



Ministry
of Defence

Ministry of Defence

Annual Report and Accounts

2016-2017



Ministry of Defence Annual Report and Accounts 2016-17

For the year ended 31 March 2017

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Performance Report





Overview





Foreword by Secretary of State for Defence

The past year has been very busy with our Armed Forces involved in over 25 operations around the world. We have played a major role in the fight against Daesh with the Royal Air Force operating at their highest tempo in 25 years; the Royal Navy have been committed across the globe including helping to tackle the migrant crisis; and our Army have been developing the capability and capacity of the Iraqi Forces and sustaining NATO operations in Afghanistan. Our activity has had considerable success – in Iraq, 63% of the territory Daesh once controlled has been retaken; and in Syria, Daesh have lost around 35% of the territory they once controlled. We continue to meet the NATO guideline to spend 2% of Gross Domestic Product on Defence and to mark our commitment to European and wider security, standing with our allies in the face of increasingly diverse challenges. We also stand

ready to support the police in response to major terrorist incidents or threats.

In addition to operations, there have been a number of important events during the past year. In July 2016 Parliament debated and overwhelmingly voted to support the principle of maintaining Continuous At Sea Deterrent (CASD) and building the four new submarines. This was an important step forward and I cut steel on HMS Dreadnought in October. July also saw publication of the Chilcot Report, where we have been working hard to develop actions to address the findings. In October we set out our intention to derogate from the relevant Articles of the European Convention on Human Rights in future conflicts, countering the real risk that these articles pose to our armed forces being able to do their job.

2016 was also the year we laid important foundations for our future force. We are committed to developing an adaptable Joint Force by 2025 with a broad range of capabilities, capable of protecting the UK and overseas Territories, of projecting UK influence and promoting UK prosperity. We are investing billions to give our people the latest frigates, attack helicopters, armoured vehicles, and cyber technology.

This year and next year promise to be even busier. As we leave the EU, we will embrace the world and seek to build a global, outward-looking Britain that is confident on the world stage. Our troops will continue to lead NATO's Enhanced Forward presence in Estonia, and the RAF are leading the Southern Air Policing in Romania. We have doubled our UN peace keeping efforts, bringing urgent medical and engineering support to South Sudan. Our sailors will be preparing for the Queen Elizabeth carrier's first entry into Portsmouth and from the summer we will be commanding half of NATO's standing Naval force deployments. Our Air Force will increase their efforts in the campaign to defeat Daesh.

We will continue implementing our plans to make our defence estate fit for the 21st century, giving our personnel a better place to live, work and train and continuing our work to transform the way we employ and support our Service personnel and their families, in order to become a more modern, inclusive and attractive employer.

Our organisation continues to make great strides but we should appreciate the effect our work can have on our people, and remain ever grateful for the sacrifices made by all elements of the Defence community.

A handwritten signature in black ink that reads "Michael Fallon".



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

Over the last year we have continued to deliver against Defence's top priorities – success on operations; remaining outward facing and internationally engaged; delivering the ambitious policies, plans and programmes set out in the Strategic Defence and Security Review 2015 (SDSR15) and ensuring that we keep Defence policy, our commitments, the forward programme and resources in balance.

It has been a busy year operationally. In addition to sustaining Continuous At Sea Deterrence with our Vanguard Class Submarines, we are delivering Collective Security to the NATO Alliance and the UK in a number of leading roles at sea in the Mediterranean, on land with the commitment to Enhanced Forward Presence in Estonia, and in the Air leading Southern Air Policing in Romania. We are tackling the scourge of international terrorism as a significant member of the Global Counter Daesh Coalition; we are helping to train the Iraqi Security Forces and, at home, supporting the Security Services and police in countering terrorism. In addition, through the joint Defence and GCHQ National Offensive Cyber Programme we will deliver the tools and techniques required for the UK to establish a world-class offensive cyber capability.

The updated International Defence Engagement Strategy was announced in February 2017 to outline the ends, ways and means by which UK Defence Engagement should be conducted. We have established new British Defence Staffs in Dubai, Singapore and Abuja, fulfilling our SDSR15 commitments. Wider UK Government-funded programmes in Afghanistan have provided assistance in education and anti-corruption – helping to ensure millions of children now attend school, 38% of whom are girls.

We were delighted that the UK was chosen to be a global repair hub for F-35 Lightning aircraft; this will generate hundreds of millions of pounds of revenue for UK Defence industry and hundreds of jobs. Testing and commissioning of our new aircraft carrier HMS Queen Elizabeth continues and we achieved the major milestone of moving the crew on board in January 2017. To help us maintain our strategic edge we have launched the Defence Innovation Initiative, backed by an £800M Innovation Fund, and are contributing to wider skills development by delivering our 150,000th Apprenticeship within the last year.

Our plans to modernise the way we employ and support our personnel continue to develop. The Whole Force – regulars, reserves, civilians and contractors is a reality every day. We have engaged with thousands of staff to help shape options for the Future Accommodation Model, which we will be developing further in the coming year. As part of planning for the New Joiner Offer we have been reviewing all aspects of the offer to help understand how we can better target it. In the Future Defence Civilian Programme we are challenging ourselves on which functions we still need to carry out internally, and who is best placed to deliver them.

The action plan to support the Armed Forces Families' Strategy was agreed in October 2016, meaning that the families of Service Personnel can access the right support when required. The Veterans' Gateway has been established to manage the journey for veterans to get the help and support they need. In excess of £22M has been allocated through the Service Pupil Premium to help over 73,000 school children from Service families, and through the Forces Help to Buy scheme we have enabled over 10,000 personnel get on or stay on the property ladder.

We are likely to face further challenges in the year ahead, but the work we are doing today will mean that in the future the brave men and women working for us are better able to do their jobs.

Stephen Langone

Stuart Pearce

Our Vision

The first duty of Government is to defend our country and to keep our people safe.

Our national security and our economic security go hand-in-hand. Our strong economy provides the foundation to invest in our security and global influence, which provides more opportunities at home and overseas to increase our prosperity.

In a more dangerous world, we have chosen to use our hard earned economic strength to support our Armed Forces and give them what they need to help keep Britain safe. We will increase defence spending every year and continue to meet NATO's target to spend 2% of Gross Domestic Product (GDP) on defence for the rest of the decade.

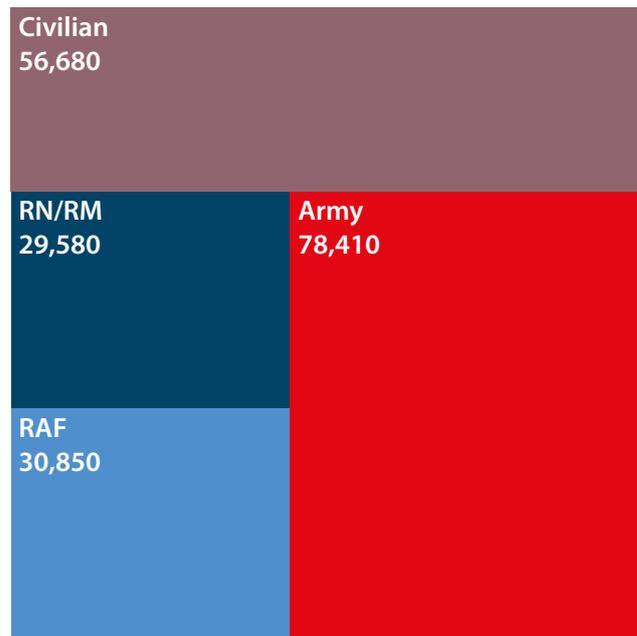
In the SDSR15 we set out plans for stronger defence with more ships, more planes, more troops at readiness, better equipment for special forces, and more for cyber.

We will protect our people, territories, value and interests, at home and overseas, through strong Armed Forces and in partnership with allies, to ensure our security and safeguard our prosperity.

Strategic Objectives – Notable Achievements

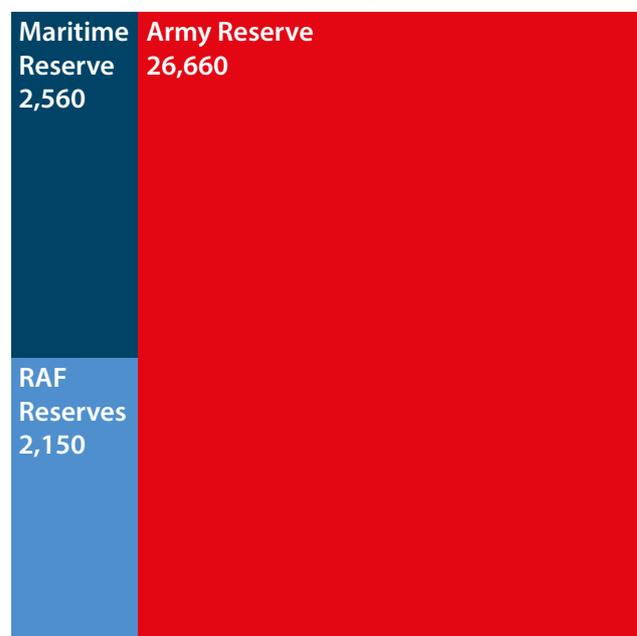
<p>1. Protect our people</p> 	<p>Commitment to spend 2% of GDP on Defence delivered</p> <p>Explosive Ordnance Disposal teams responded to almost 3,000 incidents</p> <p>1.5 tonnes of illicit cocaine has been seized by the Royal Navy</p> <p>Over 45,000 Iraqi and Peshmerga soldiers trained by UK forces to fight Daesh</p>
<p>2. Project our global influence</p> 	<p>Over 4,000 UK personnel taking part in Land, Air and Maritime exercises across NATO's area</p> <p>Joint UK/France €2Bn equipment programme to develop future unmanned armed drone agreed</p> <p>7,000 African peace keeping personnel trained by British Peace Support Team</p> <p>Deployment of nearly 400 UK engineering and medical personnel to UN Mission in South Sudan</p>
<p>3. Promote our prosperity</p> 	<p>25,557 apprentices enrolled between April 2015 and January 2017</p> <p>Commitment that 1.2% of Defence budget spent on Science and Technology delivered</p> <p>Over 128,000 cadets in the UK</p> <p>MOD has released or transferred land for 5,200 housing units</p>
<p>4. Maintain a strategic base and integrated global support network, and manage the Department of State</p> 	<p>£163M loaned to help 10,800 personnel get on or stay on the property ladder</p> <p>24 Puma Helicopters service life extended to 2025</p> <p>80% of troops returned from Germany and remaining units are on track to return by 2019</p> <p>£330m deal agreed to develop the next generation tactical communication and information system</p>

