the former compulsory, flexible or approved early retirement terms, is the capitalised cost of the whole package, which in addition to the compensation payment also includes annual compensation payments or early enhanced pensions. In 2011-12 staff left under the new voluntary exit or voluntary redundancy terms and the cost used includes any top-up to compensation provided by the Department to buy out the actuarial reduction on an individual's pension as well as the compensation payment.

The table also includes the members of the Armed Forces released under schemes introduced as part of the SDSR. All Armed Forces redundancies are compulsory; the law does not provide for voluntary redundancy. While personnel are invited to apply for consideration, the Services may retain applicants, and make non-applicants redundant in their stead, in order to retain the right balance of skills and experience across the rank structures; successful applicants have been included in the table as 'other departures agreed'.

Exit Package Cost Band	Number of Compulsory Redundancies 2011-12	2010-11	Number of Other Departures Agreed 2011-12	2010-11	Total Number of Exit Packages by Cost Band 2011-12	2010-11
<£10,000	5	-	405	89	410	89
£10,000 – £25,000	16	-	3,027	164	3,043	164
£25,000 – £50,000	11	-	2,700	145	2,711	145
£50,000 – £100,000	9	-	1,388	135	1,397	135
£100,000 – £150,000	-	-	164	51	164	51
£150,000 – £200,000	-	-	34	8	34	8
£200,000 – £250,000	-	-	7	-	7	-
£250,000 – £300,000	-	-	-	1	-	1
£300,000 – £350,000	-	-	-	1	-	1
Total Number of Exit Packages	41	-	7,725	594	7,766	594
	£M	£M	£M	£M	£M	£M
Total Resource Cost (£M)	1.3	-	268.1	26.3	269.4	26.3

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

Members of the Armed Forces Pension Scheme who leave before the age of 55 may be entitled to an Early Departure Payment (EDP); these payments are not included above unless they are a result of SDSR redundancy schemes. Details of the EDP scheme are set out at Note 6.6 to the accounts.

7. Other Costs

7.1 Other Administration Costs

	2011-12 Core Department £000	**2011-12** Departmental Group £000	2010-11 Core Department £000	2010-11 Departmental Group £000
External Assistance (e.g. legal and professional fees)	**18,316**	**18,316**	**23,453**	**23,453**
Total Other Administration Costs	**18,316**	**18,316**	**23,453**	**23,453**

7.2 Other programme Costs

	2011-12 Core Department £000	**2011-12** Departmental Group £000	2010-11 Core Department £000	2010-11 Departmental Group £000
Other Programme Costs – Non-Cash Expenditure				
Auditors' remuneration – audit work only	2,800	2,800	3,100	3,100
Depreciation and amortisation:				
– Intangible assets	1,672,657	1,672,657	1,808,193	1,808,193
– Property, plant and equipment (PPE) owned assets*	5,984,594	5,997,301	7,131,314	7,143,919
– PPE held under finance leases	155,655	155,655	121,557	121,557
– PPE held under service concession arrangements	331,775	331,775	308,897	308,897
Impairment on non-current assets:				
– Arising on Quinquennial valuation	126,300	126,300	76,900	76,900
– Arising on Other items	454,853	454,853	1,321,633	1,321,633
Provisions to reduce inventory to net realisable value	965,767	965,767	340,638	340,638
Inventory write off / (on) – net	93,736	93,736	638,355	638,355

		2011-12		2010-11
	Core Department	**Departmental Group**	Core Department	Departmental Group
	£000	**£000**	£000	£000
(Surplus) on disposal of property, plant and equipment and intangible assets.	(150,243)	(150,243)	(46,191)	(46,191)
(Surplus) / deficit arising on disposal of inventory – net	(9,018)	(9,018)	(7,030)	(7,030)
Intangible and property, plant and equipment assets write off / (write on) – net	1,043,737	1,043,737	4,926,854	4,926,854
Capital project expenditure write off / (write on) – net	150,484	150,484	1,253,980	1,253,980
Bad debts written off	2,282	2,282	5,111	5,111
Increase/(Decrease) in bad debts provision	(4,072)	(4,072)	7,361	7,361
Increase/(Decrease) in nuclear and other decommissioning provisions	(770,964)	(770,964)	(339,686)	(339,686)
Other Programme Costs – Total Non-Cash Expenditure	10,050,343	10,063,050	17,550,986	17,563,591
Other Programme Costs				
Fuel	635,354	635,354	627,851	627,851
Inventory consumption	1,404,368	1,404,368	1,154,345	1,154,345
Movements. Including: personnel travelling, subsistence / relocation costs and movement of stores and equipment	813,863	813,863	855,952	855,952
Utilities	346,889	346,889	334,805	334,805
Property management	1,468,440	1,468,440	1,628,644	1,628,644
Hospitality and entertainment	1,542	1,542	1,830	1,830
Accommodation charges	409,458	409,458	356,729	356,729
Equipment support costs	4,306,489	4,306,489	4,612,916	4,612,916
IT and telecommunications	1,117,093	1,117,093	995,931	995,931
Professional fees	290,144	290,144	292,163	292,163
Other expenditure*	1,266,498	1,412,539	1,667,897	1,801,387
Research expenditure and expensed development expenditure	875,532	875,532	1,125,197	1,125,197
Service Concession Arrangements:				
– IT and telecommunications	377,576	377,576	450,735	450,735
– Property management	499,172	499,172	452,261	452,261
– Transport	51,513	51,513	56,935	56,935
– Equipment support	118,879	118,879	77,424	77,424
– Plant and Equipment	46,517	46,517	39,418	39,418
Payments under finance leases:				
– Equipment support	81,304	81,304	64,591	64,591
– Defence housing	60,231	60,231	57,152	57,152
Contractor Logistic Support and Integrated Operational Support contracts for equipment support	1,197,995	1,197,995	953,120	953,120
Movement on Derivatives	215,359	215,359	50,481	50,481
Payments under operating leases – plant & equipment	37,520	37,520	36,788	36,788
Payments under operating leases – other	195,417	195,417	192,537	192,537
Grants-in-Aid	181,526	5,590	147,974	(22,052)
Other Grants to bodies within the accounting boundary	35,481	35,481	35,127	35,127
Exchange differences on foreign currencies: net deficit / (surplus)	(21,104)	(21,104)	626	626
War Pensions Benefits	915,683	915,683	935,066	935,066
Other Programme Costs – Sub Total	16,928,739	16,898,844	17,204,495	17,167,959
Total Other Programme Costs	**26,979,082**	**26,961,894**	**34,755,481**	**34,731,550**

* Expenditure by Arm's Length Bodies is classified as either depreciation of PPE or other expenditure.

8. Income

		2011-12		2010-11
	Core Department £000	**Departmental Group £000**	Core Department £000	Departmental Group £000
Rental income – property	28,526	28,526	28,845	28,845
Receipts – personnel	344,256	344,256	357,009	357,009
Receipts from sale of fuel	127,616	127,616	71,741	71,741
Donated Assets	26,033	26,033	71,436	71,436
Receipts – supplies and services	317,180	317,180	313,966	313,966
Receipts – NATO/UN/US Forces/Foreign Governments	324,640	324,640	342,019	342,019
Reverse tasking *	35,239	35,239	34,644	34,644
Dividends and income from investment property (Note 12.26)**	31,628	34,746	34,298	37,350
Other income**	110,386	167,694	125,626	189,440
	1,345,504	**1,405,930**	**1,379,584**	**1,446,450**

* Receipts for invoiced goods and/or services supplied to the Trading Funds and QinetiQ Group plc by MOD.
** The income of Arm's Length Bodies is classified as dividends or other income.

Fees and Charges

8.1 Where the Department has spare capacity, it provides a range of services to external organisations. The majority of these services are in the form of military support to foreign governments and other government departments. Where appropriate, costs are recovered in accordance with Managing Public Money. Where a chargeable activity produces a tangible benefit to Defence, the Department has authority to abate charges below full costs.

9. Net Interest Payable

		2011-12		2010-11
	Core Department £000	**Departmental Group £000**	Core Department £000	Departmental Group £000
Interest receivable:				
Bank interest	(3,457)	(3,586)	(2,728)	(2,861)
Loans to Trading Funds	(3,100)	(3,100)	(3,344)	(3,344)
Other interest receivable	-	(43)	-	(47)
	(6,557)	**(6,729)**	(6,072)	(6,252)
Unwinding of discount on long term receivables and loans	(3,329)	(3,329)	(1,625)	(1,625)
Total interest receivable	**(9,886)**	**(10,058)**	(7,697)	(7,877)
Interest payable:				
Loan interest	2,629	2,629	2,760	2,760
Unwinding of discount on provision for liabilities and charges	122,786	122,786	130,075	130,075
Unwinding of discount on long term payables	24,428	24,428	2,182	2,182
Finance leases and Service Concession Arrangements	339,488	339,488	335,188	335,188
Late payment of commercial debts	21	21	-	-
Total interest payable	**489,352**	**489,352**	470,205	470,205
Net interest payable / (receivable)	**479,466**	**479,294**	462,508	462,328

10. Consolidated Departmental Group – Intangible Assets

Intangible assets include development expenditure in respect of non current assets in use and assets under construction.

	Note	Single Use Military Equipment £000	Software £000	Others £000	Total £000
Cost or Valuation†					
At 1 April 2010		30,035,871	18,568	9,626,651	39,681,090
Additions	i	859,205	(35)	505,490	1,364,660
Disposals		(3,802,649)	-	-	(3,802,649)
Impairments	ii	(647,299)	3	30,287	(617,009)
Revaluations	iii	818,684	211	325,733	1,144,628
Reclassifications	iv	1,814,368	(2,329)	(1,595,997)	216,042
At 31 March 2011		**29,078,180**	**16,418**	**8,892,164**	**37,986,762**
Additions	i	924,037	1,169	533,639	1,458,845
Disposals		(497,879)	-	(55,993)	(553,872)
Impairments	ii	(84,802)	(2)	6,614	(78,190)
Revaluations	iii	572,063	289	66,798	639,150
Reclassifications	iv	59,865	(324)	(35,481)	24,060
At 31 March 2012		**30,051,464**	**17,550**	**9,407,741**	**39,476,755**
Amortisation					
At 1 April 2010		(7,505,849)	(4,225)	(3,037,450)	(10,547,524)
Charged in Year		(1,428,149)	(303)	(379,741)	(1,808,193)
Disposals		1,604,787	-	-	1,604,787
Impairments	ii	559,260	(3)	(22,134)	537,123
Revaluations	iii	(141,573)	(9)	(104,168)	(245,750)
Reclassifications	iv	11,218	527	(10,103)	1,642
At 31 March 2011		**(6,900,306)**	**(4,013)**	**(3,553,596)**	**(10,457,915)**
Charged in Year		(1,273,007)	(598)	(399,052)	(1,672,657)
Disposals		502,695	-	250,540	753,235
Impairments	ii	(21,993)	-	(10,875)	(32,868)
Revaluations	iii	(160,512)	(63)	(55,225)	(215,800)
Reclassifications	iv	41,244	-	(41,243)	1
At 31 March 2012		**(7,811,879)**	**(4,674)**	**(3,809,451)**	**(11,626,004)**
Net Book Value					
At 1 April 2010		22,530,022	14,343	6,589,201	**29,133,566**
At 31 March 2011		22,177,874	12,405	5,338,568	**27,528,847**
At 31 March 2012		**22,239,585**	**12,876**	**5,598,290**	**27,850,751**
Of the total net book value as at 31 March 2012					
Core Department		22,239,585	12,876	5,598,290	27,850,751
ALBs		-	-	-	-
Total		**22,239,585**	**12,876**	**5,598,290**	**27,850,751**

Notes
i. Additions include accruals of £705M (2010-11: £985M). Information on Frascati compliant R&D expenditure can be found on the DASA website: http://www.dasa.mod.uk.
ii. Capitalised development costs directly linked to a class of asset are only impaired if the whole class of the associated non current asset is impaired e.g. when a whole class of asset is withdrawn from service.
iii. Revaluations include changes due to Modified Historic Cost Accounting through indexation.
iv. Reclassifications include assets classified to or from property, plant and equipment.
† Intangible asset valuations are based on the actual costs incurred, or derived by applying a ratio to the property, plant and equipment asset valuations based on the historical relationship between development and production costs.

10.1 Movement in the revaluation reserve relating to intangible assets

	2011-12 £000	2010-11 £000
Balance – 1 April	5,112,477	4,592,853
Revaluation	421,993	898,878
Transfers / reclassifications	3,066	247
Disposals	-	-
Realised reserve transferred to the General Fund	99,761	(379,501)
Balance – 31 March	**5,637,297**	5,112,477

10.2 Details of intangible assets with a net book value greater than £0.5Bn

Description	Net Book Value 31 March 2012 £Bn	Remaining Useful Economic Life
Typhoon development costs	6.8	18 years
Type 45 destroyer development costs	1.9	22 years 8 months
Merlin helicopter development costs	1.7	17 years 11 months
Astute class submarine development costs	0.9	23 years
Spearfish torpedo development costs	0.6	37 years 11 months
Tornado airframe development costs	0.5	9 years

11. Consolidated Departmental Group – Property, Plant and Equipment

	Note	Land Dwellings £000	Land Other Buildings £000	Dwellings £000	Other Buildings £000	Single Use Military Equipment (SUME) £000	Plant and Machinery £000	Transport £000	IT and Communication Equipment £000	Assets under Construction (SUME) £000	Assets under Construction (Other) £000	Total £000
Cost or Valuation												
At 1 April 2010		2,459,995	5,368,256	7,343,015	16,126,804	72,612,036	4,320,160	14,505,639	4,196,081	14,978,294	5,472,611	147,382,891
Additions	i	-	284	154,194	170,705	698,791	52,880	81,469	319,891	4,119,335	2,488,008	8,085,557
Capitalised Provisions	ii	-	-	-	4,411	1,857	-	-	-	-	-	6,268
Donations	iii	9,401	37,489	3,441	4,285	-	16,820	-	-	-	-	71,436
Disposals†		(132,803)	(461,651)	(103,715)	(350,040)	(7,535,292)	(499,406)	(1,132,761)	(175,518)	(1,001,776)	-	(11,392,962)
Impairments	iv	(134,352)	(32,068)	(237,924)	(572,228)	(1,169,017)	(5,000)	(462,495)	80,873	(4,923)	(301,999)	(2,839,133)
Reclassifications	v	2,254	3,195	214,722	1,739,388	5,461,736	84,451	2,054,152	(65,962)	(6,183,260)	(2,968,641)	342,035
Revaluations	vi	69,080	314,387	111,705	(820,873)	2,096,203	86,800	1,023,478	(20,687)	147,123	44,806	3,052,022
At 31 March 2011		**2,273,575**	**5,229,892**	**7,485,438**	**16,302,452**	**72,166,314**	**4,056,705**	**16,069,482**	**4,334,678**	**12,054,793**	**4,734,785**	**144,708,114**
Additions	i	-	713	110,994	52,560	528,815	13,012	378,888	262,111	4,026,828	2,413,313	7,787,234
Capitalised Provisions	ii	-	-	-	4,621	(4,329)	-	-	-	-	-	292
Donations	iii	-	-	-	-	26,033	-	-	-	-	-	26,033
Disposals		(417)	4,848	(8,922)	(50,066)	(3,472,410)	179,757	(881,645)	(366,896)	(94,804)	(51,430)	(4,741,985)
Impairments	iv	(190,915)	(27,908)	122,163	(51,490)	(226,780)	4,738	(3,739)	26,958	(6,935)	25,963	(327,945)
Reclassifications	v	(4,657)	(55,107)	211,333	761,506	2,789,696	49,071	568,702	(50,119)	(2,674,375)	(1,204,800)	391,250
Revaluations	vi	40,748	15,343	2,509,258	39,781	1,186,098	203,300	249,235	(3,927)	323,867	51,103	4,614,806
At 31 March 2012		**2,118,334**	**5,167,781**	**10,430,264**	**17,059,364**	**72,993,437**	**4,506,583**	**16,380,923**	**4,202,805**	**13,629,374**	**5,968,934**	**152,457,799**
Depreciation												-
At 1 April 2010		(22,469)	-	(1,500,494)	(6,316,935)	(36,715,348)	(2,161,806)	(6,937,391)	(1,341,082)	-	-	(54,995,525)
Charged in Year		(8,158)	-	(226,491)	(593,785)	(5,333,652)	(251,896)	(730,278)	(430,113)	-	-	(7,574,373)
Disposals		-	-	43,868	207,534	5,389,649	328,444	943,667	134,012	-	-	7,047,174
Impairments	iv	1,669	-	21,248	107,602	856,456	181	179,380	(54,009)	-	-	1,112,527
Reclassifications	v	(8,578)	-	236,316	(426,800)	549,329	21,971	(449,494)	12,220	-	-	(65,036)
Revaluations	vi	-	-	(34,043)	599,034	(1,186,288)	(50,084)	(595,525)	71,867	-	-	(1,195,039)
At 31 March 2011		**(37,536)**	**-**	**(1,459,596)**	**(6,423,350)**	**(36,439,854)**	**(2,113,190)**	**(7,589,641)**	**(1,607,105)**	**-**	**-**	**(55,670,272)**

	Note	Land Dwellings £000	Land Other Buildings £000	Dwellings £000	Other Buildings £000	Single Use Military Equipment (SUME) £000	Plant and Machinery £000	Transport £000	IT and Communication Equipment £000	Assets under Construction (SUME) £000	Assets under Construction (Other) £000	Total £000
Charged in Year		(8,728)	-	(276,352)	(518,307)	(3,982,355)	(315,290)	(944,627)	(439,072)	-	-	(6,484,731)
Disposals		466	-	1,570	35,782	2,377,862	(161,512)	855,587	389,869	-	-	3,499,624
Impairments	iv	2,819	-	(8,562)	20,793	(81,500)	(4,784)	(10,679)	(36,975)	-	-	(118,888)
Reclassifications	v	405	-	37,291	(194,444)	255,539	9,286	(21,747)	2,224	-	-	88,554
Revaluations	vi	(791)	-	(224,904)	(1,121)	(515,995)	(59,860)	(128,260)	(28,555)	-	-	(959,486)
At 31 March 2012		**(43,365)**	**-**	**(1,930,553)**	**(7,080,647)**	**(38,386,303)**	**(2,645,350)**	**(7,839,367)**	**(1,719,614)**	**-**	**-**	**(59,645,199)**
Net Book Value												
At 1 April 2010		2,437,526	5,368,256	5,842,521	9,809,869	35,896,688	2,158,354	7,568,248	2,854,999	14,978,294	5,472,611	92,387,366
At 31 March 2011		2,236,039	5,229,892	6,025,842	9,879,102	35,726,460	1,943,515	8,479,841	2,727,573	12,054,793	4,734,785	89,037,842
At 31 March 2012		**2,074,969**	**5,167,781**	**8,499,711**	**9,978,717**	**34,607,134**	**1,861,233**	**8,541,556**	**2,483,191**	**13,629,374**	**5,968,934**	**92,812,600**
Asset Financing												
Owned		181,828	4,081,154	3,986,481	8,056,614	34,564,161	1,336,141	7,888,601	1,045,837	13,629,374	5,933,223	80,703,414
Donated		200,806	975,177	268,303	873,536	42,973	329,519	-	-	-	-	2,690,314
Long Lease		2,417	23,662	11,824	33,766	-	-	-	-	-	-	71,669
Short Lease		30	12,458	284	18,875	-	-	-	-	-	-	31,647
Operating Lease (Lessor)		-	-	-	5,837	-	-	-	-	-	-	5,837
Finance Lease		1,604,930	-	3,453,917	-	-	-	137,505	-	-	-	5,196,352
Service Concession Arrangements		84,958	75,330	778,902	990,089	-	195,573	515,450	1,437,354	-	35,711	4,113,367
At 31 March 2012		**2,074,969**	**5,167,781**	**8,499,711**	**9,978,717**	**34,607,134**	**1,861,233**	**8,541,556**	**2,483,191**	**13,629,374**	**5,968,934**	**92,812,600**
Of the total net book value as at 31 March 2012												
Core Department		2,074,969	5,158,952	8,073,132	9,773,824	34,607,134	1,771,320	8,533,833	2,482,143	13,629,374	5,964,881	92,069,562
Arm's Length Bodies		-	8,829	426,579	204,893	-	89,913	7,723	1,048	-	4,053	743,038
Total		**2,074,969**	**5,167,781**	**8,499,711**	**9,978,717**	**34,607,134**	**1,861,233**	**8,541,556**	**2,483,191**	**13,629,374**	**5,968,934**	**92,812,600**

Notes
i. Additions include accruals of £3.3Bn (2010-11: £2.6Bn).
ii. Property, plant and equipment as at 31 March 2012 include capitalised provisions of £440M (2010-11: £449M).
iii. Donated Assets in use have been valued on the same basis as all other assets used by the Department.
iv. Assets are impaired for a variety of reasons e.g. loss, damage, unforeseen obsolescence, abandonment of assets under construction and those associated with disposals.
v. Includes assets reclassified to or from intangible assets of £19M and assets reclassified to or from inventories of -£33M.
vi. Revaluations include changes due to Modified Historic Cost Accounting through indexation, impairment and impairment reversals. Land and buildings are subject to quinquennial revaluation; overseas assets are also subject to adjustments to reflect movements in the Euro to Sterling exchange rate.

11.1 All Property (Land and Buildings) with the exception of Assets under Construction, are subject to a quinquennial revaluation (QQR), which is conducted over a rolling 5 year programme with approximately 25% of the estate being revalued in each of the first 4 years allowing for any residual work to take place in year 5. Financial year 2011-12 represents Phase D of the current QQR programme. Valuations for the UK estate were performed by the Valuation Office Agency and for the overseas estate in-house by the Defence Infrastructure Organisation personnel and reviewed by GVA Grimley's. All valuations are undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual. Non-specialist properties are valued at fair value, interpreted as market value for existing use; Specialist properties, for which there is no external market, are valued at depreciated replacement cost.

11.2 Data from the 2011–12 quinquennial review resulted in a £176M decrease in the value of Land and a £1,759M increase in the value of Buildings (mainly a result of the an increase in the value of housing leased from Annington Homes); accruals have been posted to cover some outstanding valuations not yet applied to the asset registers.

11.3 The net charge to the OCS in respect of impairments arising from the movement in values against Land and Buildings is £126.3M impairment write-off. This is made up of: Land – impairment writes-off £221.1M and impairment reversals £94.8M for Buildings These figures include all Land and Building assets professionally valued during Financial Year 2011-12, including Donated, IFRIC 12 and IAS 17 leased assets.

12. Financial Instruments

12.1 IFRS 7 Financial Instruments – Disclosures, requires the Department to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the risks to which the Department is exposed and how these risks are managed. For each type of risk arising from financial instruments, the Department is also required to provide summary quantitative data about its exposure to the risk at the reporting date.

12.2 The cash requirements of the Department are met through the Parliamentary Estimates process, financial instruments therefore play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little liquidity or cash flow risk.

12.3 The Department is subject to some credit risk. The carrying amount of receivables, which is net of impairment losses, represents the Department's maximum exposure to credit risk. Trade and other receivables consist of a large number of diverse customers spread over a wide geographical area. Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability: that customers will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment.

12.4 The Department is subject to exchange rate risk and enters into forward purchase contracts for Euros and US Dollars to mitigate against the risk that cash inflows and outflows will be affected by changes in exchange rates; foreign currency forward contracts were not in hedging relationships in accordance with IAS 39.

Significant Accounting Policies

12.5 Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in Note 1 to the financial statements.

Categories of Financial Instruments

12.6 Details of the Financial Instruments, by category, are:

		31 March 2012		31 March 2011		1 April 2010	
	Note	**Core Department £000**	**Departmental Group £000**	Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
Financial Assets							
Fair value through Net Operating Cost – Held for Trading	SoFP	110,585	110,585	348,407	348,407	513,611	513,611
Loans and receivables (including cash and cash equivalents)		1,673,859	1,722,659	1,715,597	1,768,729	2,095,522	2,145,327
Held for Sale		1	57,567	1	55,853	1	53,966
		1,784,445	1,890,811	2,064,005	2,172,989	2,609,134	2,712,904
Financial Liabilities							
Payables and accruals		(10,398,803)	(10,388,452)	(9,474,920)	(9,465,822)	(8,166,280)	(8,153,939)
Fair value through Net Operating Cost – Held for Trading	SoFP	(213,497)	(213,497)	(102,976)	(102,976)	(30,984)	(30,984)
		(10,612,300)	(10,601,949)	(9,577,896)	(9,568,798)	(8,197,264)	(8,184,923)

12.7 The net gains and losses, for the Departmental Group, taken through Net Operating Cost or Other Comprehensive Expenditure in respect of financial instruments are listed below:

	31 March 2012		31 March 2011	
	Net Operating Cost £000	**Other Comprehensive Expenditure £000**	Net Operating Cost £000	Other Comprehensive Expenditure £000
Financial Assets				
Fair value through Net Operating Cost – Held for Trading	215,359	-	50,481	-
Interest on loans and receivables	(3,329)	-	(1,625)	-
Available for Sale	-	1,683	-	2,272
Financial Liabilities				
Payables and accruals	24,428	-	2,182	-
	236,458	1,683	51,038	2,272

Interest Rate Risk Management

12.8 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. Departmental cash requirements are met through the Parliamentary Estimates process.

Foreign Currency Risk

12.9 The Department undertakes certain transactions denominated in foreign currencies; as a result exposure to exchange rate fluctuations arises. Exchange rate exposure for the US Dollar and Euro are managed using forward purchase contracts with the bank of England and covered 64% of the in-year expenditure in those currencies.

12.10 The table below details the forward purchase currency contracts outstanding as at 31 March 2012:

	Average Contract Exchange Rates	**Foreign Currency US $ '000 Euro € '000 31 March 2012**	**Contract Value 31 March 2012 £000**	**Financial Asset / (Liability) Fair Value 31 March 2012 £000**	Financial Asset / (Liability) Fair Value 31 March 2011 £000	Financial Asset / (Liability) Fair Value 1 April 2010 £000
Delivery 2010-11						
US Dollars ($)		-	-	-	-	125,147
Euro (€)		-	-	-	-	182,375
Delivery 2011-12						
US Dollars ($)		-	-	-	10,442	74,450
Euro (€)		-	-	-	99,927	86,873
Delivery 2012-13						
US Dollars ($)	1.57	2,156,000	1,376,162	(26,807)	(21,135)	20,007
Euro (€)	1.15	1,804,000	1,567,258	(63,674)	18,215	(6,225)
Delivery 2013-14						
US Dollars ($)	1.55	2,029,000	1,306,489	(36,618)	(17,746)	-
Euro (€)	1.17	1,585,000	1,357,205	(36,151)	33,057	-
Delivery 2014-15						
US Dollars ($)	1.55	890,000	573,094	(16,078)	-	-
Euro (€)	1.16	887,000	765,911	(26,621)	-	-
Total			**6,946,119**	**(205,949)**	**122,760**	**482,627**

12.11 The fair value of the financial asset / liability arising from the forward purchase contracts is determined using the mid-market rate for 31 March published in the Financial Times.

Fuel Price Risk

12.12 The Department undertakes substantial purchases of aviation and marine fuels. Exposure to fluctuations in the market prices of these commodities is managed using Swap contracts for forward deliveries. The Swap contracts are placed with a small range of major financial institutions.

12.13 The table below details the Swap contracts outstanding as at 31 March 2012:

	Average Price US$ / Tonne	**Volume Tonnes**	**31 March 2012 US$000**	**Contract Value 31 March 2012* £000**	**Financial Asset / (Liability) Fair Value 31 March 2012 £000**	Financial Asset / (Liability) Fair Value 31 March 2011* £000
Delivery 2011-12						
Aviation Turbine Fuel		-	-	-	-	43,510
Gas Oil		-	-	-	-	15,744
Delivery 2012-13						
Aviation Turbine Fuel	906	326,045	295,252	184,787	38,017	29,402
Gas Oil	839	138,602	116,229	72,743	16,443	10,867
Delivery 2013-14						
Aviation Turbine Fuel	955	250,917	239,612	149,964	22,197	12,896
Gas Oil	869	104,050	90,454	56,612	9,960	4,783
Delivery 2014-15						
Aviation Turbine Fuel	996	110,040	109,560	68,569	6,933	-
Gas Oil	901	52,024	46,843	29,317	3,968	-
Total			897,950	561,992	97,518	117,202

*US $ values have been converted to sterling using the mid market exchange rate as at 31 March.

Embedded Derivatives

12.14 Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the Statement of Comprehensive Net Expenditure in accordance with IFRS 7. The Department operates a commercial framework whereby it does not currently hold financial risks of this nature and places restrictions on doing so in the future.

Fair Value of Financial Instruments

12.15 The carrying values of financial assets and financial liabilities are determined as follows:

- Financial assets at fair value through Statement of Comprehensive Net Expenditure: mid market rate at 31 March as published in the Financial Times.

- Loans and Receivables: Loans to MOD Trading Funds are valued at historical cost less any impairment, with the element due within one year treated as fair value. Receivables due in less than one year are valued at historic cost less any impairment. Receivables due in more than one year are discounted using either the higher of the interest rate intrinsic to the financial instrument or the HM Treasury rate of 2.2%.

- Financial assets held for sale are measured at fair value.

- Payables and accruals: Payables and accruals due in less than one year are valued at historic cost less any impairment. Payables and accruals due in more than one year are discounted using the higher of the interest rate intrinsic to the financial instrument, the HM Treasury rate of 2.2% or, where applicable, the discount rate applicable to pension scheme provisions. Loans payable with a market rate of interest are valued at cost.