Military Full Time Trained Strength (RN/RM and RAF), Trade Trained Strength (Army) and Civilians as at 1 April 2017



1. Full-Time Trained Strength is the element of the UK Armed Forces comprising trained UK Regular Forces, trained Gurkhas and a number of Reserve Forces personnel filling Regular posts whilst serving on FTRS. It does not include mobilised reservists.
2. Trained Strength comprises military personnel who have completed Phase 1 and 2 training for Royal Navy/Royal Marines, the Army (prior to 1 October 2016) and the Royal Air Force. Following the change in definition of trained strength for Army, from 1 October 2016, trained strength for the Army comprises of personnel who have completed Phase 1 training. Trade Trained strength for the Army comprises of personnel who have completed Phase 1 and Phase 2 training.
3. Approximately 270 Full Time Reserve Service personnel are counted in both the Full Time Trained Strength and Future Reserves 2020 populations.
4. Civilian includes all permanent and casual civilian personnel, Royal Fleet Auxiliaries, Trading Funds, locally engaged civilians and DE&S Trading Entity.

Future Reserves 2020 trained strength as at 1 April 2017



1. Future Reserves 2020 (FR20) includes volunteer reserves who are mobilised, HRR and volunteer reserve personnel serving on ADC or FTRS contracts. Sponsored Reserves who provide a more cost effective solution than volunteer reserve are also included in the Army Reserve FR20. Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI) and University Officer Cadets and Regular Reservists are excluded.
2. Trained Strength comprises military personnel who have completed Phase 1 and 2 training for Maritime Reserve, the Army Reserve (prior to 1 October 2016) and the Royal Air Force Reserves. Following the change in definition of trained strength from 1 October 2016 trained strength for the Army Reserve comprises of personnel who have completed Phase 1 training.

Strategic Defence and Security Review

The National Security Strategy and SDSR15, published on 23 November 2015, highlighted the changing and increasingly uncertain international security context in which Defence must operate. The associated National Security Risk Assessment concluded that the risks and threats faced by the UK have increased in scale, diversity and complexity; the increasing threat posed by terrorism, the resurgence of state-based threats, the impact of technology, and the erosion of the rules-based international order are now particular challenges for the UK.

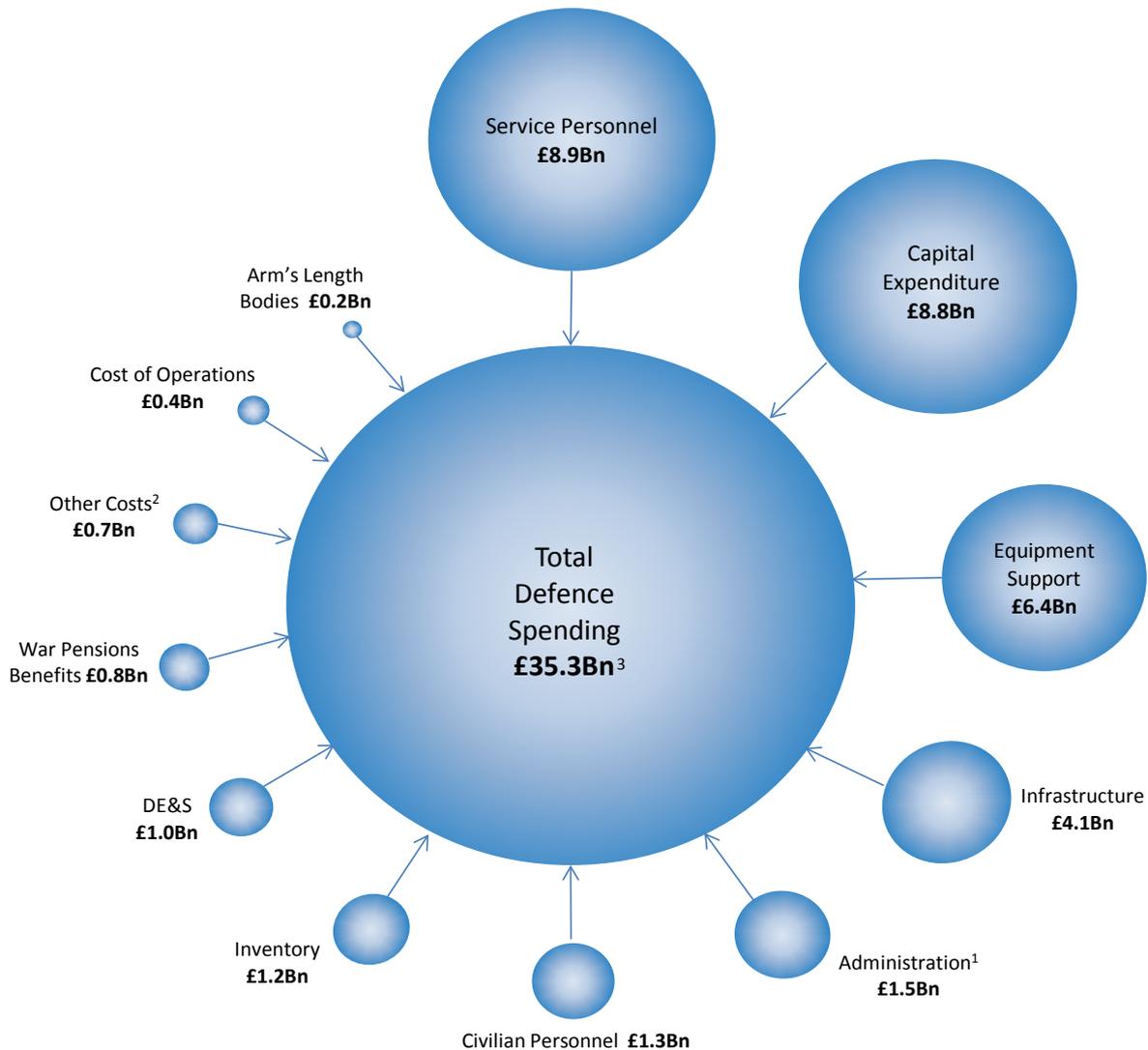
The SDSR15 set out a plan to respond to this more challenging world, in part by rebuilding our war fighting capability. We have made major reforms to how the Ministry of Defence (MOD) and Armed Forces are organised and operate to ensure that we can maximise our investment in Defence capabilities. To help us maintain strategic advantage over potential adversaries, we launched the Defence Innovation Initiative in September 2016. Backed by an Innovation Fund of around £800M (over 10 years), it included the first Defence Challenge call for innovative solutions from novel suppliers and Small and Medium Enterprises. We have cut steel for the Dreadnought class submarines, and announced the start date for Type 26 construction. We have signed Foreign Military Sales agreements with the USA for both the Apache helicopter upgrade programme and the P-8 maritime patrol aircraft and we have completed delivery of the Voyager and Rivet Joint aircraft fleets. In 2017, HMS Queen Elizabeth will arrive in Portsmouth. We will continue to build up the F-35 fleet.

The Armed Forces have been actively involved during this period in deterring threats and reinforcing resilience at home. SDSR15 sets out the importance we attach to key Defence relationships with allies, partners and international security institutions. As a result, our Defence policy and plans continue to become 'International by Design' as a default. We seek to take a planned, deliberate approach to existing international defence relationships and develop collaboration and integration in new areas of defence activity. Defence Engagement is now a core part of Defence business, and in February 2017 we published our updated International Defence Engagement Strategy to support our international ambition. We have also established new regional Defence Staffs in West Africa, the Gulf, and the Far East, and we have continued to invest in our other most important bilateral relationships, particularly the US, France and Germany. Furthermore, as part of the Government's Plan for Britain, we will play our part in the development of a new, positive and constructive partnership between the UK and the European Union.

NATO will remain at the heart of UK Defence and we continue to meet the NATO guideline to spend 2% of Gross Domestic Product on Defence each year until the end of the decade. We are proud of our continued leadership in NATO, delivering both Enhanced Forward Presence in Estonia and the Land element of the Very High Readiness Joint Task Force. We have increased our training for the Iraqi Security Forces. We remain the second-most militarily and politically significant member of the 68-nation Global Counter-Daesh Coalition. We have continued to build on our commitments to operational capability development and nuclear policy under the UK-France Lancaster House Treaty of 2010.

We continue to make excellent progress towards all of the SDSR15 commitments, some of which by their nature will take several years to deliver. We continue to work towards the civilian reductions we are committed to; and recognise the importance of sustaining our collective focus and energy on policy and capability delivery while we do. We remain equally focused on delivering a sustainable employment offer for the next generation of members of the Armed Forces, which is vital to the long-term health and sustainability of Joint Force 25. Defence will continue to place the highest priority on addressing these issues.

Financial Summary



1. Includes all administration costs relating to Other Costs and Services, Cash Release of Provisions and cost of Military and Civilian personnel who perform an administrative role.
2. Includes Conflict, Stability & Security Fund and Other Costs and Services, Receipts and Other Income, Cash Release of Provisions and Research and Development Costs related to Provision of Defence Capability.
3. Total Defence Spending represents cash Resource DEL and Capital DEL for investment.