- Financial liabilities at fair value through Statement of Comprehensive Net Expenditure: mid market rate at 31 March as published in the Financial Times.

12.16 Details of the financial instruments by valuation method are:

	31 March 2012 Core Department £000	31 March 2012 Departmental Group £000	31 March 2011 Core Department £000	31 March 2011 Departmental Group £000	1 April 2010 Core Department £000	1 April 2010 Departmental Group £000
Financial Assets						
Fair value	110,586	168,152	348,408	404,260	513,612	567,577
Historic cost	1,473,165	1,521,945	1,479,228	1,532,340	1,832,943	1,882,727
Discounted cost	200,694	200,714	236,369	236,389	262,579	262,600
	1,784,445	**1,890,811**	**2,064,005**	**2,172,989**	**2,609,134**	**2,712,904**
Financial Liabilities						
Fair value	(213,497)	(213,497)	(102,976)	(102,976)	(30,984)	(30,984)
Historic cost	(9,849,313)	(9,838,998)	(9,292,707)	(9,283,688)	(7,995,442)	(7,983,464)
Discounted cost	(549,490)	(549,454)	(182,213)	(182,134)	(170,838)	(170,475)
	(10,612,300)	**(10,601,949)**	**(9,577,896)**	**(9,568,798)**	**(8,197,264)**	**(8,184,923)**

Financial Guarantee Contracts

12.17 The Department has entered into two financial guarantee contracts, neither of which is a contingent liability within the meaning of IAS 37 since the likelihood of transfer of economic benefit in settlement is too remote. The probability of payments under these guarantees is very low and the likely liability (fair value) as at year end is assessed as nil. Details of the guarantees are:

- Under the terms of the contract with TNT Ltd for the Government Records Management and Archive Service, MOD guarantees to pay the operator should any other government department fail to settle its outstanding invoices. The total value of invoices outstanding against all government departments as at 31 March 2012 was nil.

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

12.18 Departmental Group – Investments in Public Sector and Non-Public Sector Bodies

	Non-Current Assets – Financial Assets: Public Dividend Capital £000	Loans £000	Investment Property £000	Total £000
Balance at 1 April 2010*	87,002	71,385	21,910	180,297
Repayments*	-	(5,423)	-	(5,423)
Balance at 31 March 2011	87,002	65,962	21,910	174,874
Repayments				
Defence Science and Technology Laboratory	-	(3,220)	-	(3,220)
UK Hydrographic Office	-	(585)	-	(585)
Defence Support Group	-	(1,664)	-	(1,664)
Balance at 31 March 2012	**87,002**	**60,493**	**21,910**	**169,405**

*Public Dividend Capital balances and loan balances and repayments have been restated to reflect the transfer of Met Office to BIS. The value of Investment Property is consolidated as a result of the inclusion of ALBs in the accounting boundary.

12.19 Public Dividend Capital (PDC) and Loan Balances by Trading Fund

	Public Dividend Capital (PDC) 31 Mar 12 £000	Loans 31 Mar 12 £000	Interest Rates %p.a.
Defence Science and Technology Laboratory	50,412	25,759	2.75-4.53
UK Hydrographic Office	13,267	8,108	8.55
Defence Support Group	23,323	26,626	4.6
Totals	**87,002**	**60,493**	

12.20 Analysis of Loans Repayable by Instalments

			31 March 2012
	Due Within One Year £000	Due After One Year £000	Total £000
Defence Science and Technology Laboratory	3,220	22,539	25,759
UK Hydrographic Office	635	7,473	8,108
Defence Support Group	1,664	24,962	26,626
Balance at 31 March	**5,519**	**54,974**	**60,493**

12.21 Department's Share of Net Assets and Results of Trading Funds

	Net Assets (after loans due to MOD) 31 Mar 12 £000	Turnover £000	Surplus / profit for the Year (before financing) £000
Defence Science and Technology Laboratory	328,375	595,787	30,596
UK Hydrographic Office	121,121	135,422	32,303
Defence Support Group	130,802	183,901	14,031
Total	**580,298**	**915,110**	**76,930**

Other Financial Assets

12.22 As at 31 March 2012, investments, including Special Shares, were held in the following:

	7.5% Non-cumulative Irredeemable Preference Shares at £1 each
The Chamber of Shipping Limited	688 Shares
The British Shipping Federation Limited	55,040 Shares

	Preferential Special Shares at £1 each
Devonport Royal Dockyard Limited	1 Share
Rosyth Royal Dockyard Limited	1 Share
AWE plc	1 Share
AWE Pension Trustees Limited	1 Share
QinetiQ Group plc	1 Share
QinetiQ Holdings Limited	1 Share
QinetiQ Limited	1 Share
BAE Systems Marine (Holdings) Limited	1 Share

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

12.23 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 and any remaining value distributed in accordance with the company's constitution. The Department has written down the value of the investment to nil.

12.24 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.

12.25 Special 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' 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, c/o Babcock BES, Rosyth Business Park, Rosyth, Dunfermline, Fife KY11 2YD	SC101959
AWE plc, AWE Aldermaston, Reading, Berkshire RG7 4PR	02763902
AWE Pension Trustees Limited, AWE Aldermaston, Reading, Berkshire RG7 4PR	02784144
QinetiQ Group plc, 85 Buckingham Gate, London SW1E 6PD	04586941
QinetiQ Holdings Limited, 85 Buckingham Gate, London SW1E 6PD	04154556
QinetiQ Limited, 85 Buckingham Gate, London SW1E 6PD	03796233
BAE Systems Marine (Holdings) Limited, Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hants, GU14 6YU	01957765

Departmental Group – Dividends from Investments

12.26 The following dividends are shown as income in Note 8.

	2011-12 £000	Restated 2010-11 £000
Defence Science Technology Laboratory	8,500	8,500
UK Hydrographic Office*	18,628	18,498
Defence Support Group	4,500	2,300
Other	3,118	8,052
Total	**34,746**	37,350

*The UKHO figure for 2011-12 includes a Special Dividend of £8M (2010-11 £10M).

13. Departmental Group – Impairments 2011-12

Details of impairments and impairment reversals through Net Operating Costs and Other Comprehensive Expenditure, for the year, are:

	Net Operating Cost Impairment £000	Net Operating Cost Impairment Reversal £000	Other Comprehensive Expenditure Impairment £000	Other Comprehensive Expenditure Impairment Reversal £000
Intangibles	109,702	-	1,357	-
Land	446,188	(230,185)	-	-
Property (including assets held for sale)	39,973	(122,877)	-	-
Single Use Military Equipment (SUME)	350,012	(41,731)	-	-
Plant & machinery	850	(804)	-	-
Transport	16,137	(1,503)	-	(217)
IT	10,017	-	-	-
Assets under construction	-	(35,108)	16,080	-
Assets held for sale	40,482	-	-	-
	1,013,361	(432,208)	17,437	(217)

14. Departmental Group – PPE Assets Held For Sale

The Department has the following non-current assets held for sale:

	Land and Property	Plant and Equipment	Total
Balance as at 1 April 2010	74,183	8,879	83,062
Additions (transfers in)	87,852	29,202	117,054
Disposals	(17,201)	-	(17,201)
Revaluation	(102,013)	41,997	(60,016)
Balance as at 31 March 2011	**42,821**	**80,078**	**122,899**
Additions (transfers in)	126,495	78,699	205,194
Disposals	(79,489)	(69,042)	(148,531)
Revaluation	(82,570)	(5,000)	(87,570)
Balance as at 31 March 2012	**7,257**	**84,735**	**91,992**

Disposal of plant and equipment is managed through the Disposal Services Authority. Disposal of land and property is managed by Defence Infrastructure Organisation. Assets are held at the lower of market value or net book value with any movement in valuation taken to the revaluation reserve up to historic cost and then to Net Operating Cost as an impairment. Costs of impairing the assets to the net realisable value were charged to the operating costs statement and are included in Note 7.2 – Other Programme Costs.

15. Departmental Group – Inventories

To conduct its activities across the world, on operations and standing commitments, the armed forces require a wide range of supplies and spares for immediate and potential use. A large part of these supplies and spares are recorded on the inventory accounting systems and comprise over 900,000 different types and over 710 million items. The type and range of items accounted for include: Guided Weapons, Missiles and Bombs and significant equipment spares (e.g. aircraft engines), which are reported in the accounts at Note 11 as part of the Single Use Military Equipment figures; as well as raw materials and consumable items which are reported in the table below. The total, approximate, value of these different 'categories' is £40Bn (gross), £16Bn after deducting depreciation and other costs. These overall figures comprise Guided Weapons, Missiles & Bombs £5Bn gross (£2Bn net); significant equipment spares (usually referred to as Capital Spares) £25Bn gross (£7Bn net) and raw materials and consumable items (often referred to as Stock) £10Bn gross (£7Bn net). Further analysis of the net £7Bn figure for 'stock' is below:

	31 March 2012	31 March 2011	1 April 2010
	£000	£000	£000
Munitions	**1,945,098**	1,891,272	1,443,410
Clothing & textiles	**309,795**	290,125	281,522
Engineering & technical	**2,433,596**	2,779,749	2,625,760
General	**2,215,239**	2,355,950	2,595,258
Medical, dental & veterinary	**86,469**	93,685	41,656
Oil, fuel & lubricants	**256,086**	308,880	196,231
Inventory held for sale	**-**	12	12
Inventory held for sale by ALBs	**509**	500	467
Work in progress	**-**	-	6
Total	**7,246,792**	7,720,173	7,184,322

15.1 Where MOD has a Memorandum of Understanding with another country, inventory (including major components such as gas turbines and other supporting inventory) belonging to and held on behalf of that country is included in MOD's inventory systems. The assets may physically be at the contractor, in stores or both. The value of these items is not included in the figures above.

16. Trade Receivables and Other Current Assets

16.1 Analysis by type

	31 March 2012 Core Department £000	31 March 2012 Departmental Group £000	31 March 2011 Core Department £000	31 March 2011 Departmental Group £000	1 April 2010 Core Department £000	1 April 2010 Departmental Group £000
Amounts falling due within one year:						
Trade receivables*	313,608	313,786	188,324	188,481	170,442	170,525
Deposits and advances	74,429	74,582	81,524	81,677	84,178	84,330
Value Added Tax	489,231	489,313	468,853	469,069	420,336	420,416
Other receivables	104,331	106,384	217,083	219,559	379,040	382,024
Staff loans and advances**	36,580	36,930	37,551	37,866	33,152	33,402
Prepayments and accrued income	1,260,358	1,265,195	1,307,169	1,311,867	1,295,088	1,297,895
Current part of Service Concession Arrangement prepayment	7,580	7,580	2,553	2,553	6,012	6,012
Under issue of Supply from the Consolidated Fund	147,179	147,179	127,641	127,641	239,885	239,885
	2,433,296	**2,440,949**	**2,430,698**	**2,438,713**	**2,628,133**	**2,634,489**
Amounts falling due after one year:						
Trade receivables*	-	-	165,490	165,490	193,310	193,310
Other receivables	129,605	289,525	5,309	165,229	7,711	86,932
Staff loans and advances**	71,089	71,089	65,458	65,458	61,360	61,360
Prepayments and accrued income	627,213	627,213	650,461	650,461	620,211	620,211
	827,907	**987,827**	**886,718**	**1,046,638**	**882,592**	**961,813**
Total Receivables	**3,261,203**	**3,428,776**	**3,317,416**	**3,485,351**	**3,510,725**	**3,596,302**

* 2012 trade receivables have been recorded as due within one year as more detailed analysis is not currently available.
** Staff loans and advances includes loans for house purchase. The number of staff with house purchase loans was 15,003 (2010-11:14,517).

16.2 Departmental Group – Additional analysis of the receivables balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	31 March 2012 £000	31 March 2011 £000	1 April 2010 £000	**31 March 2012 £000**	31 March 2011 £000	1 April 2010 £000
Balances with other central government bodies	517,674	483,153	439,120	-	-	1
Balances with local authorities	636	2,310	1,277	-	-	-
Balances with NHS Trusts	1,002	626	6,774	-	-	-
Balances with public corporations and trading funds	24,785	12,230	5,658	794	-	-
Subtotal: intra-government balances	544,097	498,319	452,829	794	-	1
Balances with bodies external to government	1,896,852	1,940,394	2,181,660	987,033	1,046,638	961,812
Total Receivables	**2,440,949**	**2,438,713**	**2,634,489**	**987,827**	**1,046,638**	**961,813**

17. Cash and Cash Equivalents

	Core Department £000	Departmental Group £000
Balance at 1 April 2010	677,357	728,470
Net change in cash and cash equivalents	6,544	6,014
Balance at 31 March 2011	683,901	734,484
Net change in cash and cash equivalents	80,621	77,617
Balance at 31 March 2012	**764,522**	**812,101**

The following balances were held at:	**31 March 2012 £000**	31 March 2011 £000	1 April 2010 £000
Government Banking Service	440,927	297,528	485,468
Commercial Banks and Cash in Hand	371,174	436,956	243,002
Totals	**812,101**	**734,484**	**728,470**

The commercial banks and cash in hand figure as at 31 March 2012 is a net (inclusive of an overdrawn account caused by a timing difference in funding) and includes £444.182M (31 March 2011: £344.023M re-stated) of sums advanced by foreign governments to the Department on various collaborative projects where the United Kingdom is the host nation. Advances made by foreign governments for the procurement of defence equipment on their behalf are also included in this amount. The corresponding liability for these advances is shown under payables due within one year.

The Department holds $40M in an account with the US Government as a Termination Liability Reserve. This is a US legal requirement in order to trade with US defence contractors through Foreign Military Sales. The balance is accounted for as a prepayment in Note 16 Trade Receivables and Other Current Assets.

18. Trade Payables and Other Current Liabilities

18.1 Analysis by type

	31 March 2012		31 March 2011		1 April 2010	
	Core Department £000	**Departmental Group £000**	Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
Amounts falling due within one year:						
VAT	33,213	33,213	38,337	38,337	37,833	37,833
Other taxation and social security	219,431	221,759	260,999	263,281	249,233	250,639
Trade payables	497,512	500,024	370,274	372,855	363,252	365,850
Other payables*	1,545,398	1,546,201	1,443,997	1,444,819	1,259,061	1,262,642
Payments received on account	2,642	15,201	2,497	14,125	3,439	14,178
Accruals and deferred income	8,178,015	8,204,075	7,831,551	7,857,553	6,897,837	6,925,527
Current part of finance leases	7,318	7,374	24,156	24,212	23,495	23,559
Current part of imputed finance lease element of Service Concession Arrangement contracts	220,623	220,623	174,919	174,919	167,646	167,646
Current part of NLF loans**	2,418	2,418	2,407	2,407	2,270	2,270
Supply payable	-	-	-	-	242,541	242,541
	10,706,570	**10,750,888**	10,149,137	10,192,508	9,246,607	9,292,685
Amounts falling due after one year:						
Other payables	527,352	527,400	78,621	78,723	67,432	67,816
Accruals and deferred income	28,780	28,780	103,592	103,592	97,575	97,575
Finance leases	1,804,781	1,804,781	1,833,989	1,833,997	1,862,513	1,862,576
Imputed finance lease element of Service Concession Arrangement contracts	3,725,332	3,725,332	3,485,730	3,485,730	3,328,899	3,328,899
NLF loans**	35,176	35,176	37,594	37,594	40,001	40,001
	6,121,421	**6,121,469**	**5,539,526**	**5,539,636**	**5,396,420**	**5,396,867**
Total Payables	**16,827,991**	**16,872,357**	**15,688,663**	**15,732,144**	**14,643,027**	**14,689,552**

* Other payables includes 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 £444M (2010-11: £344M).

** Under the Armed Forces (Housing Loans) Acts 1949, 1958 and 1965, £94M was borrowed from the National Loans Fund for the construction of married quarters over the period 1950-51 to 1967-68. These loans are fully repayable between 2012 and 2028, with the last instalment due on 20 February 2028. Interest on the loans is payable at rates ranging from 4% to 7% per annum.

18.2 Departmental Group – Additional analysis of the payables balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	31 March 2012 £000	31 March 2011 £000	1 April 2010 £000	**31 March 2012 £000**	31 March 2011 £000	1 April 2010 £000
Balances with other central government bodies	505,213	537,065	587,836	35,176	37,594	40,001
Balances with local authorities	141	1,204	346	-	-	-
Balances with NHS Trusts	3,526	10,942	5,128	-	165	-
Balances with public corporations and trading funds	211,181	23,345	99,491	-	-	-
Subtotal: intra-government balances	720,061	572,556	692,801	35,176	37,759	40,001
Balances with bodies external to government	10,030,827	9,619,952	8,599,884	6,086,293	5,501,877	5,356,866
Total Payables	**10,750,888**	**10,192,508**	**9,292,685**	**6,121,469**	**5,539,636**	**5,396,867**

19. Provisions for Liabilities and Charges

19.1 Departmental Group – Provisions for Liabilities and Charges

	Nuclear Decommissioning £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other £000	Total £000
At 1 April 2010	4,736,802	66,580	217,916	767,478	5,788,776
Increase in provisions in-year	230,947	6,563	173,465	286,850	697,825
Provisions written back and reclassifications	(570,633)	(5,305)	(2,966)	(92,774)	(671,678)
Provisions utilised in year	(57,474)	(6,521)	(61,657)	(131,072)	(256,724)
Unwinding of discount	104,097	608	(1,281)	(33,717)	69,707
Provisions capitalised	6,268	-	-	-	6,268
At 31 March 2011	**4,450,007**	**61,925**	**325,477**	**796,765**	**5,634,174**
Increase in provisions in-year	125,209	6,517	13,814	152,514	298,054
Provisions written back and reclassifications	(896,174)	(11,109)	(28,766)	(22,547)	(958,596)
Provisions utilised in year	(58,822)	(1,408)	(168,316)	(116,819)	(345,365)
Unwinding of discount	97,900	683	3,842	26,327	128,752
Provisions capitalised	292	-	-	-	292
At 31 March 2012	**3,718,412**	**56,608**	**146,051**	**836,240**	**4,757,311**

19.2 Analysis of expected timing of discounted cash flows

	Nuclear Decommissioning £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other £000	Total £000
Period to 31 March 2015	330,258	49,474	99,395	369,841	848,968
Between April 2015 and March 2020	839,940	6,786	21,634	93,464	961,824
Between April 2020 and March 2025	641,346	167	16,632	91,712	749,857
Between April 2025 and March 2065	1,568,134	181	8,390	259,333	1,836,038
Between April 2065 and March 2090	232,416	-	-	21,890	254,306
Thereafter	106,318	-	-	-	106,318
At 31 March 2012	**3,718,412**	**56,608**	**146,051**	**836,240**	**4,757,311**

Nuclear Decommissioning

19.3 Nuclear decommissioning provisions relate principally to the cost of decommissioning of facilities and the treatment and storage of nuclear waste and irradiated fuel arising from operations at MOD sites and the operation of Royal Navy submarines. The liabilities include the costs associated with decommissioning including care and maintenance of redundant facilities (the conditioning, retrieval and storage of contaminated materials); research and development; and the procurement of facilities to handle the various waste streams. MOD is the principal customer of the Atomic Weapons Establishment, and assumes responsibility for the provisions arising from its operations. In October 2007 the Department published its Policy for Decommissioning and Disposal of Radioactive Waste and Residual Nuclear Material Arising from the Nuclear Programme. In September 2011 the Department published the initial version of its Nuclear Liabilities Management Strategy which sets the overall context for the establishment of decommissioning provisions. MOD is working closely with the Nuclear Decommissioning Authority to refine the assumptions underpinning its provisions; this ongoing programme of work has led to recalculations during 2011-12 and, following reviews of the provisions for spent fuel storage and operations at AWE, provisions for nuclear decommissioning were reduced by £872M during the year.

19.4 In applying accounting policies it is necessary to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The nuclear provisions are based on the most recently available estimates discounted at 2.2% per annum in line with HM Treasury guidance. These estimates are necessarily based on assumptions of the processes and methods most likely to be used to discharge the obligations reflecting a combination of the latest technical knowledge available, the timescales involved and the requirements of the existing regulatory regime, Government policy and commercial agreements. However, there remains further strategy development required to decide on the most appropriate end state for each of our liabilities given the developing nature of UK strategies and final disposal options. The uncertainties that surround nuclear provisions mean that quantifying the financial impact of changes to assumptions is very difficult, for example a change of plus or minus two years in the decommissioning dates could result in a change in the value of the liability of between plus £8M and minus £50M, and a change in the discount rate of 0.1% would result in a change in the value of the liability of approximately £75M.

19.5 For decommissioning operations with an end date, costs have been calculated to that date; for operations of an ongoing nature (e.g. storage of materials) costs have been calculated for a period of 150 years.

Other Decommissioning and Restoration

19.6 Other decommissioning and restoration provisions relate primarily to contaminated sites where the Department has a constructive or a legal obligation to restore the sites for normal use. The estimated payments are discounted by the Treasury discount rate of 2.2% in real terms. During 2011-12 existing provisions have been used to offset expenditure for the removal of asbestos in the UK, and restitution of former ranges and training areas.

Early Retirement Pensions

19.7 Prior to December 2010, for those employees covered by the Civil Service Compensation Scheme who retired early, the Department met the additional costs of benefits beyond the normal civil service pension scheme benefits by paying the required amounts annually to the pension schemes over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate applicable to such provisions; 2.8% with effect from 31 March 2012 (2.9% from 31 March 2011). Following changes in December 2010, employees who retire early do so on a 'clean break' basis so no provision is required as there are no costs in future years. During 2011-12 increases of £13.8M were made to existing schemes and early retirement / redundancy costs charged to provisions during the period amounted to £168.3M.

Other

19.8 Other provisions of £836M includes: costs on disposal of non current assets, redundancy and relocation costs associated with restructuring (£323M – which includes £312M in respect of Locally Employed Civilian pensions), provisions for pensions for employees of ALBs (£149M) and amounts payable under guarantees, litigation and contractual arrangements (£364M). During 2011-12 provisions have been increased for legal claims (£141M) and Locally Employed Civilian pensions (£9.6M). Costs charged to provisions during the period amounted to £116M and included £103M in respect of legal claims and £13.7M for redundancy and Locally Employed Civilians' pensions. For the latter, comprising three separate pension schemes, the United Kingdom Departments Gibraltar Pension Scheme, the Sovereign Base Administration Areas Pension Scheme Cyprus and the British Forces Cyprus Fire Service Pension Scheme, costs charged to operating costs were £12.8M.

20. Departmental Group – Employee Benefits – Pension Schemes

20.1 The Armed Forces and the majority of the Department's staff are members of one of the following pension schemes: The Armed Forces Pension Scheme, The Principle Civil Service Pension Scheme, The NHS Pension Scheme or the Teachers' Pension Scheme. The pension liabilities, any assets and the costs of running these schemes are not included in these accounts (with the exception of the costs of administrating the Armed Forces Pension Scheme which forms a part of the Department's expenditure). Separate accounts are published for these schemes details can be found at:
http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions;
http://www.civilservice.gov.uk/pensions;
http://www.education.gov.uk/schools/careers/payandpensions; and
http://www.nhsbsa.nhs.uk/pensions.

20.2 Other employees are members of smaller pension schemes e.g. schemes for Locally Employed Civilians overseas. Estimates of the liabilities (and assets where applicable) for these schemes are included in the accounts; the liabilities are included in the figure for Other provisions for liabilities and charges at Note 19.1 and set out with additional details in the following table.

Net (Liabilities) / Assets of the Schemes	**2011-12 £000**	2010-11 £000
United Kingdom Departments Gibraltar Pension Scheme (Unfunded)*	**(219,600)**	(201,200)
Sovereign Base Administration Areas Pension Scheme Cyprus (Unfunded)*	**(63,000)**	(69,700)
British Forces Cyprus Fire Service Pension Scheme (Unfunded)*	**(29,700)**	(31,300)
Council of Reserve Forces and Cadets Associations Pension Scheme (Funded)**†	**11,200**	11,200
Commonwealth War Graves Commission Superannuation Scheme (Funded)***†	**-**	-
Total	**(301,100)**	(291,000)

* The UKDGPS, SBAAPS – Cyprus and the BFCFSPS were valued by the Government Actuary's Department as at 31 March 2012
** The latest valuation of the Council of Reserve Forces and Cadets Association Pension Fund was completed as at 31 March 2009. The table shows the estimated net scheme surplus £11.2M (an estimated liability of £69.5M which is off-set by assets worth £80.7M).
*** The latest valuation of the Commonwealth War Graves Commission Superannuation Scheme was completed as at 31 March 2011 and assessed the value of scheme liabilities as £79.2M; scheme assets were also valued at £79.2M; the net liability is therefore nil.
† Valuation of the two funded schemes was not completed as at 31 March 2012. There is therefore a degree of additional uncertainty over the value of the assets and liabilities which are included, based on the best information available, in the Group Accounts and detailed (as net positions) above.

20.3 The Department also makes contributions to The Merchant Navy Rating Pensions Fund; a funded, multi-employer defined benefit scheme for which the Department can not reliably estimate its share of the assets and liabilities. The scheme is accounted for as a defined contributions scheme and the accounts include a liability for the contributions (based on the latest actuarial valuation of 31 March 2008) of £18M.

20.4 The numbers of members in these smaller schemes are:

	Active	Pensioners	Deferred Pensioners
United Kingdom Departments Gibraltar Pension Scheme	767	1,471	426
Sovereign Base Administration Areas Pension Scheme Cyprus	364	130	-
British Forces Cyprus Fire Service Pension Scheme	123	65	1
Merchant Navy Ratings Pension Fund	116	725	1,377
Council of Reserve Forces and Cadets Associations Pension Scheme	803	1,070	288
Commonwealth War Graves Commission Superannuation Scheme*	265	-	-
Total	2,438	3,461	2,092

* The figure shown is for the total membership – further analysis is not available.

21. Departmental Group – Capital Commitments

Capital commitments, for which no provision has been made in these financial statements, are:

	31 March 2012 £000	31 March 2011 £000	1 April 2010 £000
Intangible assets	2,202,698	1,479,783	2,642,846
Property, plant and equipment	14,423,526	16,588,136	20,544,682
	16,626,224	18,067,919	23,187,528

22. Departmental Group – Commitments Under Leases

The totals of future minimum lease payments under operating and finance leases for the periods: not later than one year; later than one year but less than five years and later than five years are set out below:

22.1 Operating leases:

Obligations under operating leases comprise:	31 March 2012 £000	31 March 2011 £000
Land		
Not later than one year	4,739	897
Later than one year and not later than five years	13,613	2,492
Later than five years	59,124	1,391
	77,476	4,780
Buildings		
Not later than one year	55,825	51,357
Later than one year and not later than five years	146,528	140,043
Later than five years	148,351	165,765
	350,704	357,165
Other		
Not later than one year	94,258	117,302
Later than one year and not later than five years	250,117	232,808
Later than five years	87,007	77,808
	431,382	427,918

22.2 Finance leases:

Obligations under finance leases comprise:	31 March 2012 £000	31 March 2011 £000
Land		
Not later than one year	48,042	48,042
Later than one year and not later than five years	192,168	192,168
Later than five years	8,791,689	8,839,729
	9,031,899	9,079,939
Less interest element	(8,183,184)	(8,231,225)
	848,715	848,714
Buildings		
Not later than one year	47,849	47,848
Later than one year and not later than five years	191,392	191,393
Later than five years	8,753,883	8,804,041
	8,993,124	9,043,282
Less interest element	(8,150,149)	(8,197,995)
	842,975	845,287
Other		
Not later than one year	52,302	78,062
Later than one year and not later than five years	53,734	111,466
Later than five years	103,412	147,584
	209,448	337,112
Less interest element	(60,010)	(68,656)
	149,438	268,456

23. Departmental Group – Commitments Under Service Concession Arrangements

23.1 All PPP / PFI arrangements have been assessed in accordance with IFRIC 12 – Service Concession Arrangements as adopted by HM Treasury. Any arrangements not fulfilling the criteria for IFRIC 12 have subsequently been assessed against IFRIC 4 (Determining whether an arrangement contains a lease) and IAS 17 (leases). The following arrangements fulfilled the criteria for IFRIC 12 and the assets have been accounted for as assets of the Department:

Project Description	Contract Start*	Contract End
Training, Administration and Financial Management Information System: Provision of training administration and financial management information systems to the Army Recruiting and Training Division	Aug-96	Nov-12
Defence Fixed Telecommunications System: Integration of 50 fixed telecommunications networks used by the Armed Forces and MOD, including the delivery of voice, data, LAN interconnect and other WAN services	Jul-97	Jul-15
Medium Support Helicopter Aircrew Training Facility: Provision of 6 flight simulator training facilities, covering three different types of helicopter, at RAF Benson	Oct-97	Oct-37
Hawk Synthetic Training Facility: Provision of replacement simulator training facilities at RAF Valley	Dec-97	Dec-15
VEOLIA PFI (formerly Thames Water and Tidworth Water and Sewage): Pathfinder project providing water, sewerage and surface water drainage, serving a population of 12,000 military and dependants at Tidworth	Feb-98	Aug-18
Joint Services Command and Staff College (JSCSC): Design and delivery of a new tri-Service Command and Staff Training College infrastructure and supporting services, including single residential accommodation and married quarters	Jun-98	Aug-28
RAF Lossiemouth Family Quarters: Redevelopment and re-provision of 279 Service family quarters	Jun-98	Aug-20
Attack Helicopter Training Service: Provision of full mission simulator, 3 field deployable simulators, ground crew, maintenance and armament training	Jul-98	Sep-17