Departmental Structure

'Defence' covers all those matters that are the responsibility of the Secretary of State for Defence. In practice this means the business carried out by the Secretary of State for Defence, and his fellow Ministers, of the Ministry of Defence (MOD) as the Department of State that supports them, and of the Armed Forces as constituted by the Defence (Transfer of Functions) Act 1964. At the most basic level, Defence is therefore made up of two main areas:

- a **Department of State**: the Government Department responsible for delivering Defence. It is funded by and answers to Parliament, and to the Prime Minister, through the Secretary of State for Defence.
- the **Armed Forces**: the personnel and equipment that deliver military capability.

The Secretary of State for Defence has the following responsibilities:

- the general executive role¹, as one of Her Majesty's Principal Secretaries of State and a member of the Cabinet and the National Security Council (a sub-committee of the Cabinet providing advice to the Prime Minister on defence and security matters);
- defence-related legislation (e.g. the Armed Forces Act 2011);
- Chair of the Defence Council; and
- Chair of the Defence Board.

The Defence Council is the senior departmental committee. It is chaired by the Secretary of State, and comprises the other Ministers, the Permanent Secretary, the Chief of the Defence Staff and senior service officers and senior officials who head the armed services and the Department's major corporate functions. It provides the formal legal basis for the conduct of Defence in the UK through a range of powers vested in it by statute and Letters Patent.

Stephen Lovegrove, as the Permanent Secretary, is the Government's principal civilian adviser on Defence and, has primary responsibility for policy, finance and business planning. Responsibilities include:

- leading Defence (with the Chief of the Defence Staff (CDS));
- setting strategy for Defence, including corporate strategy (together with CDS, and subject to Ministers' direction);
- heading the Department of State and the MOD Civil Service;
- providing policy advice to Ministers and leading the relationship with other Government Departments;
- the overall organisation, management and staffing of Defence; and
- performing the full range of Accounting Officer responsibilities, including the delegation of financial and other authority and accountability to senior colleagues, with personal accountability to Parliament for the economic, efficient and effective use of Defence resources.

¹ The general executive refers to the role delivered by the Government of the day; these responsibilities are collective and managed through the Cabinet, which is chaired by the Prime Minister.

Air Chief Marshal Sir Stuart Peach, as Chief of the Defence Staff (CDS), is the professional head of the Armed Forces and principal military adviser to the Secretary of State and the Government. Responsibilities include:

- leading Defence (with the Permanent Secretary);
- setting strategy for Defence, including the future development of the Armed Forces (together with the Permanent Secretary and subject to Ministers' direction);
- the conduct of current operations (as strategic commander); and
- leading relationships with other countries' Armed Forces.

Defence is organised into six 'Top Level Budgets' (TLBs):

- The four front-line commands:
 - Navy Command, TLB Holder – Admiral Sir Philip Jones.
 - Army Command, TLB Holder – General Sir Nick Carter.
 - Air Command, TLB Holder – Air Chief Marshal Sir Stephen Hillier.
 - Joint Forces Command, TLB Holder – General Sir Chris Deverell.
- Head Office and Corporate Services (HOCS), which is made up of the Head Office and a range of corporate support functions. TLB Holder – Julie Taylor.
- The Defence Infrastructure Organisation (DIO) TLB Holder – Julie Taylor.

Next year, there will be seven TLBs as the Director General Nuclear organisation stood up as a TLB on 1st April 2017.

The head of each TLB – the 'TLB Holder' – is personally accountable for the performance of their organisation. They have to deliver agreed outcomes as effectively, efficiently, safely, sustainably and economically as possible. They also have to operate effective controls to protect regularity and propriety; and stay within set financial limits (known as 'control totals').

Each TLB has a board chaired by the TLB Holder (except for the DIO which has a non-executive chair). They decide on who will be members of the board. However, the Director of Resources must be a full and equal member of the board and there should be at least four non-executive board members, the majority of whom should be senior people from the commercial private sector, with experience of managing complex organisations. The Permanent Secretary and the Lead Non-Executive Director (NED) for the MOD must approve the appointment of new NEDs to TLB boards. The Defence Audit Committee chair must approve the appointment of new chairs to TLB Audit Committees.

The principal organisations supporting the MOD are:

- Defence Equipment and Support (DE&S): DE&S was launched as a Bespoke Trading Entity (BTE) in April 2014, with delegated management freedoms allowing the organisation to manage its own business and workforce. DE&S does not hold the budget for the Equipment Programme but, on behalf of its MOD customers, manages the acquisition and through-life support of equipment in service, and undertakes decommissioning and disposal when equipment reaches the end of its service life. Tony Douglas is the Chief Executive of DE&S.
- The Defence Science and Technology Laboratory (Dstl): an Executive Agency that delivers innovative, cutting-edge science and technology (S&T) to support the defence and security of the UK. Dstl's work programme is commissioned by the MOD's Chief Scientific Adviser and delivered through a mixture of internal resources and externally-placed contracts with industry and academia. From 1 April 2017, Dstl ceased to operate as a Trading Fund but remains an Executive Agency of MOD. Jonathan Lyle is the Chief Executive of Dstl.
- the Defence Electronics and Components Agency (DECA) an on-vote Agency which provides maintenance, repair and overhaul services for electronics and components that will benefit Defence. Geraint Spearing is the DECA Chief Executive.
- the UK Hydrographic Office (UKHO) a Trading Fund which provides navigation charts and other hydrographic information and services, mainly to the Royal Navy and commercial shipping. John Humphrey is Chief Executive of the UKHO.
- The Oil and Pipelines Agency (OPA) is a public corporation sponsored by the department which manages six oil fuel depots, but falls outside the Departmental Accounting Boundary and its Annual Accounts are published separately. Adrian Jackson is the Chief Executive.

Defence Operating Model

Building on the Defence Operating Model introduced following the 2011 Levene report on the organisation and management of Defence, MOD has continued to adapt the way it is organised and governed to meet its evolving business circumstances. This has involved both structural and organisational changes. The key developments during 2016-17 are briefly described below.

Structural reforms are in train and include reshaping the Defence Nuclear Enterprise to strengthen MOD's ability to deliver its SDSR15 commitments. This has included: establishing the Director General Nuclear organisation to provide a single focus for all aspects of nuclear business across Defence, with a new Director General appointed in May 2017; and establishing the Submarine Delivery Agency, which will work alongside Defence Equipment and Support, but focus solely on the procurement and in-service support of the UK's nuclear submarines.

Another structural change has been the removal of Dstl's Trading Fund status from 1 April 2017; Dstl remains an on-vote Executive Agency of the MOD. This change was part of a wider restructuring of Defence's science and technology enterprise which has also included the separation of the commissioning and delivery roles between MOD Head Office and Dstl, and new governance structures to increase strategic oversight. While Dstl's purpose remains the same – to deliver high-impact science and technology for Defence and national security – the way Dstl is funded has been changed and the way in which Defence customers task Dstl has been simplified.

In January 2017, the Permanent Secretaries of MOD and the Home Office formally announced the decision to integrate the Home Office Centre for Applied Science and Technology (CAST) with Dstl. A joint programme has been established to manage the integration and this aims to complete by 2020. The merger will provide greater resilience in S&T capabilities that provide critical advice and solutions to both Dstl and CAST's customers.

A review has also been conducted during the year into the management of the Defence Infrastructure Organisation (DIO). In December 2016, the Defence Board took the decision to continue to move towards the delegation of infrastructure funding to the TLBs from April 2018, subject to confirmation in Autumn 2017. The delegated environment will see the DIO shift in focus to become an expert delivery organisation, delivering quality service, providing expert advice and being the focus for driving estate improvement. As a result of this, a significant review of DIO's governance will take place by the end of 2018. This will include examining the nature and status of DIO in the revised infrastructure model. The roles of the DIO Board and other committees supporting the work of DIO will be worked out over time in light of these changes.

The top level governance of MOD has also been strengthened by the creation of an Executive Committee, which brings together the Head Office senior leadership team to support the Defence Board in considering the major managerial and strategic policy issues facing Defence. A key focus of the Executive Committee is to strengthen governance across Defence, with a range of initiatives in place to achieve this, including a major programme of work in response to the findings of the Iraq Inquiry report of July 2016, and a number of related workstrands aimed at maturing governance more broadly at all levels of Defence.

A wide range of work will continue during 2017-18 to improve the Defence Operating Model to further progress the changes described above, and to continue to strengthen the overall governance of Defence.

Iraq Inquiry

The Iraq Inquiry (Chilcot) Report was published in July 2016, and the MOD immediately established a team, led by a Senior Civil Service Director, to determine the implications of the Report's findings for the department. This involved not only detailed analysis of the Report, but also an assessment of where lessons still had to be learned in our conduct of business. This highlighted a need for:

- A stronger culture of *challenge* in decision-making, drawing on greater diversity of thought, activities such as 'red-teaming' (where a separate team brings a critical perspective to a policy initiative), a new guide on when and how we can invite or offer challenge, changes to Defence Academy course curricula and revised guidance on Ministerial submissions.
- Renewed impetus to professionalisation of our staff, particularly in the policy profession.
- A step change in how we capture, curate and access the knowledge we have at our disposal, including lessons from past operations.

This programme is taking place within the context of wider cross-Whitehall work to learn the lessons of Chilcot, co-ordinated by the Cabinet Office and working directly with partners across Government to exchange ideas and share best practice. Many aspects of the programme will have been implemented by March 2019.

Performance Analysis





Strategic Objective 1: Protect Our People

Objective:

The Government has committed to spending 2% of GDP on defence and that the MOD Budget will continue to rise by 0.5% above inflation over the next four years. The SDSR15 set out plans for a new Joint Force 2025 able to deploy a force of around 50,000. We will defend and contribute to the security and resilience of the UK and Overseas Territories, protect our people abroad, maintain the Continuous At Sea Deterrent and conduct operations as required.

Key Performance Indicators:

- Delivering on current operations
- Continuous At Sea Deterrent
- Numbers of Trained Military Personnel
- Equipment and Support (see Strategic Objective-4)

NATO 2% Commitment

As confirmed during the Summer Budget 2015, the Government has committed to spending 2% of our Gross Domestic Product on defence and security for the rest of the decade. The MOD budget will also continue to rise by 0.5% above inflation annually for the next four years, and the Armed Forces, along with the Security and Intelligence Agencies, will have access to up to £1.5Bn a year by 2020-21 in the Joint Security Fund.

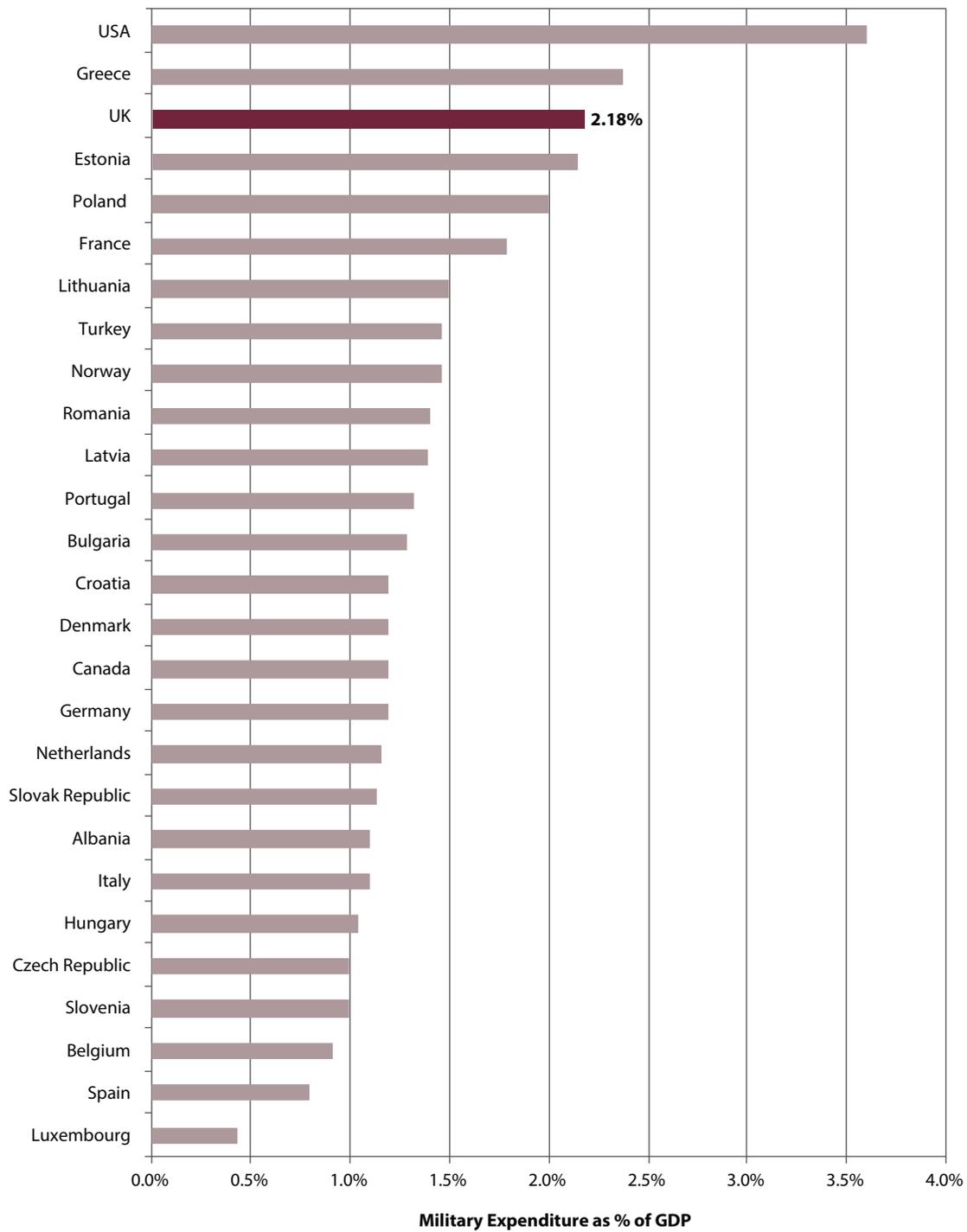
The commitment to spend 2% of GDP was reaffirmed by all Allies at the Warsaw Summit in 2016, and serves as an indicator of the UK's, and our Allies', political will to contribute to the Alliance's common defence and security efforts. Meeting this commitment underpins Britain's place in the world. We have the largest defence budget in Europe, the second largest in NATO and the fifth largest in the world. We are also one of only three countries who meet both NATO spending guidelines to spend 2% of GDP on defence and 20% of defence spending on major equipment projects and research and development.

Our defence spending returns capture all spend contributing to the defence of the United Kingdom and are fully in accordance with NATO's guidelines. NATO members submit headline planning information, including on expenditure, to NATO annually as part of the NATO Defence Planning Process. NATO conducts senior bilateral meetings with all Allies to examine their plans, and all Allies discuss these plans in a multilateral setting. NATO published updated details of Allies' defence spending on 13 March 2017 in the Secretary General's annual report². The data published confirmed that the UK spent the following as a percentage of GDP on Defence:

2014	2015	2016
2.19%	2.08%	2.18%

² http://www.nato.int/cps/en/natohq/opinions_142149.htm

NATO Defence Expenditure as % of GDP³ – 2016 (based on 2010 prices)



Source: NATO Defence Expenditures of NATO Countries (2010-2017) 29 June 2017

³ Iceland is a member of the Alliance but has no Armed Forces

International locations of UK Regular Forces* 1 April 2017⁴

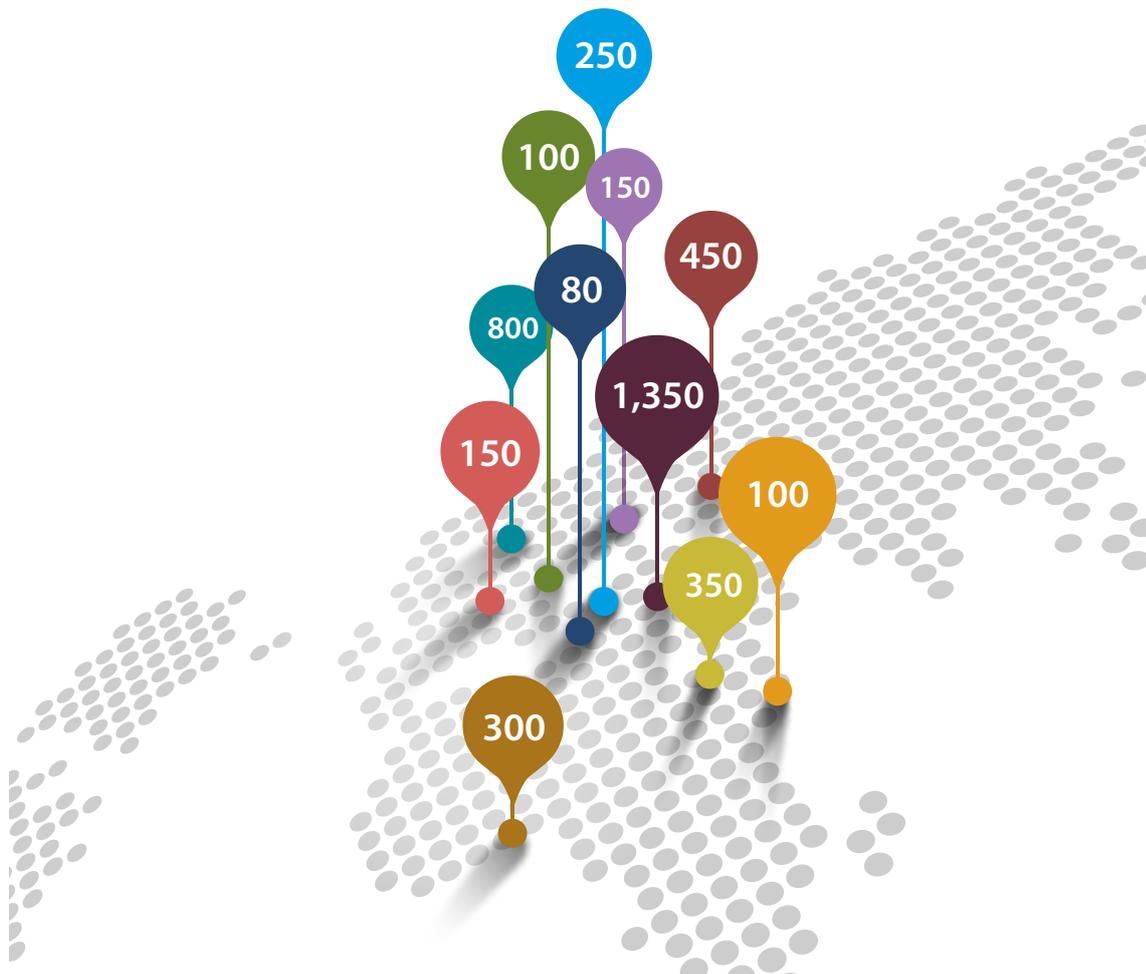


* The UK Regular Forces which comprises trained and untrained personnel and excludes Gurkhas, Full Time Reserve Service personnel and mobilised reservists. Personnel deployed on operations and temporary assignments are shown against their permanent stationed location. As such figures for locations such as North Africa / Middle East & South Atlantic exclude large numbers of personnel deployed in those locations.