Project Description	Contract Start*	Contract End
Family Quarters Yeovilton: Provision of married quarters accommodation for 88 Service families at RNAS Yeovilton	Jul-98	Jul-28
RAF Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities, serving a population of 7,000, to meet regulatory standards at RAF Lyneham	Aug-98	Aug-23
RAF Fylingdales: Provision of guaranteed power supply	Dec-98	Mar-24
RAF Cosford/RAF Shawbury Family Quarters: Provision of married quarters accommodation for 145 Service families at RAF Cosford and RAF Shawbury	Mar-99	Jun-25
Fire Fighting Training Units: Provision of fire fighting training for the Royal Navy	Apr-99	Jan-21
Tornado GR4 Synthetic Training Service: Provision of aircraft training service at RAF Marham and RAF Lossiemouth	Jun-99	Jun-31
Central Scotland Family Quarters: Provision of married quarters accommodation for 164 Service families in Central Scotland	Aug-99	Jan-21
Army Foundation College: Provision of teaching and training facilities for the further vocational education and military training of high-quality school leavers	Feb-00	Dec-29
Main Building Refurbishment: Redevelopment and management services for MOD Main Building	May-00	May-30
Tri-Service Material Handling Equipment: Provision of Tri-Service materials handling capability	Jun-00	Jan-11
E3D Sentry Aircrew Training Service: E3D Sentry simulators instructors and maintainers at RAF Waddington	Jul-00	Dec-30
Lynx MK 7 and 9 Aircrew Training Service: Provision for simulator training facility for Lynx MK 7 and 9 helicopter aircrew	Jul-00	Jul-25
Family quarters at Wattisham: Provision of married quarters accommodation for 250 Service families	May-01	Mar-28
Astute Class Training: Provision of a training environment for crewmen and maintainers to support Astute Class submarines for 30 years	Sep-01	Sep-37
Defence Housing Information Systems: Provision of a management information system for Defence Housing	Oct-01	Oct-11
Family quarters at Bristol/Bath/Portsmouth: Provision of accommodation for 317 Service families	Nov-01	Sep-28
Heavy Equipment Transporters: Provision of vehicles to replace existing fleet and meet future requirements	Dec-01	Jul-24
Field Electrical Power Supplies: Provision of generator sets to support operational electrical requirements in the field	Jun-02	Jun-22
Material Handling Equipment: Provision of Tri-Service material handling equipment for Army, Navy and RAF storage depots	Aug-02	Jan-13
Flight Simulation and Synthetic Trainers: Provision of a Flight Simulation and Synthetic Trainers Integrated Aircrew Synthetic Training Service	Oct-02	Mar-17
Aquatrine Project A: Provision of water and waste water services	Apr-03	Nov-28
Naval Communications: Submarine fleet communications service	Jun-03	Dec-30
Defence High Frequency Communications Services: Provision of High Frequency communication services	Jun-03	Jun-18
Defence Sixth Form College: Development of a sixth form college to help meet the future recruitment requirements in the Armed Forces and MOD Civil Service	Jun-03	Aug-33
Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites	Oct-03	Aug-22
Colchester Garrison: Redevelopment, rebuilding and refurbishment to provide accommodation and associated services (messing, education, storage, workshops)	Feb-04	Feb-39
Devonport Armada Single Living Accommodation: Provision of Support Services and Fleet Accommodation Centre services at Devonport Naval Base	Jul-04	Mar-29
Aquatrine Project B: Provision of water and waste water services	Sep-04	Mar-30
Aquatrine Project C: Provision of water and waste water services	Oct-04	Mar-30
C Vehicles: Provision of Earthmoving and Specialist Plant, Engineer Construction Plant and Material Handling Equipment and support services	Jun-05	Jun-21
Portsmouth 2 Housing: Provision of 148 Family quarters in Portsmouth	Oct-05	Oct-30
Project Allenby/Connaught: Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down	Mar-06	Apr-41
Defence Medical Information Capability Programme: provision of information capability system for the Defence Medical Services	May-06	Apr-16
Northwood: Rebuild, refurbishment, management and operation of facilities for the Permanent Joint Headquarters	Jul-06	Oct-31
Combined Aerial Targets (CATS): Provision of aerial targets and associated ground equipment and support services	Dec-06	Mar-28
Provision of Marine Services: Provision of marine services at UK Dockyard Ports at Portsmouth, Devonport and Clyde and support to military exercises, training and deep water trials, worldwide	Dec-07	Dec-22
Future Strategic Tanker Aircraft (FSTA): FSTA is an innovative PFI programme that will provide modern air-to-air refuelling and passenger air transport capabilities	Mar-08	Mar-35
UK Military Flying Training System: Advanced Jet Trainer, Ground Based Training Equipment Element: Management and provision of Fast Jet Phase IV training	May-08	May-33
Corsham Development Project: Rebuild, refurbishment, management and operation of facilities at the Basil Hill site	Aug-08	Jul-33

23.2 The substance of an arrangement accounted for under IFRIC 12 is that the Department has a finance lease with the provider with payments comprising an imputed finance lease charge, a repayment of capital and a service charge. Payments are accounted for within the Statement of Comprehensive Net Expenditure – Service Concession Arrangements (SCA) and charges for 2011-12 were £1.094Bn (2010-11 : £1.077Bn). Total obligations under SCA (consisting of the minimum lease payments, interest and any minimum service charges) analysed by time periods are shown in the table below:

Total obligations under Service Concession Arrangements for the following periods comprise:	31 March 2012 £000	31 March 2011 £000
Not later than one year	445,599	401,772
Later than one year and not later than five years	1,948,221	1,882,210
Later than five years	4,043,906	4,097,574
	6,437,726	6,381,556
Less interest element	(2,491,771)	(2,720,908)
	3,945,955	3,660,648

23.3 The following table is a forecast of the total expenditure likely to be incurred under Service Concession Arrangements. The expenditure is based on currently expected levels of usage and covers the minimum lease payments, the financing charge and payments for service delivery. The expenditure is analysed according to the periods when the payments are expected to be made.

Total payments committed	31 March 2012 £000	31 March 2011 £000
Not later than one year	1,327,159	1,437,922
Later than one year and not later than five years	4,709,333	4,878,083
Later than five years and not later than ten years	3,690,576	4,199,127
Later than ten years and not later than fifteen years	2,255,248	2,876,879
Later than fifteen years and not later than twenty years	1,743,326	2,030,214
Later than twenty years and not later than twenty five years	1,334,033	1,364,784
Later than twenty five years and not later than thirty years	734,830	951,107
	15,794,505	17,738,116

24. Departmental Group – Contingent Liabilities and Contingent Assets Disclosed Under IAS 37

Contingent Liabilities

24.1 The following quantifiable contingent liabilities have been identified:

Description	Liability at 31 March 2012 £000
Indemnity to contractors in respect of nuclear risks and decontamination	283,183
Restricted – not disclosed due to reasons of commercial confidentiality and / or national security	282,880
Indemnity to contractors for third party risks	140,000
Statutory liability for International Military Sales	100,000
Liability for redundancy following contractorisation	43,740
Redundancy costs associated with the rationalisation of basing arrangements in Germany	30,951
Environmental clean up costs	26,800
Indemnity for utilities and services following the sale of Service housing	17,031
Underwriting costs associated with Defence Training Review	3,500
Indemnity for non-MOD personnel in operational theatres	3,052
Legal claims (personal)	7,872
Indemnity for excavation of the wreck of British warship Sussex	1,185
Contractor claims relating to project deferment or termination	500
Total quantifiable contingent liabilities	**940,694**

The Department has a number of unquantifiable liabilities in accordance with IAS 37:

- Indemnities to AWE Management Ltd for non-nuclear risks
- Standard shipbuilding indemnity in respect of Vanguard and Astute class submarines
- Service Life Insurance – providing access to life insurance for service personnel. Details of the scheme and key features can be found at www.servicelifeinsurance.co.uk
- Guarantee to NAAFI that the Department will reimburse 90% of their additional costs arising from any changes in MOD's service requirements.
- Indemnity to Services Sound and Vision Corporation (SSVC) for costs arising from the early termination of the contract
- SDSR – Contracts affected by SDSR decisions are being renegotiated. Where settlements have been reached the financial impact has been included in the accounts. Where renegotiations continue the Department cannot estimate the potential scale of future cancellation and restructuring claims. There may also be other, as yet unknown, claims and consequential hazards resulting from the SDSR decisions.
- The Department has a number of sites where it may be necessary to carry out decontamination work. As it is not practicable or cost effective to identify all contamination at those sites, any possible liability is not quantifiable, so possible site remediation exposure is recognised as an unquantifiable contingent liability

Contingent assets

24.2 A US salvage company, Odyssey Marine Exploration, has found what is believed to be the wreck of the British warship 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 the 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 Authority of the Ministry of Defence, on behalf of Her Majesty's Government, and Odyssey for further archaeological exploration of the wreck and recovery of artefacts. Full responsibility for the project, including the sale of the artefacts has been transferred to the Department. Proceeds from the sale of any artefacts will be surrendered to HM Treasury. The Department will be responsible for the preservation of any part of the wreck brought up as part of the salvage effort.

Contingent liabilities not required to be disclosed under IAS 37

24.3 The 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 IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote.

Quantifiable – unrestricted

Unrestricted – Indemnities	1 April 2011 £000	Increase / (Decrease) in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	**31 March 2012 £000**	Amount reported to Parliament by Departmental Minute £000
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 1,000	-	-	-	Up to 1,000	1,000
Liabilities arising from insurance risk of exhibits on loan to the museums of the Royal Navy, Army and Royal Air Force	2,210	(20)	-	-	2,190	-
Indemnity to Help for Heroes and Royal British Legion should recovery centres have a change in use within ten years	28,400	(23,511)	-	-	4,889	28,400
Remediation costs associated with the discovery of unknown environmental contamination at the Fleetlands site	14,000	3,000	-	-	17,000	-

Quantifiable – restricted

24.4 Details of restricted indemnities are not given due to reasons of commercial confidentiality and / or national security.

Unquantifiable – unrestricted

24.5 The 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 IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

- 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.
- Indemnities to the Babcock Group in respect of nuclear risks under the Nuclear Installations Act 1965.
- Indemnities to the Babcock Group in respect of non-nuclear risks resulting from claims for damage to property or death and personal injury to a third party.

- Indemnity to Rolls-Royce Power for the non-insurance of the Rolls-Royce Core Factory and the Neptune Test Reactor facility for death and personal injury to a third party.
- Indemnity for residual commercial contracts claims liabilities arising from the disbanding of DERA as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001.
- Indemnity for residual employee disease liability arising from the disbanding of DERA as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001.
- Indemnity for residual public liability arising from the disbanding of DERA as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001.
- Indemnity for environmental losses incurred by QinetiQ arising from certain defined materials at specific properties before the formation of QinetiQ on 1 July 2001.
- Indemnity to contractors for potential third party risks arising from construction of Queen Elizabeth carriers.

Unquantifiable – restricted

24.6 Details of restricted indemnities are not given due to reasons of commercial confidentiality and / or national security.

25. Departmental Group – Losses and Special Payments

25.1 Losses

CLOSED CASES: these are losses that have been formally signed off following completion of all the relevant case work. Closed cases include some cases which in previous years were shown as Advance Notifications.	Arising in 2011-12 £000	Reported in 2010-11 as Advance Notifications £000
Total Losses (excluding gifts) under £250,000 each:16,337 cases	6,766	
Total Losses (excluding gifts) over £250,000 each: 18 cases (detailed below)	68,257	105,773
Totals	75,023	105,773
Total Value of Closed Cases – arising in 2011-12 and reported in 2010-11 as Advance Notifications	180,796	
Details of the Closed Cases over £250,000 are:		
Bookkeeping Losses		
Write-off of unsupported balances following verification of inventory holdings. The loss consists of balances that could not be verified with the information available.		29,505
Write-off of unsupported balances. The loss consists of balances that could not be verified with the information available.	15,972	
	15,972	29,505
Cash Losses		
Waiver of the recovery of overpayments in attributable War Pensions Scheme benefits resulting from incorrect abatement following payment of related civil compensation.	10,500	
	10,500	-
Stores Losses		
Loss of a Typhoon aircraft which crashed on landing at US Naval Air Weapons Station, California and was damaged beyond economic repair.		49,420
Disposal of Bowman radios written off following completion of a baselining and upgrade programme.	33,065	
Disposal of missiles damaged as a result of a road traffic accident.	962	
Loss of two RAF aerobatic team Hawk aircraft during pre-season training.	561	
Write off of stock balances following the closure of a storage and distribution centre.	287	
A Vehicle fire during a training exercise completely destroying the vehicle.		256
	34,875	49,676
Fruitless Payments		
Non-refundable NATO Flying Training Canada Programme training tuition fees, incurred over a four year period, following a change to a better value for money UK based option.		24,400
Between February 2009 and January 2010, a total of fourteen Gnome helicopter engines were damaged by being incorrectly packaged in their Special-to-Type Containers, necessitating corrective engineering work by Rolls Royce.		1,565
Between April 2008 and January 2010, a total of four Gnome helicopter engines were damaged by transportation in the incorrect orientation, necessitating corrective engineering work by Rolls Royce.		627
The loss of Merlin Helicopter engineering record cards resulted in a fruitless payment.	564	
Additional Mockingbird personal beacons inadvertently ordered when a superior replacement had already been procured.	423	
Failure to notify the training areas of changes in number of personnel resulted in catering and accommodation wastage.	343	
	1,330	26,592
Constructive Losses		
Osprey Body Armour plates failed to meet required safety standards.	2,796	
Core programme changes resulted in Bowman Combat Infrastructure Platform design solution being superseded.	2,361	
	5,157	-
Claims waived or abandoned		
Claim abandoned for work undertaken on behalf of a third party.	423	
	423	-

CLOSED CASES: these are losses that have been formally signed off following completion of all the relevant case work. Closed cases include some cases which in previous years were shown as Advance Notifications.	Arising in 2011-12 £000	Reported in 2010-11 as Advance Notifications £000
Gifts		
Total under £250,000 each: 153 cases	13,852	
Total over £250,000 each: 3 cases (detailed below)	15,502	21,000
Total	29,354	21,000
	50,354	
Detail of the gifts over £250,000 are:		
The MOD gifted four former military sites in Northern Ireland to the Northern Ireland Executive.		21,000
HMS Victory gifted to the National Museum of the Royal Navy.	15,000	
International Courtesy Rules: supplies and services e.g. cleaning facilities and fresh water, provided on a reciprocal basis to Commonwealth and Foreign Navy vessels during visits to British Ports at Clyde, Portsmouth, Devonport and Gibraltar.	502	