Total	149,370	North America	1,090
UK	140,070	Central America/Caribbean	20
Europe (Exc. UK)	7,050	South America	10
Asia (Exc. Middle East)	280	South Atlantic	60
North Africa/Middle East	360	Oceania	50
Sub Saharan Africa	300	Unallocated	80

⁴ <https://www.gov.uk/government/statistics/location-of-uk-regular-service-and-civilian-personnel-quarterly-statistics-20>

Key Global Military Operations



Counter Daesh – around 1,350 currently deployed
Afghanistan – around 450 currently deployed and the UK is due to increase its commitment further in 2017
Ukraine – commitment to deploy up to 100 at any one time to train Ukrainian Armed Forces in 2017
Estonia – around 800 currently deployed as part of NATO’s Enhanced Forward Presence
Poland - around 150 currently deployed as part of NATO’s Enhanced Forward Presence
Romania - around 150 people deployed as part of NATO Enhanced Air Policing on 24/7 standby to respond instantly to aggression in Black Sea airspace
Cyprus – around 250 currently deployed in support of UN operations
Southern Mediterranean – around 80 currently deployed in support of EU operations to Counter illegal people trafficking
Somalia – commitment to deploy up to 100 at any one time in support of EU and UN operations in 2017
South Sudan – around 350 currently deployed in support of UN operations, including a Role 2 Hospital
Nigeria – total of 300 to provide training to Nigerian Armed Force and counter Boko Haram operations

Iraq/Syria

Op SHADER

Op SHADER is the UK contribution to the global coalition to support the Iraqi Government and local forces in Syria to defeat Daesh in Iraq and Syria.

Air Package

UK involvement in the Counter-Daesh campaign commenced in August 2014 with UK humanitarian aid drops onto the Sinjar Mountains in Iraq to provide relief to displaced Yazidis. In September 2014, following a request for military support from the Iraqi Government, the UK began strike operations against Daesh in Iraq.

The UK's air contribution has steadily increased since 2014; it has been delivering an enduring capability across a wide spectrum of air power, with effects in Strike/Attack, ISR, Air Command and Control, Air Refuelling and Air Mobility/Transport.

As at 30 March 2017, the UK had over 20 aircraft deployed on Op SHADER and had conducted 1,279 air strikes (second only to the US), 87 of which were in Syria.

Training Support

Since November 2014 the UK has continued to provide training and advisory support to the Counter-Daesh campaign through the Iraqi Building Partner Capacity (BPC) programme.

UK training is predominantly delivered from the four BPC centres across Iraq and has focused on specific capabilities such as Countering Improvised Explosive Devices (C-IED) training. As a world leader in C-IED, the UK lead the coordination and development of the coalition's C-IED training programme.

In addition to C-IED training, UK trainers are providing infantry skills, engineering and highly valued medical training and by March 2017 had helped to train over 37,500 Iraqi Security Forces (ISF) and 7,500 Peshmerga in preparations for operations against Daesh.

In June 2016, the Secretary of State for Defence announced that the UK would be sending another 250 troops to the Al Asad airbase as part of the BPC effort.

The UK has been supporting the US-led Train and Equip (T&E) programme which recommenced in 2016 through the provision of trainers at Coalition training sites in the Middle East region.

Deployed Personnel

Since Counter-Daesh operations began in Iraq in September 2014 and Syria in December 2015, there has remained a consistent number of military personnel deployed in support of Op SHADER. At the end of 2016-17, around two thirds of all committed personnel were based within the region supporting the air campaign (including provision of staff roles at key coalition Head Quarters); the remaining personnel were on the ground in Iraq providing training and military advice. In March 2017 there were 1,242 military personnel deployed on Op SHADER, of which over 500 were in Iraq.

Counter-Daesh Progress

UK and coalition combined efforts have diminished Daesh military capability, territorial gains, leadership, financial resources and online influence. Working by, with and through our local partners, the coalition has made significant progress in denying Daesh safe havens; and in building the military capacity of those engaged in direct action against Daesh. In Iraq, by March 2017, 63% of the territory Daesh once controlled had been retaken with a number of key towns and cities being liberated in 2016 including Ramadi, Hit and Fallujah. East Mosul was liberated in January 2017. In Syria, by March 2017 Daesh had lost around 35% of the territory they once controlled. Coalition support enabled the Syrian Democratic Forces to make significant progress to isolate Raqqah with over 7,000km² west, north, east, and south of Raqqah liberated by March 2017. The campaign to liberate Raqqah from Daesh follows over 15 months of coalition supported counter-Daesh operations that made significant territorial gains, seizing main supply routes and cutting off Raqqah. In addition to Raqqah operations, Turkey, with coalition support liberated Al Bab on 23 February 2017. Daesh have suffered heavy losses with over 24,000 Daesh fighters killed in Iraq and Syria by March 2017; their finances have been hit, affecting their ability to pay their fighters; their narrative has been compromised and their freedom to move fighters has been reduced.

Afghanistan

Overview

The UK remains committed to the future of Afghanistan. We must never forget the sacrifices made by British troops in Afghanistan, and by continuing to support the Afghans on their journey to becoming a secure and stable state, we are ensuring that their sacrifices were not in vain, and that the terrorist threat to the UK from the region is reduced. The UK continues to play a key role in the NATO non-combat Resolute Support (RS) mission; through the provision of security capacity-building, financial aid, and political support, we are supporting the Afghan National Defence and Security Forces (ANDSF) to deliver security for their country.

UK Contributions

In the last year, the UK's defence contribution to Afghanistan's future has been centred on our commitment of around 500 British troops to NATO's RS mission, increasing from 450, which was announced at the NATO Warsaw Summit in July 2016 as a demonstration of our commitment. Our core outputs remain mentoring the Afghan National Army Officer Academy (ANAOA), advising the Afghan Security institutions and providing key enabling support to the NATO mission through the Kabul Security Force and a helicopter detachment. The UK also held the post of Deputy Commander RS until February 2017, and will take up the role again from the Italians in the autumn this year.

The UK is the coalition lead at the ANAOA, helping the Afghans to develop the next generation of their military leaders. This will help sustain the progress made to date by NATO and the Afghan Government in building a capable and professional force. ANAOA is a coalition partnership, and we are supported by mentors from Australia, Denmark and New Zealand. The training at the ANAOA equips Afghan leaders with the skills they need to lead the ANDSF with competence and confidence.

The ANAOA has reached full operating capability, and has the potential to train up to 1,050 male students and 90 female students every year. The Afghans are now delivering all their own training, with coalition mentors providing close support to maintain quality delivery. The Academy is producing much sought-after junior officers who perform competently and effectively in the field. The most recent graduation took place in March 2017 when 318 male and 23 female officer cadets passed out from the Academy. This is the largest number of female cadets graduating to date, and

represents the progress being made for women, both in the security sector and in broader Afghan society. Over 2,000 officers have now graduated from the ANAOA.

The UK is also delivering leadership support to the ANDSF through our mentoring of the Afghan Security Ministries, helping to foster capable and progressive leadership throughout the ANDSF.

As part of the NATO advisory effort, we have eight civilian and military advisors working in the Afghan Ministry of Defence. These advisors work in support of Ministers and senior officials in a range of functional areas including finance, strategic planning, human resources and the support of martyred, injured and disabled ANDSF personnel. The UK also now has six advisors assisting the Afghan Air Force (AAF) across all functional capabilities, including aspects of operational training and development.

The UK-led Kabul Security Force (KSF) is highly valued by NATO for providing coordination and assurance of force protection for UK and wider NATO military and civilian personnel moving within the city. Our contribution to the KSF is directly enabling our key strategic aim of supporting the development of the ANDSF by providing security for NATO advisors so they can deliver the NATO 'Train Advise Assist' mission safely. The Afghans remain in the lead for the security of the civilian population in Kabul.

ANDSF Progress

Currently fielding approximately 315,000 personnel across Army, Police and an emerging Air Force capability, ANDSF units have led in providing security across the country since June 2013. The ANDSF continued to develop in 2016, where they executed a coherent campaign plan and so prevented Taliban attempts to seize provincial capitals, therefore stopping the Taliban from achieving its strategic objectives.

The security situation across the country is fragile, particularly in Helmand and Urugzan. Parts of the province are remote and sustained Taliban pressure has tested the ANDSF. But they have shown the resolve to continue the fight, and the UK with NATO, will continue to support their development. While NATO is committed to advising and supporting the ANDSF, the Afghans are rightly making their own decisions about how they best manage their forces to deliver security for the Afghan people.

Wider Development in Afghanistan

Wider UK Government-funded programmes have provided important assistance in areas such as education and corruption. UK support has helped to ensure more than 6.4 million children now attend school, 38% of whom are girls. UK support contributed to over 3.2 million people receiving humanitarian assistance in 2016. By working closely together on corruption, a policy priority shared by both the UK and Afghanistan, our technical assistance is helping to increase accountability and support the Anti-Corruption Justice Centre (ACJC). The first trial took place at the ACJC in November 2016.

Job creation is central to the future of Afghanistan. Over 101,000 jobs were created between March 2011 and March 2016 through UK-funded projects. At the NATO summit in July 2016 the UK pledged up to £750M to Afghanistan for the period 2017-2020, dependent on reform delivery and security conditions. The UK is continuing to support capacity-building to address challenges such as poor literacy, the ethnic and gender mix of ANDSF, economic reform and corruption. The UK also continues to lobby the Afghan Government on the need to set out a clear programme of reforms for the coming years.

Pakistan

Afghanistan and Pakistan continued to make concerted efforts to improve bilateral relations, though differences of opinion regarding responses to terrorist attacks committed near the Afghanistan-Pakistani border have severely challenged this relationship. The UK is mindful of the critical role Pakistan plays in facilitating stability in the region, and in enabling the conditions for peace talks between Afghanistan and the Taliban. This is one of the reasons that the UK continues to invest in the close Defence relationship with Pakistan.

This relationship has continued to develop during the reporting period, principally through regular senior military and officials meetings in the UK and in Pakistan. This included bilateral staff talks between our respective Armies, Navies and Air Forces, a bilateral Counter-Insurgency knowledge-sharing forum, and our annual Defence Co-operation Forum. We have also continued the delivery of a three-year C-IED capacity building programme. This is designed to support Pakistan in establishing a multi-agency capability for tackling IEDs, which have been perpetrated by terrorist groups and have historically been a severe threat. As at the end of March 2017, over 5,000 Pakistani military and civilian law enforcement personnel have been trained in the practical techniques to safely defeat IEDs. The UK has also commenced two new capacity-building programmes with Pakistan this period; the first focused on improving the security of Pakistan's airfields, and the second on developing a broad range of Defence-related medical services. In addition, the UK has also continued its international staff training co-operation programme, with over 60 Pakistani personnel coming to the UK to be trained at UK military training institutions.

Africa

Somalia

The MOD continued to contribute to the UK Government's Somalia strategy during 2016-17, and increased its commitment of personnel from around 20 to almost 100. We also established a new headquarters in Mogadishu, with a new, more senior Commander in place. These changes have enabled Defence to achieve greater engagement with key stakeholders in the Somali administration and in the multinational structures, as well as providing much needed practical assistance through trainers and mentors. During the year we have set in motion the establishment of a UK training facility in one of the regions outside Mogadishu, which we intend to complete during 2017-18, and will then begin delivering targeted training to help build up the Somali forces in that region. On 11 May 2017, the MOD assisted the Foreign and Commonwealth Office (FCO) in hosting a major Somalia Conference in London. The Conference delivered on its aims to secure international commitments for assistance to Somalia, and Somali commitments to a security pact and the development of an implementation mechanism.

Nigeria

The MOD has continued to provide military support in several areas in Nigeria and the wider region. This includes Intelligence expertise in the Intelligence Fusion Cell, based in Abuja, and the Liaison and Coordination Cell (CCL) in N'Djamena, Chad. The UK was privileged to provide the chief of the CCL for a six-month period as part of a rotational responsibility alongside France and the USA and made a significant contribution to the further maturity and expansion of the Nigerian-led Multi-National Joint Task Force (MNJTF) which coordinates Op TURUS, the counter Boko Haram response within the joint border regions of Nigeria, Chad, Cameroon and Niger. The UK also maintains a Liaison and Support Team co-located with the Nigerian Army in Maiduguri, north eastern Nigeria which, since December 2015, has provided C-IED and medical training.

Mali

The UK continues to support multilateral efforts in Mali which aim to help bring stability to the country and stem the influence of violent extremist organisations. The UK commitment is primarily to support the EU Training Mission in Mali (EUTM-M) and the UN Mission to Mali (MINUSMA). The UK contribution has now entered the third Mandate with personnel committed to the country until May 2018. The necessary skills to support the Malian Government in its recovery process to regain nationwide stability have been delivered and the UK focus is now on Staff Officer engagement with the national HQ staffs in Bamako through the EUTM and MINUSMA.

Libya

The MOD continued its support to the UN-led political dialogue process with military personnel deployed to the UN Support Mission in Libya and the EU Liaison and Planning Cell, providing essential support to the security track, and negotiating with key actors in Libya to assist and encourage a national Libyan political consensus.

In addition the MOD worked alongside our partners on improving its understanding of Daesh's activity in Libya. Following the defeat of Daesh forces in Sirte, Defence has been working with international partners to assist in the clearance of explosive threats to allow reconstruction of the city to progress. We worked closely with Libya's neighbours to enhance their ability to protect themselves against threats from terrorists in Libya and prevent weapon smuggling across the region.

South Sudan

In September 2016, the Secretary of State for Defence hosted the UN Peacekeeping Defence Ministerial in London, which was attended by representatives from over 70 nations and four international organisations. At the UN Peacekeeping Ministerial, the Secretary of State for Defence announced that up to 100 extra UK Armed Forces personnel would join the planned UK deployment to the UN peacekeeping Mission in South Sudan (UNMISS), to provide medical support to UN personnel, bringing the total that will be deployed to nearly 400. The deployment will more than double the UK's global peacekeeping efforts, demonstrating that Britain is stepping up its global commitments. The UK is also providing a small number of staff officers for the UNMISS HQ in Juba.

As well as medical support, the deployment involves an engineering task force that will deploy to Malakal and Bentiu, both in the north of South Sudan. Malakal and Bentiu are currently housing over 120,000 displaced people.

The engineering task force has been committed for three years. It will carry out work as directed by the UN, but its core tasks will be to improve the infrastructure and physical security of the camps to enable other UNMISS troops to provide better protection for civilians in and around the camps. In Bentiu the UK will construct and staff a field hospital for a year which will care for the 1,800 entitled UN personnel in the camp. Under current plans, the UK will hand the hospital over to another troop contributing country after the year-long deployment. UK troops will not be in combat roles, and although the engineers may carry out work outside the camps, they will not be actively patrolling.

Middle East / Near East

We continue to maintain a permanent presence in the Gulf through the deployment of significant maritime and air capabilities to underpin our enduring contribution to regional security. The UK has strong defence links with the region, and maintaining these remains a key part of our renewed commitment to our allies. The signing of the historic nuclear deal with Iran and the reopening of our embassy in Tehran continues to provide a once-in-a-generation opportunity to re-engage with an important part of the Middle East. Despite this progress, the region continues to suffer from instability. The deployment of HMS DARING, which has been active in the Gulf and the Southern Red Sea protecting vital shipping lanes; and the commitment of the UK's amphibious task group under HMS OCEAN, which commanded the regional US-led Coalition Task Force for the first time, have further served to reiterate our commitment to the Gulf states.

United Nations Security Council Resolution 2216 provided an internationally agreed framework to achieve an immediate and lasting ceasefire in Yemen, including a mechanism for the withdrawal of forces, the release of political prisoners and the resumption of an inclusive political process. The UK has supported the Saudi-led Coalition military intervention in Yemen, which came at the request of legitimate President Hadi, to deter aggression by the Houthis, and allow for the return of the legitimate Yemeni Government. Although the UK is not a member of the Saudi-led Coalition and British military personnel are not directly involved in the Saudi-led Coalition's operations, we have provided training to improve co-ordination between Saudi units on the border and their use of some defensive capabilities in order for Saudi Arabia to better protect its southern border from significant cross-border raids. We have also provided training courses and advice and guidance in the UK and Saudi Arabia on targeting. This is part of our longstanding relationship with Saudi Arabia and helps us support Saudi compliance with International Humanitarian Law. To further reassure the Saudis and give us additional insight, we deployed additional personnel into Saudi air and naval headquarters in a liaison capacity.

NATO and Europe

Russia

Over the year the department has played a key role in supporting the wider cross-Government strategy towards Russia. In seeking to re-establish itself as a great power, Russia has increasingly opposed the West and is becoming more confident when doing so. In 2016 it was bolder in its use of its advanced capabilities, interfering in foreign elections, continuing its armed interventions in Syria and Ukraine and being implicated in an attempted coup in Montenegro. This greater risk appetite increases the likelihood of miscalculation and thus the danger of escalation.

Our commitment to collective defence and security through NATO remains central to our approach to the security challenges Russia presents. The UK is working closely with NATO Allies to deter and defend against the most dangerous and complex threats posed by Russia. In 2016, there were Quick Reaction Alert aircraft scrambles to intercept Russian military aircraft operating around the UK and there have been no incursions into UK sovereign airspace. So far, in 2017, there has been one scramble. The Royal Navy continues to monitor ships in the UK area of responsibility, most notably escorting the aircraft carrier RFN Admiral Kuznetsov during its transit through the English Channel.

As part of the UK's approach, MOD has engaged with Russia where it is in our national interest to do so. A key topic has been our desire to reduce the risk of accidents or miscalculation in our respective military activity. This was discussed amongst other issues such as military transparency during a February 2017 bilateral meeting between Vice Chief of Defence Staff (VCDS) and his Russian counterpart. In the latter half of financial year 2016-17 we increased the number of officers in the Defence Section of the British Embassy in Moscow, which will underpin a better understanding between our Armed Forces.

European Support and Assurance Missions

In Europe, the UK has contributed widely to operations as part of NATO and the EU as well as providing vital bilateral support to Ukraine. RAF Typhoons again provided assurance to NATO member states through support to Baltic Air Policing (BAP) operations based in Ämari in Estonia. Between May and Aug 16, the RAF augmented NATO BAP, along with Portuguese fighters based in Lithuania. Additionally, UK E-3D Airborne Warning and Control System (AWACS) aircraft provided enduring support throughout 2016 to NATO Assurance Missions, flying sorties over Poland and Romania to monitor activity in Ukraine and the surrounding region. As Framework Nation for the EU Battle Group in 2016, the UK held forces at readiness throughout the year ready to respond to a range of scenarios including Humanitarian tasks, Peacekeeping operations and Crisis Management. Elsewhere, the UK further strengthened bi-lateral relationships with Ukraine through Short Term Training Teams which provided non-lethal training to personnel from the Ukrainian Armed Forces, training over 5,000 people throughout 2016-17.