Losses – Advanced Notifications

ADVANCE NOTIFICATIONS: these are losses, which arose during 2011-12 and prior years, but where the cases have not yet been formally signed off because all the work necessary to establish the validity of the loss, and the exact amount thereof, has not yet been concluded. The amounts shown below are, therefore, estimates, and it is likely that the final value of these losses will differ when they are reported as closed cases in future years. Should the final value be less than £250,000, they will not be separately identified.	Arising in 2011-12 £000	Reported in 2010-11 as Advance Notifications £000
Total Advance Notifications over £250,000 each	637,697	5,906,910
	6,544,607	
Stores Losses		
Loss of an RAF Aerobatic Team Hawk aircraft during an air display.	281	
	281	-
Fruitless Payments		
Costs associated with the grounding of HMS ASTUTE and subsequent towing.		2,359
	-	2,359
Constructive Losses		
Cancellation of Nimrod MRA4.		3,632,600
Early withdrawal from service of the Harrier fleet.		1,294,050
Early withdrawal from service of 5 Royal Navy and 3 Royal Fleet Auxiliary vessels. The amount does not include potential contract termination costs as negotiations have not yet commenced.		725,411
Reduction in numbers of Challenger 2 tanks, Driver Training Tanks and Challenger Armoured Repair and Recovery Vehicles.	257,796	
Reduction in the stockpile of Storm Shadow Operational Missiles.	173,100	
A joint radiographic and hydrodynamics facility with France resulted in the termination of Project Hydrus.		120,446
Project Soothsayer: terminated contract that went to arbitration.		88,900
Reduction in holdings of the Multi Launch Rocket System.	59,725	
Reduction of the AS90 Howitzer platform.	58,573	
Following a capability review a decision was made that the Shielder Anti-Tank mine canisters and associated vehicles were no longer required.		43,144
A review of the Typhoon engine In Service Support System determined that the majority of the system is no longer required.	33,419	
Reduction in the Combat Vehicle Reconnaissance Tracked fleet numbers.	23,700	
Cancellation of Solid Intermediate Level Waste Treatment Plant as it failed to meet regulations and controls.	23,600	
Reduction in Warrior Armoured Fighting Vehicles.	5,752	
Defence Targeting Toolset programme cancelled.	1,751	
A project was cancelled and therefore the contract terminated as it was considered that the main contractor had failed to achieve the anchor milestone. Litigation is likely.		-

ADVANCE NOTIFICATIONS: these are losses, which arose during 2011-12 and prior years, but where the cases have not yet been formally signed off because all the work necessary to establish the validity of the loss, and the exact amount thereof, has not yet been concluded. The amounts shown below are, therefore, estimates, and it is likely that the final value of these losses will differ when they are reported as closed cases in future years. Should the final value be less than £250,000, they will not be separately identified.	Arising in 2011-12 £000	Reported in 2010-11 as Advance Notifications £000
A project was cancelled due to the main contractor failing to deliver output within agreed timescales and costs. Litigation is likely.	-	
	637,416	5,904,551
Gifts		
The MOD will gift the net proceeds from the sale of three former military sites in Northern Ireland to the Northern Ireland Executive.		5,500
Training equipment to the Government of Pakistan.	294	

25.2 Special Payments

CLOSED CASES: these are special payments that have been formally signed off following completion of all the relevant case work. Closed cases include some cases which in previous years were shown as Advance Notifications.	Arising in 2011-12 £000	Reported in 2010-11 as Advance Notifications £000
Total under £250,000 each: 262 cases	954	
Total over £250,000 each: 350 cases (detailed below)	2,025	
	2,979	-
Total Value of Closed Cases – arising in 2011-12 and reported in 2010-11 as Advance Notifications.	2,979	
Details of the closed cases over £250,000 are:		
Employment Tribunal claim for failings under TUPE for the transfer of staff to the Oil and Pipeline Agency.	433	
War Pensions Benefit cases		
The payments detailed below were for War Disability Pensions, and were made under the authority of Treasury Dispensing Instruments but outside the scope of the Service Pension order:		
(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, including the Gurkhas from November 2003. Although, the majority of cases have been paid in previous financial years, 51 claims were processed and paid in 2011-12.	510	
(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. The number of cases in 2011-12 was 155.	647	
(c) Noise Induced Sensorineural Hearing Loss:		
During financial year 2011-12 143 payments were made.	435	
	2,025	-

ADVANCE NOTIFICATIONS: these are special payments, which arose during 2011-12 and prior years, but where the cases have not yet been formally signed off because all the work necessary to establish the validity of the loss, and the exact amount thereof, has not yet been concluded. The amounts shown below are, therefore, estimates, and it is likely that the final value of these losses will differ when they are reported as closed cases in future years. Should the final value be less than £250,000, they will not be separately identified.	Arising in 2011-12 £000	Reported in 2010-11 as Advance Notifications £000
Extra-Contractual payments to indemnify a contractor for redundancy costs of ex-MOD staff transferred under TUPE.		1,800

26. Segmental Analysis

26.1 Information on operating activities, financial results, forecasts and plans is presented to and reviewed by the Defence Board on an aggregated basis. This reflects the way in which the Department manages its business in that the resources and activities of each of the Top Level Budget areas must be aggregated in order to determine the overall cost of delivering the Department's principal output of providing the UK's defence capability.

26.2 For financial reporting purposes, the Department is therefore considered to have a single operating segment.

27. Related Party Transactions

27.1 The Defence Science and Technology Laboratory, the UK Hydrographic Office and the Defence Support Group operate as Executive Defence Agencies financed by Trading Fund. The Navy Army Air Force Institutes (NAAFI) and the Oil and Pipelines Agency are Public Corporations.

27.2 The Trading Funds, the Oil and Pipelines Agency and the NAAFI are regarded as related parties outside the Departmental Boundary with which the Department has had material transactions. Transactions are carried out on terms which are contracted for on an arms-length basis, and are subject to internal and external audit. The value of transactions with some of these organisations are set out below and balances with the Trading Funds (excluding loans and dividends, which are shown at Note 12) at year end, are in the following table:

Organisation	Receivables Balances £000	Payables Balances £000
Defence Science and Technology Laboratory	16,035	186,927
UK Hydrographic Office	2,165	-
Defence Support Group	6,527	24,254

Oil and Pipelines Agency (Public Corporation)

27.3 During the year MOD paid the agency fees (excluding VAT) of: £3.8M (2010-11: £3M) Director Finance Defence Equipment & Support (DE&S), Commercial Director DE&S and the Head of the Business Support Group for the MOD are members of the Board of Directors.

Navy Army Air Force Institutes (NAAFI)

27.4 The NAAFI Council acts as the most senior NAAFI body responsible for approving the policy and direction of NAAFI's business. The rules governing the NAAFI Council and its proceedings are laid out in NAAFI's Memorandum and Articles of Association. The Council's membership consists of: Deputy Chief of Defence Staff (Personnel & Training) (President); Second Sea Lord / Commander-in-Chief Naval Home Command, Adjutant General, Deputy Commander-in-Chief Personnel Air, Director Service Personnel Policy, Chief of Joint Operations, DE&S – Head of Commercial (Commands and Centre); as well as the Chairman and Deputy Chairman of NAAFI. During 2011-12 receipts from NAAFI were £0.2M (2010-11: £0.4M); payments to NAAFI were £23M (2010-11: £22M). The Department has provided NAAFI with a guarantee that it will reimburse 90% of additional costs arising from any changes in MOD's service requirements.

Executive Non-Departmental Public Bodies (NDPBs)

27.5 The following are Executive NDPBs of the MOD. They are designated NDPBs under the National Heritage Act 1983 and produce their own annual accounts, in accordance with the Charities (Accounts and Reports) Regulations 2005. The value of the NDPBs' income, expenditure, assets and liabilities are consolidated in the accounts as part of the Departmental Group. Further details of these organisations can be found at:

- National Museum of the Royal Navy
  http://www.royalnavalmuseum.org

- National Army Museum
  www.national-army-museum.ac.uk

- Royal Air Force Museum
  www.rafmuseum.org.uk

Other

27.6 The Department also pays a number of grants and grants-in-aid to other bodies included in the Departmental Group e.g. the Council of Reserve Forces and Cadets Associations (£66.5M), the Commonwealth War Graves Commission (£47.6M) and the Royal Hospital Chelsea (£11M), as well as grants-in-aid to bodies outside the accounting boundary e.g. the Marine Society & Sea Cadets (£10.2M) and the Gurkha Welfare Scheme (£1.2M).

27.7 The MOD works closely with many charitable organisations and this can include representation on governing bodies, for example: The Secretary of State for Defence is trustee of Greenwich Hospital; The Minister for International Security Strategy is a trustee of the Vulcan to the Sky Trust (the trust paid MOD £9,000 for supplies and services during 2011-12 and had a further balance, due to be paid, of £67,000); PUS is a trustee of the Whitehall Industry Group. In addition the Office of National Statistics has classified ABF The Soldiers' Charity as a public sector body sponsored by the Department; it is therefore consolidated in the Department's Group Accounts.

27.8 The MOD has also had a number of transactions with other government departments and central government bodies. Most of the transactions have been with: the Foreign & Commonwealth Office, the Security and Intelligence Services, the Home Office, the Skills Funding Agency, UK Trade and Investment, the Procurator General and Treasury Solicitor, the Cabinet Office, the Department for Work and Pensions, the Department for Environment Food and Rural Affairs, HM Revenue and Customs and the Department for International Development.

Joint Ventures

27.9 There are no Joint Ventures within the Departmental accounting boundary. Some of the Trading Funds have set up Joint Ventures and the Department is involved in collaborative projects with various foreign countries for the development and production of Single Use Military Equipment.

28. Events After the Reporting Date

28.1 These accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG's Audit Certificate.

29. Heritage Assets

29.1 Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. They are preserved in trust for future generations because of their cultural, environmental or historical associations and include: historical buildings, archaeological sites, military and scientific equipment of historical importance, museum and gallery collections and works of art.

29.2 Heritage assets display the following attributes: their value to the Government and to the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market price; established custom and, in many cases primary statute and trustee obligations, impose prohibitions or severe restrictions on disposal by sale; they are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; they may require significant maintenance expenditure to enable them to be enjoyed by future generations; and their life may be measured in hundreds of years.

29.3 Heritage assets are categorised as either operational or non-operational. Non-operational heritage assets are those which are held primarily for the purpose described above e.g. archaeological sites. Operational heritage assets are those which, in addition to being held for their characteristics as part of the nation's heritage, are also used by the Department for other activities or to provide other services e.g. historical buildings used as office accommodation.

29.4 Operational heritage assets are usually valued using the same valuation methodologies as for other assets of that general type. Non-operational heritage assets are valued where this information can be obtained at a cost commensurate with the benefits to users of the Annual Accounts. Heritage assets are not separately disclosed in the SoFP.

29.5 Details of the scale and scope of some of the heritage assets, held by the Department and its ALBs can be viewed on the following websites:
www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/DefenceEstateandEnvironment/MODMuseums/
http://www.chelsea-pensioners.co.uk/home
http://www.mod.uk/DefenceInternet/MicroSite/DIO/WhatWeDo/EstateAndSustainableDevelopment/HeritageOnTheModEstate.htm

29.6 The Department owns a range of non-operational heritage assets. In accordance with the FReM, non-operational heritage assets are valued except where the cost of obtaining a valuation for the asset is not warranted in terms of the benefits it would deliver or where it is not possible to establish a sufficiently reliable valuation. Assets may, for example, be valued when loaned to other organisations as occurred this year when artefacts valued at £75M were loaned to the National Maritime Museum. During 2011-12 the Department gifted HMS Victory to the NMRN and the transfer included a reclassification (as an operational heritage asset of the NMRN) and a valuation (£15M).

29.7 The scope and diversity of the holdings of non-operational heritage assets which are not valued are illustrated by the examples detailed in the table below:

Item	Location	Description
Records and artworks	London, Gosport, Stanmore	The Admiralty and Institute of Naval Medicine Libraries and the Air Historical Branch (RAF) 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	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. Further information is available at: http://www.army.mod.uk/events/museums/default.aspx
Battle of Britain Memorial Flight	RAF Coningsby	Further information is available at: http://www.raf.mod.uk/bbmf/

30. Entities Within the Departmental Boundary

The entities within the boundary during 2011-12 were as follows:

On Vote Agencies*
Ministry of Defence Police and Guarding Agency**
Service Children's Education

* Agency status was removed from the Service Personnel and Veterans Agency on 16 June 2011 and from the People, Pay and Pensions Agency on 6 July 2011. The Defence Vetting Agency ceased to be an Agency with effect from 1 October 2011.
**MDPGA ceased to be an Agency on 1 April 2012.

Advisory Non-Departmental Public Bodies
Advisory Committee on Conscientious Objectors
Advisory Group on Military Medicine
Armed Forces Pay Review Body
Central Advisory Committee on Pensions and Compensation
Defence Nuclear Safety Committee
Defence Scientific Advisory Council
National Employer Advisory Board
Nuclear Research Advisory Council
Review Board for Government Contracts
Science Advisory Committee on the Medical Implications of Less Lethal Weapons
Veterans Advisory and Pensions Committees
Independent Monitoring Board for the Military Corrective Training Centre, Colchester

Non-Departmental Public Bodies
National Museum of the Royal Navy
National Army Museum
Royal Air Force Museum

Other Bodies
ABF The Soldiers' Charity
Council of Reserve Forces and Cadet Associations
Royal Hospital, Chelsea
Commonwealth War Graves Commission

31. Prior Period Adjustments

31.1 Reconciliation of revised net operating costs for 2010-11

	Notes	£000
Core Department net operating costs for 2010-11 prior to adjustments*		**47,144,880**
Increase in income as a result of the receipt of donated assets – treated as income following the change in accounting policy	8	(71,436)
Increase in other programme costs as a result of the removal of the release from the donated asset reserve which previously off-set the cost of depreciation on donated assets	7	51,129
Reduction in Equipment Support costs following the Machinery of Government (MoG) change which transferred Met Office to (BIS).	7	(76,221)
Reduction in depreciation as a result of the MOG transfer of Polar Satellites to BIS	8	(6,744)
Reduction in dividend income as a result of the MoG transfer of Met Office to BIS	8	8,200
Reduction in loan interest received as a result of the MoG transfer of Met Office to BIS	9	95
Prior period adjustment to reduce impairment costs		(422,419)
Core Department restated net operating costs for 2010-11	SoCNE	**46,627,484**

* As published in the 2010-11 accounts.

31.2 Reconciliation of revised operating income for 2010-11

	Notes	£000
Core Department operating income for 2010-11 prior to adjustments*		**1,316,348**
Increase in income as a result of the receipt of donated assets – treated as income following the change in accounting policy	31.1	71,436
Reduction in dividend income as a result of the MoG transfer of Met Office to BIS		(8,200)
Core Department restated operating income for 2010-11	31.1	**1,379,584**

* As published in the 2010-11 accounts.

31.3 Reconciliation of revised Statement of Financial Position as at 1 April 2010

	Note	31 March 2010* £000	Inclusion of ALBs £000	Transfer of Met Office £000	Removal of Donated Asset Reserve £000	1 April 2010 £000	2010-11 SoFP Movements as Published (excluding Met Office)	2010-11 ALBs SoFP Movements	Adjustment for impairment reversal	31 March 2011
Non-current assets										
Intangible assets		29,133,566	-	-	-	**29,133,566**	(2,027,138)	-	422,419	**27,528,847**
Property plant and equipment		91,652,802	734,564	-	-	**92,387,366**	(3,352,703)	3,179	-	**89,037,842**
Financial assets		224,057	21,910	(65,670)	-	**180,297**	(10,892)	-	-	**169,405**
Receivables due after more than one year		882,592	79,221		-	**961,813**	4,126	80,699	-	**1,046,638**
Total non-current assets		**121,893,017**	**835,695**	**(65,670)**	**-**	**122,663,042**	(5,386,607)	83,878	422,419	**117,782,732**
Current assets										
Financial assets held for sale		1	53,965	-	-	**53,966**		1,887	-	**55,853**
Non-current assets held for sale		83,062	-	-	-	**83,062**	39,837		-	**122,899**
Inventories		7,183,855	467	-	-	**7,184,322**	535,818	33	-	**7,720,173**
Trade and other receivables		2,707,343	6,356	(79,210)	-	**2,634,489**	(197,435)	1,659	-	**2,438,713**
Financial assets		513,611	-	-	-	**513,611**	(165,204)	-	-	**348,407**
Cash at bank and in hand		677,357	51,113	-	-	**728,470**	6,544	(530)	-	**734,484**
Total current assets		**11,165,229**	**111,901**	**(79,210)**	**-**	**11,197,920**	219,560	3,049	-	**11,420,529**
Total assets		**133,058,246**	**947,596**	**(144,880)**	**-**	**133,860,962**	(5,167,047)	86,927	422,419	**129,203,261**
Current liabilities										
Trade and other payables due within one year		(9,246,607)	(46,078)		-	**(9,292,685)**	(902,530)	2,707	-	**(10,192,508)**
Financial liabilities		(30,984)			-	**(30,984)**	(71,992)	-	-	**(102,976)**
Total current liabilities		**(9,277,591)**	**(46,078)**	**-**	**-**	**(9,323,669)**	(974,522)	2,707	-	**(10,295,484)**
Non-current assets plus net current assets		**123,780,655**	**901,518**	**(144,880)**	**-**	**124,537,293**	(6,141,569)	89,634	422,419	**118,907,777**

	Note	31 March 2010* £000	Inclusion of ALBs £000	Transfer of Met Office £000	Removal of Donated Asset Reserve £000	1 April 2010 £000	2010-11 SoFP Movements as Published (excluding Met Office)	2010-11 ALBs SoFP Movements	Adjustment for impairment reversal	31 March 2011
Non-current liabilities										
Provisions		(5,706,669)	(82,107)		-	**(5,788,776)**	221,627	(67,025)	-	**(5,634,174)**
Other payables		(5,396,420)	(447)		-	**(5,396,867)**	(143,106)	337	-	**(5,539,636)**
Total non-current liabilities		**(11,103,089)**	**(82,554)**	**-**	**-**	**(11,185,643)**	78,521	(66,688)	-	**(11,173,810)**
Assets less liabilities		**112,677,566**	**818,964**	**(144,880)**	**-**	**113,351,650**	(6,063,048)	22,946	422,419	**107,733,967**
Taxpayers' equity and other reserves										
General fund		87,141,370		(144,880)	1,322,974	**88,319,464**	(5,340,849)	-	422,419	**83,401,034**
Revaluation reserve		23,023,741			1,189,481	**24,213,222**	(722,199)	-		**23,491,023**
Donated assets reserve		2,512,455			(2,512,455)	**-**	-	-		**-**
Taxpayers Equity		**112,677,566**	**-**	**(144,880)**	**-**	**112,532,686**	(6,063,048)	-	422,419	**106,892,057**
ALBs restricted reserves		-	52,422	-	-	**52,422**		6,337		**58,759**
ALBs unrestricted reserves		-	766,542	-	-	**766,542**		16,609		**783,151**
Total ALBs reserves		**-**	**818,964**	**-**	**-**	**818,964**	-	22,946	-	**841,910**
Total taxpayers' equity and other reserves		**112,677,566**	**818,964**	**(144,880)**	**-**	**113,351,650**	(6,063,048)	22,946	422,419	**107,733,967**

* As published in the 2010-11 accounts.

32. Votes A Statement – Statement of Approved Maximum Armed Forces Numbers

32.1 Votes A provide the formal mechanism by which Parliament sets limits for and monitors the maximum numbers of personnel retained for service in the Armed Forces. They are presented to the House shortly before the start of each financial year (late February), and form part of the Parliamentary Supply process.

32.2 Votes A numbers represent uppermost limits for Service manpower; they neither predict actual strengths nor act as a control over numbers in the Services. Votes A includes a contingency margin to cover unforeseen circumstances. Manpower levels are monitored routinely, and if it is anticipated that the numbers could be breached, then a Supplementary Estimate may be required to increase the limit.

32.3 The tables included below compare, for each service, the numbers voted by the House of Commons with the maximum numbers maintained and the date at which this peak occurred. The aggregate maximum numbers maintained may not equal the sum of Officers plus Men and Women as these categories peak at different times of the year. The "Men and Women" categories represent the Services' Ratings and Other Ranks.

32.4 Maximum numbers of personnel to be maintained for service with the Armed Forces:

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
NAVAL SERVICE				
Royal Navy	Officers	7,060	6,570	June 2011
	Men and Women	26,450	22,910	April 2011
	Aggregate	33,510	29,460	April 2011
Royal Marines	Officers	1,070	870	October 2011
	Men and Women	7,970	7,330	April 2011
	Aggregate	9,040	8,190	April 2011
ARMY SERVICE				
Army	Officers	15,740	14,950	June 2011
	Men and Women	104,150	91,470	April 2011
	Aggregate	119,890	106,350	June 2011
Commonwealth, Colonial, etc, troops abroad and Gurkhas	Officers	190	150	July 2011
	Men and Women	4,190	3,950	February 2012
	Aggregate	4,380	4,090	February 2012
AIR FORCE SERVICE				
Royal Air Force	Officers	10,160	9,645	April 2011
	Men and Women	34,570	32,810	April 2011
	Aggregate	44,730	42,455	April 2011

32.5 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				
Royal Fleet Reserve (Naval Officers and Ratings)	Officers	4,200	3,630	November 2011
	Men and Women	7,350	3,415	April 2011
	Aggregate	11,550	6,840	April 2011
Royal Fleet Reserve (Marine Officers and Marines)	Officers	420	270	November 2011
	Men and Women	2,100	1,105	May 2011
	Aggregate	2,520	1,320	May 2011
Royal Naval Reserve	Officers	998	725	April 2011
	Men and Women	1,502	1,255	April 2011
	Aggregate	2,500	1,980	April 2011
Royal Marines Reserve	Officers	110	55	December 2011
	Men and Women	958	705	May 2011
	Aggregate	1,068	755	April 2011
Royal Naval Reserve (List 7)	Officers	910	875	April 2011
RESERVE LAND FORCES				
Army Reserve	Officers	14,000	8,730	March 2012
	Men and Women	45,300	22,095	October 2011
	Aggregate	59,300	30,725	October 2011
Territorial Army	Officers	6,500	4,660	April 2011
	Men and Women	37,700	27,350	January 2012
	Aggregate	44,200	31,780	January 2012
RESERVE AIR FORCES				
Royal Air Force Reserve	Officers	4,100	3,755	February 2012
	Men and Women	6,000	4,845	April 2011
	Aggregate	10,100	8,495	April 2011
Royal Auxiliary Air Force	Officers	300	200	August 2011
	Men and Women	1,900	1,325	April 2011
	Aggregate	2,200	1,520	April 2011

32.6 Maximum numbers to be maintained for service as Special Members of the Reserve Forces:

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
SPECIAL MEMBERS OF THE RESERVE NAVAL FORCES				
Royal Naval Reserve	Officers	969	155	June 2011
	Men and Women	662	120	June 2011
	Aggregate	1,631	275	June 2011
SPECIAL MEMBERS OF THE RESERVE LAND FORCES				
Territorial Army	Officers	15	-	
	Men and Women	155	105	March 2012
	Aggregate	170	105	March 2012
SPECIAL MEMBERS OF THE RESERVE AIR FORCES				
Royal Air Force Reserve	Officers	90	50	March 2012
	Men and Women	200	90	January 2012
	Aggregate	290	140	January 2012

Figures for Regular Forces are rounded to the nearest 10; figures for Reserve Forces are not rounded.

Annex A

Accountability to Parliament

A.1 Ministers have accounted to Parliament during the financial year 2010-11 on all aspects of the Ministry of Defence's business. A total of 3699 Parliamentary Questions were tabled. Defence Ministers participated in 10 debates on Defence issues in the House of Commons and nine in the House of Lords and responded to 10 Adjournment Debates in Westminster Hall. Ministers made eight oral statements to the House of Commons and two to the House of Lords. They also made 80 written ministerial statements to the House of Commons and the House of Lords. Details are published in Hansard.

Ministerial Correspondence

A.2 From 1 April 2011 to 29 February 2012, Defence Ministers received 5078 items of correspondence from Members of Parliament and Peers (and some members of the public to which a Ministerial response was deemed appropriate) of which 4224 (83%) were answered within the Departmental target of 15 working days. On 1 March 2012, the Ministry of Defence amended its deadline to reflect the Cabinet Office guidance of answering correspondence within 20 working days. From 1 March to 31 March 2012, the MOD received 504 items of Ministerial Correspondence of which 471 (93%) were answered within the new target of 20 working days.

Evidence to House of Commons Defence Committee (HCDC)

A.3 Since 1 April 2011 the Ministry of Defence has 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: http://www.parliament.uk/business/committees/committees-a-z/commons-select/defence-committee/publications/

Reports published during this reporting period are listed below.

Table A.1 – Parliamentary Session 2010-12 Reports/evidence (Government Responses are listed in brackets after the report they relate to)

Report	Title	Publication Date
HC 686 (Cm 8079)	Scrutiny of Arms Export Controls (2011): UK Strategic Export Controls Annual Report 2009, Quarterly Reports for 2010, licensing policy and review of export control legislation	5 April 2011
HC 760 (HC 1495)	The Performance of the Ministry of Defence 2009-10	5 July 2011
HC 554 (HC 1525)	Operations in Afghanistan	17 July 2011
HC 1373 (HC 1528)	Ministry of Defence Main Estimates 2011-12	28 July 2011
HC 761 (HC 1639)	The Strategic Defence and Security Review and the National Security Strategy	3 August 2011
HC 762 (HC 1855)	The Armed Forces Covenant in Action? Part 1: Military Casualties	15 December 2011
HC 1635	Ministry of Defence Annual Report and Accounts 2010-11	25 January 2012
HC 950	Operations in Libya	8 February 2012
HC 1714	The Armed Forces Covenant in Action? Part 2: Accommodation	13 February 2012
HC 1552	Developing Threats: Electro-Magnetic Pulses (EMP)	22 February 2012

A.4 The Defence Committee also visited the Armed Forces in the UK and overseas as part of its inquiries, as shown in Table A.2.

Table A.2 – Defence Committee Visits

Date of Visit	Establishment	Related Inquiry
4-8 April 2011	USA	General visit
19 May 2011	Headley Court	The Armed Forces Covenant in Action? Part 1: Military Casualties
7 June 2011	Haslar Company Plymouth	The Armed Forces Covenant in Action? Part 1: Military Casualties
30 June 2011	Queen Elizabeth Hospital and Royal College of Defence Medicine Birmingham	The Armed Forces Covenant in Action? Part 1: Military Casualties
12 January 2012	Catterick Garrison	The Armed Forces Covenant in action? Part 2: Accommodation
4-10 March 2012	Falkland Islands	General visit
14 March 2012	National Maritime Information Centre, Northwood	Future Maritime Surveillance

Evidence to the House of Commons EU Scrutiny Committee and the House of Lords EU Committee.

A.5 Since 1 April 2011 the Ministry of Defence has also given written and oral evidence on various issues to the House of Commons and House of Lords EU Scrutiny Committees to keep both Houses appraised of routine EU business in accordance with Government undertakings. All Committee publications including transcripts and correspondence between Ministers and the Committees are to be found at: http://www.parliament.uk/parliamentary_committees/european_scrutiny.cfm (Commons), http://www.parliament.uk/parliamentary_committees/lords_s_comm_c.cfm (Lords)

Evidence given during this reporting period is listed below:

Table A.3 – Parliamentary Session 2010-12 Reports/evidence

Select Committee	Subject	Publication Date
House of Lords EU Committee – Sub Committee C (Foreign Affairs, Defence and Development Policy)	European Defence Capabilities: lessons from the past, signposts for the future	4 May 2012

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

A.6 Since 1 April 2011 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/business/committees.cfm

Evidence given during this reporting period is listed below:

Table A.4 – Parliamentary Session 2010-12 Reports/evidence

Select Committee	Subject	Publication Date
HoC Administration Committee HC 560 (HC 1506)	Catering and Retail Services in the House of Commons	10 May 2011
HoC Transport Committee HC 794 (HC 1467)	Keeping the UK Moving: The impact on transport of the winter weather in December 2010	12 May 2011
HoL Science and Technology Committee HL 148	Public procurement as a tool to stimulate innovation	25 May 2011
HoC Public Administration Committee HC 901	Good Governance and Civil Service Reform: "End of Term " report on Whitehall plans for structural reform	18 July 2011
HoC Public Administration Committee HC 715	Government and IT- "a recipe for rip-offs": time for a new approach	28 July 2011
Foreign Affairs Committee HC1318 (Cm 8324)	Piracy off the Coast of Somalia	5 January 2012
Scottish Affairs Committee HC 580	The implications for Scotland of both the Strategic Defence and Security Review and The Comprehensive Review	7 February 2012
HoL Science and Technology Committee HL 264	The role and functions of departmental Chief Scientific Advisers	29 February 2012
HoL Economic Affairs HL 278	The Economic Impact and Effectiveness of Development Aid	29 March 2012

Table A.5 – Table of complaints from Parliamentary Ombudsmen

In response to a recommendation from the Public Accounts Committee in 2009 departments are required to publish information on complaints on the department by the Parliamentary Ombudsman. The MOD has a robust process for dealing with complaints of maladministration including, if it becomes necessary, for an independent internal review. During the year four complaints were referred for internal review, one of which turned out to be a Freedom of Information complaint, two of which have been dealt with and the final one which is ongoing. One complaint was referred to the Parliamentary and Health Service Ombudsman; however this dealt with policy issues and therefore did not fall within the purview of the PHSO.

The MOD treats any complaint seriously and has procedures for managing and responding to any complaints received, internally or from the public. Separate procedures exist for complaints about low flying aircraft. In addition, members of the Armed Forces are able to raise complaints via the Service Complaints Commissioner.