Standing NATO Maritime Commitment

The UK continued its strong contribution to NATO's Standing Naval Forces through the reporting period. The Type 23 Frigate HMS IRON DUKE spent the first half of 2016 attributed to Standing NATO Maritime Group 1 (SNMG1) and we have consistently maintained a Royal Navy Mine Countermeasure Vessel in Standing NATO Mine Counter Measures Group 1, by rotating vessels through on a four-month basis. Elsewhere, we worked closely with SNMG1 to provide a robust escort for the Russian Task Group that accompanied the aircraft carrier RFN Admiral Kuznetsov through North West Europe en route to and from its deployment to the eastern Mediterranean. Furthermore, the UK hosted the major NATO Exercises Noble Mariner and Noble Arrow concurrently with our own Joint Warrior Exercise on the west coast of Scotland.

Very High Readiness Joint Task Force

The UK's commitment to the Very High Readiness Joint Task Force (VJTF) in 2016-17 has been significant.

- In the **maritime** environment, in 2016 the RN provided the NRF Maritime Component Command and in both 2016 and 2017 contributed warships to NATO's Standing Naval Forces as part of the VJTF (Maritime).
- In the **land** environment throughout 2016, an infantry battlegroup of around 1,000 UK military personnel was on standby as part of the Spanish-led VJTF (Land). At the same time the UK VJTF (Land) brigade of around 3,000 personnel, led by Headquarters 20 Armoured Infantry Brigade and including two UK infantry battlegroups, fulfilled the Immediate Follow on Forces Group (IFFG) role at 45 days' notice to move (NTM). In 2016, Headquarters Allied Rapid Reaction Corps trained for the NATO Response Force (NRF) Land Component Command role, which it has now assumed for the whole of 2017.
- In the **air** environment, the UK has contributed Typhoon, Tornado, Air-to-Air Refuelling and Airborne Early Warning aircraft to the VJTF (Air) in 2016 and 2017, and for all of this year will provide the NRF Air Component Command with the UK Joint Force Air Component.

The latter part of 2016-17 has seen the deployment of approximately 800 UK military personnel as part of the framework nation for the Estonia based Enhanced Forward Presence (eFP) battlegroup, to which the French have contributed a company sized group, and deployed a headquarters to work alongside the host nation security forces. Additionally, a light cavalry squadron (approximately 150 personnel) have deployed as part of the US-led eFP battlegroup in Poland.

International Counter-Terrorism

Operation MONOGRAM is the UK MOD's programme for providing counter-terrorism training and equipment to foreign security forces. The programme is predominantly administered in parts of Africa and the Middle East to support the UK's counter-terrorism strategy (CONTEST). Throughout 2016-17, the MOD has contributed to CONTEST by supporting the 'Pursue' strand through its capability to disrupt terrorist groups overseas, such as Daesh in Syria and Iraq, as well as through counter-terrorism capacity building for partner nations, and support to overseas law enforcement and security agencies. Its support for conflict prevention work also contributes to CONTEST objectives.

UK Embedded Forces

On 17 December 2015 the Secretary of State issued a written ministerial statement about “UK Embedded Forces”. This provided details of UK service personnel embedded in other nations’ Armed Forces who are deployed on operations, together with those who work on operations in deployed coalition or single nation headquarters roles. He also committed to providing an update each year as part of the MOD Annual Report. The following table sets out the position as at the end of each quarter during financial year 2016-17. It provides a snapshot of the numbers of embedded personnel on the specified date.

Numbers of embedded HQ staff at end of:	30 June 2016	30 September 2016	31 December 2016	31 March 2017
Embedded HQ Staff				
Australia	0	0	0	0
Canada	0	0	0	0
Coalition HQs	27	30	30	33
EU HQs	6	4	7	5
France	0	0	0	0
Italy	0	0	0	0
NATO	5	3	5	6
UN HQs	4	0	4	8
United States of America	1	2	1	1
Total	43	39	47	53
Embedded Exchange Officers				
Australia	1	0	2	0
Canada	0	2	1	1
Coalition HQs	N/A	N/A	N/A	N/A
EU HQs	N/A	N/A	N/A	N/A
France	0	0	0	2
Italy	0	0	1	0
NATO	N/A	N/A	N/A	N/A
UN HQs	N/A	N/A	N/A	N/A
United States of America	2	4	12	10
Total	3	6	16	13

Notes:

The data comprises: “UK service personnel embedded in another nations’ Armed Forces, who are deployed on operations together with those who work on operations in deployed coalition or single nation headquarters roles”.

United Kingdom

Defence of UK Airspace, Waters, and UK Overseas Territories

In 2016-17 we continued to defend UK airspace with an integrated Air Defence system that included Quick Reaction Alert Typhoon aircraft, Voyager tankers, and air surveillance and control facilities. We also provided such capabilities to police NATO airspace alongside our allies. We provided Royal Navy assets to defend our territorial waters and overseas territories, and to maintain our Continuous At Sea Deterrent. The Police and maritime authorities have primacy for domestic security of the UK coastline against criminal elements, but Defence maintains forces to provide support to these authorities if required. We remained fully and demonstrably committed to the defence of UK Territories in the South Atlantic. UK forces continued to defend the right of the Falkland Islanders to determine their own political future and to maintain their way of life against whatever threats may arise. The MOD has continued to employ Quick Reaction Alert Typhoon aircraft in the Falklands.

Continuous At Sea Deterrent

Our independent nuclear deterrent is the ultimate guarantee of our security. The Royal Navy's Vanguard Class ballistic missile submarines currently maintain deterrent patrol missions, sustaining the Operation RELENTLESS Continuous At Sea Deterrence (CASD) posture, which has been uninterrupted since April 1969.

The Dreadnought submarine programme is the UK programme to replace the Vanguard fleet with four new submarines to carry the UK's independent nuclear deterrent. On 18 July 2016 Parliament debated the principle of maintaining CASD and continuing with work to build the four new submarines. The subsequent vote endorsed the Government's plans to maintain the strategic nuclear deterrent beyond the life of the existing system. The start of submarine building was announced by the Secretary of State for Defence on 1 October 2016 and the department is investing around £1.3Bn in the Dreadnought submarine programme, taking Delivery Phase 1 into 2018.

The SDSR15 noted the intention to strengthen arrangements for the procurement and in-service support of nuclear submarines by establishing a new delivery body with the authority and freedom to recruit and retain the best people to manage the submarine enterprise. On 3 April 2017, MOD established the Submarine Delivery Agency (SDA). It will become an Executive Agency of the department, alongside the Defence Equipment & Support (DE&S) organisation, with similar freedoms, under a phased approach to enable full Agency status to be obtained no later than April 2018. DE&S will retain accountability for all submarine procurement and support programmes for the interim period. Robert Holden has been appointed as the permanent Chair of the SDA and the Chief Executive is currently being recruited.

The department also fulfilled another commitment from SDSR15 by appointing Julian Kelly as Director General Nuclear in May 2017. The Director General is the sponsor for all aspects of the defence nuclear enterprise, from procurement to disposal, with responsibility for submarines, nuclear warheads, skills, related infrastructure and day-to-day nuclear policy, advising Ministers, the Permanent Secretary and senior military leaders on the nuclear programme.

Throughout the 2016-17 period, work continued with industry to improve collective performance on the submarine programmes. Proposals are being explored for a new commercial and organisational model, in the form of a Dreadnought Alliance, between the MOD and the two key industrial leads BAE Systems and Rolls-Royce. This draws on best practice in Government and the private sector and aims to drive continuous improvement and provide greater assurance of progress, with supporting risk and reward arrangements.

Military Aid to the Civil Authorities

The Home Secretary is responsible for the safety and security of the UK and its citizens. Under the Civil Contingencies Act 2004, lead Government Departments are allocated to deal with the most likely high-impact, disruptive events. The MOD is not the lead for any civil contingency, but if required can provide support through the Military Aid to the Civil Authorities (MACA) process. We provided MACA on over 80 occasions in 2016-17. These ranged from: the provision of logistics support to the Police; maritime and air support to the Maritime and Coastguard Agency (MCA) rescue operation of personnel on-board the British Sailing Yacht CLYDE CHALLENGER and supporting the Department for Education to ensure the safe disposal of dinitrophenyl hydrazine (DNP) chemical at a number of schools. Three Army battalions totalling up to 1,200 soldiers are now on 24-hour standby on an enduring basis and can be called upon by Government Departments to support efforts in the event of winter flooding, or other events of national importance requiring an urgent response across the country.

In addition there remains in place a standing operational contingency plan to provide military personnel in support of the police in response to a major terrorist incident or threat. This plan is known as Operation TEMPERER. Following the Manchester attack on 22nd May 2017 and the raising of the terrorism threat level to the highest level, CRITICAL, Operation TEMPERER was invoked. Some 3,800 military personnel were made available, with 984 of those deployed to guard locations across the country, under the control of the police. This allowed armed police officers to support the wider incident response.

Fisheries Protection

The Fishery Protection Squadron support the Marine Management Organisation with fishery patrols. In 2016-17 the Squadron boarded 280 fishing vessels, three of which were detained at a UK port for further investigation. We continue to work with other EU member states to develop joint operations and to improve the efficiency and effectiveness of their own patrols.

Explosives Ordnance Disposal (EOD)

The MOD provides 24 hours-a-day EOD support to the police in the UK. This includes the provision of operational scientific expertise to deal with complex devices. Routine co-ordination of EOD tasking was conducted by the Joint Service EOD Operations Centre at Didcot, which allocates Royal Navy, Army or RAF teams as necessary. In 2016-17, EOD teams responded to 406 Improvised Explosive Device Disposal incidents (465 in 2015-16) and 2,354 Conventional Munitions Disposal Incidents (1,898 in 2015-16).