Number of complaints accepted for investigation by the Parliamentary Ombudsman in 2011-12	0
Number of investigations reported on by the Parliamentary Ombudsman in the year and the percentage of those reports where the complaint was: i. upheld in full ii. upheld in part iii. not upheld	i.1 ii.0 iii.0
Number of Ombudsman recommendations: i. complied with ii. not complied with	i.5 ii.0

Annex B

Trading Funds

The Defence Science and Technology Laboratory (Dstl)

B.1 Dstl, MOD's in-house Science and Technology (S&T) organisation, has the express purpose of maximising the impact of S&T for the defence and security of the UK. We provide the Government with an extensive portfolio of S&T support, delivered by our in-house experts and by acting as a trusted interface with industry, academia, wider government laboratories and international agencies.

B.2 Dstl has completed its first full cycle of leading the delivery of the Chief Scientific Adviser's S&T programme and last year we formulated a new programme in line with the strategic direction of the MOD's Research and Development Board. We also continued our support to operations in Afghanistan, Libya and elsewhere, with our experts helping deployed scientists with more than 180 requests for evaluating and resolving S&T issues in theatre, thereby influencing and shaping operations.

B.3 We have continued to establish ourselves as a recognised and leading exponent of collaborative working. We have developed strategic relationships with external partners in industry, the UK Space Agency and the Atomic Weapons Establishment, which are enabling rapid identification and development of technological solutions to counter existing and emerging threats. For example, through the Common Defensive Aids Systems Technology Demonstrator Programme, we have been collaborating with an industry team led by SELEX Galileo. The programme has delivered outcomes that have been exploited in the Chinook Defensive Aids System upgrades, which are helping to save lives on operations.

B.4 We have also continued to manage and exploit knowledge and intellectual property generated through our own research work. For example, Super Bainite Steel, an affordable new armour steel with outstanding ballistic properties, was developed by a Dstl-led collaborative programme with academia and industry. Tata Steel (UK) is now producing and offering under license a number of different products, such as perforated armour plates for the armoured vehicle market.

B.5 The Levene Report on the future MOD organisation recognised the roles of S&T and Dstl as key enablers within the defence enterprise. Dstl continues to support the Transforming Defence programme. This has included deploying Science Gateways into the Front Line Commands to support their new role in capability development and providing technical consultancy in support of Permanent Secretary's drive to embed evidence-based decision-making across the Department.

B.6 The Centre for Defence Enterprise (CDE) has continued to build on its early success in accessing innovative research ideas from entrepreneurs and small- and medium-sized enterprises (SMEs) to benefit UK defence and security. To date, CDE has awarded more than 500 research contracts worth over £23.5m. 43% of the contracts have gone to SMEs and 23% have gone to academia.

B.7 Dstl continues to achieve its required financial performance. Turnover for the year was £595.7m (compared to £563.6m in 2010-11). Net profit was £30.2m (£43.9m in 2010-11), achieved while further reducing charge-out rates in real terms. Staff charge rates have been held constant since 1 April 2009. This year, Dstl delivered a Return on Capital Employed of 9.7%.

The Defence Support Group (DSG)

B.8 DSG's vision is to excel in supporting the UK's Armed Forces. It provides MOD with secure access to assured onshore capacity and capability for the through-life maintenance, repair, overhaul, upgrade and procurement support for defence equipment.

B.9 DSG achieved its targets for all four Internal Business Measures used to assess its performance in 2011/12. This underlines a solid business performance during the year. In addition to delivering improvements and streamlining operations across the business, DSG significantly reduced its operating costs and embedded key elements of its ambitious transformation programme.

B.10 Matching capacity to customer demand was the basis for the Ministerial announcement in 2010 that DSG would reduce its staff numbers by up to 600. Following extensive Trade Union consultation and a

Voluntary Early Release scheme, DSG achieved the required reductions without the need for any compulsory redundancies.

B.11 DSG operates the Equipment Sustainability System Regeneration Capability at Camp Bastion in Afghanistan, where over 100 DSG employees work to ensure vital equipment is available for Front Line operations. Highlight of the year for many was the visit by the Prime Minister, David Cameron, to Bastion in July 2011 when he toured the facility and met many DSG employees.

B.12 In October 2011, over 200 staff transferred to DSG from DE&S's Logistics Commodities Services based at Ashchurch, Catterick, Longmoor and Warminster. These staff, who work on a range of vehicle activities, expand DSG's portfolio of support to the Armed Forces. On 31 March 2012, DSG closed down operations at its Large Aircraft Business Unit at St Athan in South Wales following the departure of the final VC10 aircraft. Ministers joined military customers and industry in paying tribute to the outstanding contribution made by the DSG employees at St Athan over several decades.

B.13 DSG continued working with MOD in preparation for the sale of the business within the period 2014/15, as set out in the Strategic Defence and Security Review. DSG's trading performance during the year was solid. Turnover was £183.9m (compared to £209.1m in 2010-11) and reducing costs across the corporate and business areas of £172.4m contributed to a net profit of £13.0m after provision adjustment and interest (compared to £6.9m in 2010-11). The Return on Capital Employed was 8.8%.

The UK Hydrographic Office (UKHO)

B.14 UKHO's vision is to be the world leader in the supply of digital hydrographic information and services. The products and services supplied to Defence, primarily the Royal Navy, are crucial to the conduct of operations globally. UKHO also plays a central role in support of the Maritime and Coastguard Agency in discharging the UK's treaty obligations under the UN Safety of Life at Sea convention (SOLAS). In addition, UKHO has established a significant commercial business, supplying Admiralty navigational charts, publications and other services to mariners throughout the world. Commercial business currently represents 93.1% of the UKHO's total turnover.

B.15 The UKHO's Defence Section, the Defence Maritime Geospatial Intelligence Centre, has continued to support operations and has delivered against all targets. Highlights this year were providing support for the upsurge in activity in the Middle East and the development of a new series of anti-piracy planning charts for use by all mariners. The Defence team has also worked with other Government agencies to meet security requirements at the London and Weymouth venues of the 2012 Olympic Games.

B.16 The safety and quality of Admiralty products and services remains the top priority for the UKHO. Safety and quality is a culture and ethos that is embedded throughout the entire organisation. The technical ability of the UKHO team in validating and assuring the information provided for the global maritime industry is exemplary and will continue to be the primary differentiation for Admiralty products.

B.17 The roll-out of the Admiralty e-Navigator electronic navigation management platform has gained momentum in the commercial market, having reached all Admiralty distributors. At the same time, UKHO has invested significantly in the quality assurance of electronic navigation, working with other Hydrographic Offices and manufacturers of electronic chart display systems to improve quality, and providing a quality assurance overlay to users of the Admiralty Vector Chart Service (AVCS).

B.18 The UKHO enjoyed a further successful year. All four Key Targets, encompassing Safety, Defence, Finance and Organisational Excellence, were achieved. Turnover increased to £135.6m (compared to £129.5 in 2010-11) and AVCS sales increased by 46%. Net profit at £32.8m fell by 13.5% as the business increased its investment in its digital future. Return on Capital Employed was 27.0%.

The Met Office

B.19 In July 2011 the Prime Minister announced the transfer of the Met Office to the Department for Business Innovation and Skills (BIS). The Transfer of Functions (Her Majesty's Land Registry, the Meteorological Office and Ordnance Survey) Order 2011 which gave legal effect to this announcement, came into force in November 2011. The Permanent Secretary retained her Accounting Officer responsibilities in respect of the Met Office until the Supplementary Estimate was approved in February 2012. The Met Office's performance for the year will be summarised in the BIS Annual Report.

Annex C

Government Standards

Fraud

C.1 The MOD has a zero tolerance policy which was simplified, updated and reissued in August 2010, along with a clear process on how to report suspicions of fraud, theft, bribery and corruption. During 2011-12 KPMG undertook a review of MOD's arrangement for managing the risk of fraud. The objective of the review was to assess MOD's fraud risk arrangements against the KPMG understanding of what, in their opinion, constitutes a good fraud risk management framework. The assessment was made against five pillars of a Fraud Risk Management (FRM) Framework: Governance, Operational, Risk, Awareness and Monitoring. The report issued in January 2012 concluded that, whilst there are currently elements of an FRM framework in place both at overall organisational and individual TLB level, further work is required for these to be fully effective in preventing, detecting and responding to the risk of fraud. DG Finance is currently developing a detailed action plan, including a new more streamlined and integrated organisation structure, to take forward the KPMG recommendations.

Transparency

C.2 The Departmental Open Data Strategy[1] was published in June 2012 alongside the Open Data Strategies of OGDs and the Cabinet Office Open Data White Paper[2]. It outlines the transparency commitments the Department aims to deliver over the next two years, including release of further datasets, improving data quality and embedding transparency. Proactively releasing datasets of public interest can lead to a greater understanding of the Department, an improved public image, trust and accountability. The Department must ensure that it meets the transparency legislative requirements outlined in the Freedom of Information Act (FOIA) and additionally the Protection of Freedoms Act (2012), whilst taking into account the need to protect certain types of information, for example, for national or personal security reasons. The principles of transparency are at the core of the Department's Information Sub-Strategy. MOD has met the publishing commitments set by the Prime Minister and regularly publishes additional datasets of public interest to the Internet, signposting them on www.data.gov.uk. At the end of this reporting period there were a total of 184 MOD datasets.

1 http://www.data.gov.uk/library/mod-open-data-strategy
2 http://www.data.gov.uk/library/open-data-white-paper

Category	MOD performance	Total for Central Government Departments
Number of requests received[1]	3,551	32,256
Of these:		
% of requests responded to within 20 working days	78%	86%
% of requests answered 'in time'[2]	85%	91%
Total of 'resolvable requests'[3]	2,832	24,383
Of these:		
% of resolvable requests answered in full	61%	54%
% of resolvable request refused in full	21%	12%
% of resolvable requests refused in part	8%	28%
% resolvable requests yet to receive a response at the time these statistics were collected	10%	6%

Notes:
1. This includes requests received by MOD Executive Agencies and Trading Funds
2. In time means those receiving a substantive response within 20 working days, plus those where an extension to the timescale for response has been applied during the initial 20-working day period, under the terms of section 10 of the FOI Act 2000
3. Resolvable requests are those to which a substantive response can be given, and excludes lapsed or on-hold requests, or those where the information is not held or where clarification was required.

Freedom of Information

C.3 In 2011-12 the MOD received 3,551 requests for information under the Freedom of Information Act 2000. The MOD's record on timeliness in respect of its responses to Freedom of Information requests has improved over the previous year. 78% of requests were answered within the 20 working day statutory time limit, and 61% of 'resolvable' requests were answered in full. MOD refused 21% of requests in full and 8% in part, on the grounds that information was exempt from disclosure under the provisions of the FOI Act 2000.

C.4 In June 2011 the MOD was placed under performance monitoring by the Information Commissioner's Office (ICO) with 18 other public authorities because in the preceding period the Department's performance had dropped below the Commissioner's benchmark for satisfactory performance of 85%. For a period of six months, we worked on revising our processes for FOI handling and, following progressive improvement to the performance level reflected in these figures, the MOD was released from the special monitoring undertaking in March 2012.

C.5 FOI is an important element of MOD business and as such, the Department keeps its internal operating procedures under regular review. Formal training, seminars and workshops establish and maintain the necessary levels of expertise in business units. In-house guidance is regularly updated to reflect the evolving views of the Information Commissioner, the Information Tribunal, and policy developments issued by the Ministry of Justice.

Corporate Memory – The National Archives

C.6 In 2011-12, the routine review and transfer of records to The National Archives (TNA) resulted in around 10,000 files being reviewed. Many of these were related to the 1982 Falklands Crisis and are not due to be made publicly available at TNA until January 2013. In addition, MOD has continued to support TNA in dealing with FOI requests for files that are held by TNA but not available to the public.

Commercial Sponsorship within MOD during 2011-12

C.7 The sponsorship return satisfies the Cabinet Office requirement to publish details of commercial sponsorship deals with a value of £5,000 or greater, excluding VAT, where they supplement Government funding of Departmental core business.

Table C1 – Commercial Sponsorship within MOD 2011-12

Activity	TLB	Individual Sponsors	Company Contribution £ EX VAT
	Naval Command		
HMS Illustrious		Land Rover UK	12,419.00
HMS Bulwark		Land Rover UK	10,128.00
HMS Ocean		Land Rover UK	7,932.00
Culdrose		Lockheed Martin	26,000.00
RNPT		Jaguar	7,355.00
RNAS Yeovilton		Jaguar Cars Ltd	10,739.00
Black Cats		Rolls Royce, Loders Motor Group, Augusta Westland, Robert Frith Optometrists, LDV & Breitling	16,550.00
Protector		G C Rieber Shipping, Kongsberg Maritime, Rolls Royce Naval & BAE Systems	10,000.00
	DIO		
Sanctuary Magazine		Lend Lease, Aspire, Babcock International, Landmarc, Kelda Water Services & Carillion Enterprise	8,500.00
	DE&S		
Ship Open Day		BAE Systems	4,125.00
	Land Forces		
Aldershot Army Show		Aspire, Babcock International, Rushmoor Borough Council, Grainger, MUJV, Wilky, Event Essentials, Tesco, Holiday Inn & Life Fitness	20,500.00
2010 Chinook Display Team		Land Rover UK	59,995.00
D Inf Parachute Display Team – The Red Devils		Gencon, Seat Sport UK, UK Victorinox, Kukri, Signbox Ltd & Suunto	71,700.00
Royal Signals Display Team		LF Harris International	10,000.00
Tigers Parachute Display Team		Army Benevolent Fund	15,000.00
	Air Command		
RAF Aerobatic Display Team – The Red Arrows		Breitling, BAE Systems, Land Rover, Leeds Commercial, BMB Mensware, m2c2, Barbour, Ping, Oakley, Grant International, Pitscards, Rolls Royce, XS Creativity, Aquilla ATMS, Connect Colour & Kodac	218,000.00
Battle of Britain Memorial Flight		BAe Systems Ltd, Rolls Royce, Land Rover & Pullman Wincanton	43,963.00
TOTAL			**£552,906**

Better Regulation

C.8 Reducing regulation is a central theme for the Coalition in creating the right conditions for businesses to grow, innovate and diversify. The better regulation strategy has five key principles, which state that any regulation should be: transparent, accountable, proportionate, consistent, and targeted – only at cases where action is needed.

C.9 To avoid increases in the burden of bureaucracy on business, the one-in, one-out system was introduced by the Better Regulation Executive (part of BIS) from Autumn 2010. This requires each Department to assess the net cost to business of complying with any proposed regulation and to find a deregulatory measure which relieves business of the same net cost.

C.10 It has been agreed with BIS that the one-in, one-out rule does not apply to MOD regulations because they do not impact on business. The main exception is the one set of regulations being prepared to implement the EU Directive on Defence Security Procurement, which is the first EU Directive on this issue.

Annex D

Sustainability Report

The Sustainability Report can be found using the link below:

http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/AnnualReports/MODAnnualReports1112/ModAnnualReportAndAccounts201112.htm

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