Counter-Narcotics - RN boarding team search for drugs



Counter-Narcotics

Defence has continued to support UK Government and international efforts to tackle the threat from illicit drugs. The Royal Navy and Royal Fleet Auxiliary have operated with US and other international partners to stem the flow of drugs from Latin America through the Caribbean, and

across the Atlantic to UK and Europe. The Navy has seized or disrupted over 1.5 metric tonnes of illicit cocaine from the region, worth in excess of £60M had those drugs reached the streets of the UK. The Navy has also conducted and coordinated counter illicit trafficking operations in the Indian Ocean, operating under the multi-national maritime coalition Combined Task Force 150, involved in the seizure of over a tonne of heroin and a tonne of cannabis with an estimated value in excess of £35M had the drugs reached UK. The MOD supports the National Crime Agency, as the UK's lead on countering narcotics and other illicit trafficking activity worldwide.

Counter-Piracy

During 2016, Defence continued to provide the Operational Headquarters (OHQ) for the EU's Naval Force conducting counter-piracy operations off the Horn of Africa, under Op ATALANTA. Since its launch in 2008 this operation has sought to deter and disrupt pirate activity and to protect vulnerable vessels, in particular those of the World Food Programme. This has been delivered through the deployment of ships, aircraft and vessels protection detachments to the Indian Ocean and the strategically vital Gulf of Aden, and via the development of a Maritime Security Centre Horn of Africa (MSCHOA), alongside the OHQ in Northwood. In the event that a piracy incident is reported or suspected, MSCHOA, in concert with United Kingdom Marine Trade Operations (UKMTO), seeks to ensure a military response, either via Op ATALANTA assets, or those of other counter-piracy actors in the area. In this way, and in close cooperation with the shipping industry who developed self-protection measures, piracy off the Horn of Africa was suppressed from its height in 2010-11, with limited pirate activity from 2012 onwards. However, the opportunities, intent and capabilities for piracy still exist, as evidenced by the recent spate of piracy incidents, so Defence continues to contribute to the UK's leading role alongside naval force and shipping industry partners.

Illegal Migration

Defence continues to support EU efforts to counter the flow of illegal migrants across the Central Mediterranean. In 2016-17, the UK deployed HMS ENTERPRISE, followed by HMS ECHO, to the Mediterranean to disrupt the people smugglers responsible for the majority of human migration from Africa. When the EU operation expanded to incorporate the additional tasks of countering illegal arms trafficking and training of the Libyan Naval Coast Guard, the UK maintained its support. Alongside France, the UK deployed HMS DIAMOND to counter weapons smugglers perpetuating the armed conflict in Libya. In October 2016, a detachment of Royal Marines delivered training to members of the Libyan Coastguard aboard a Dutch training ship. We look forward to continuing this training in an effort to strengthen Libya's ability to secure her own waters.

The Royal Navy was also at the forefront of NATO's activity in the eastern Mediterranean tackling illegal people trafficking and irregular migration in the Aegean Sea. Between March 2016 and January 2017 a Royal Navy or Royal Fleet Auxiliary ship was deployed to the Aegean, providing real time information on the flow of traffic to the coastguards of Greece and Turkey, as well as EU's Frontex, to allow them to interdict vessels and return them to Turkey. NATO's activity in the Aegean has contributed to a 98% reduction in people attempting to make the dangerous crossing between Turkey and Greece.

Cyber and Space

We have continued to develop our ability to protect our networks and systems from rapidly evolving cyber threats. This has included developing a new Cyber Security Operations Centre (CSOC) to secure MOD's networks and systems against cyber threats, which will work closely with the National Cyber Security Centre. Through the National Offensive Cyber Programme – a MOD-Government Communications Headquarters (GCHQ) partnership – we are also investing in the tools, techniques and tradecraft we need to use cyber to enhance the effectiveness of our Armed Forces. We have used these cyber capabilities as part of military operations against Daesh. We continue to grow our cadre of cyber specialists, in both the Regular and Reserve forces.

A wide range of important Defence capabilities and military operations use space-enabled services, whether it be from satellite communications, surveillance, or position, navigation and timing. The security, safety and sustainability of Earth's orbits are vital to our economic prosperity and military capability. Our Space Operations Centre, the radar at RAF Fylingdales and the constellation of SKYNET satellite communication systems remain integral assets to maintaining multinational initiatives. We have set up a Ministerial Committee to oversee strategic issues, including Critical National Infrastructure resilience and industry engagement. We have been developing a Defence Space Strategy to consider how we protect and enhance key capabilities, operations, personnel, and international engagement. We have been working closely with Department for Transport and UK Space Agency on a regulatory framework that manages safety and risk whilst maximising commercial opportunities.

UK Armed Forces Personnel Deployed by Financial Year

	2012-13	2013-14	2014-15	2015-16	2016-17
All Services	256,800	160,640	90,560	56,860	56,900
of which unique individuals:	65,870	48,960	36,070	23,120	24,210
RN/RM	28,150	19,720	16,600	17,070	14,390
of which unique individuals:	8,400	8,300	6,560	5,840	5,410
Army	189,060	106,380	45,910	21,120	22,840
of which unique individuals:	43,100	27,600	17,850	8,860	9,640
RAF	39,590	34,550	28,040	18,670	19,660
of which unique individuals:	14,370	13,060	11,650	8,420	9,160

1. 'UK Armed Forces Personnel' includes UK Regular Forces, Gurkhas, Full Time Reserve Service (FTRS) personnel and mobilised reservists.

2. Deployed personnel are Military personnel who are deployed on Operations. The database records all personnel who enter a deployment theatre for over 24hrs. Each individual has a new record for each change in deployed unit, location, operation or date.

3. Unique personnel refers to how many Service personnel can say they have been deployed in a Financial Year. Each individual is counted once per financial year even though they may have been deployed multiple times during that period.

4. Each financial year has been populated independently. As such if a deployment straddles two financial years, this has been counted in both of the financial years covering the duration of the deployment.

Operational Pinch Points

Operational Pinch Points (OPPs) are defined as a branch specialisation, sub-specialisation or area of expertise where the shortfall in trained strength (Officers or Other Ranks) is such that it has a measurable, detrimental impact on current, planned or contingent operations. OPPs may result from adherence to single Service harmony guidelines, under-manning and/or levels of commitment that exceed the resourced manpower ceiling for the trades or areas of expertise involved.

The management and mitigation of OPPs is a priority, with the focus being on incentivising personnel to join (and/or retrain) and remain within pinch point trades. OPPs are closely managed by the single Services, who have implemented a number of programmes to address manning shortfalls. In addition to these longer term initiatives, the Services apply a range of targeted manning levers, including extensions of service and financial incentives. Personnel in OPPs are excluded from Redundancy. The position as at April 2017 is summarised below:

Naval Service

The number of Naval Service OPPs is 15 which is a decrease of three since April 2016. The key pinch points relate to engineering roles plus some specialist roles such as warfare specialists.

Army

The Army has four OPPs which is no change since April 2016. The key pinch points relate to logistics roles including two roles where exercise and readiness commitments have driven a higher level of shorter-term requirements.

RAF

The RAF has 11 OPPs, which is a decrease of five since April 2016. The key pinch points relate to engineering and intelligence roles, although there are also emerging shortfalls in the Aircrew Branch.

Strategic Objective 2: Project Our Global Influence

Objective:

We will contribute to improved understanding of the world and increase our influence in the regions that matter to us, through strategic intelligence and the global defence network. We will reinforce international security and the capacity of our allies, partners and multilateral institutions.

Key Performance Indicators:

- Support to NATO/EU/UN
- International by Design
- Defence Engagement/Bilateral relationships with particular focus on NATO, the Gulf and Asia

Defence Engagement

Defence Engagement is the means by which we use our Defence assets and activities, short of combat operations, to achieve influence. The SDSR15 announced that we would make defence engagement a funded, core Ministry of Defence (MOD) task for the first time, meaning that the Armed Forces would prioritise defence engagement alongside other core tasks. The updated International Defence Engagement Strategy was announced at the Munich security conference in February 2017 to outline the ends, ways and means by which UK Defence Engagement should be conducted.

With over 120 attaché posts in 80 countries, covering another 77 countries by non-resident accreditation, 17 loan service teams in addition to liaison officers and exchange officers, the Defence Attaché and Loan Service networks continue to evolve to meet changing Defence priorities. New Defence Sections have been established in Finland and Senegal (to cover Sahel) and a Defence Section in Albania has recently been established in May 2017. In addition, the network of Defence Attachés has been reinforced by the creation of posts in Georgia, Qatar, Latvia, Lithuania and Afghanistan as well as permanently establishing posts in Japan and Pakistan. Posts of Military Advisors have been created in the Organisation for Security and Co-operation in Europe in Vienna as well as in Cameroon. Liaison Officer posts have been established in US Pacific Command and US Southern Command and two posts in the UN Command in the Republic of Korea are now permanently established. A bespoke Counter Improvised Explosive Devices Loan Service team is now being set up in Bahrain.

In the UK we have increased our Foreign Liaison Staff to deal with the 230 foreign attachés accredited to the UK. These attachés receive a comprehensive programme of events that showcase UK defence, add to the prosperity agenda and deliver UK messages.

The Prime Minister announced in December 2016 that British Defence Staffs (BDS) have also been established in the Gulf (Dubai), Asia Pacific (Singapore) and West Africa (Abuja). These regional staffs will act as the focal points for the often significant investment that defence has made in these regions, bringing coherence and adding impact by coordinating UK actions and messaging. Training of BDS staff and installation of secure communications remain on track for the BDS to be fully functional by summer 2017.

British Defence Staffs in West Africa, Gulf & Asia Pacific



The overall number of international places being offered on our flagship International Defence Training courses has been increased. We have piloted a new International Strategic Planning course, introduced a Royal Navy International Officers' course, and added an international place to the Chief of the Air Staff's Fellowship Programme at Exeter University. In addition, the single Services and Joint Forces Command have all increased the number or ratio of international student places on a wide range of other sought after training and education courses.

This training is a key element of defence engagement and contributes towards capacity building, security sector reform, conflict prevention and stabilisation. UK training is highly prized, and the offering of places can make an immediate improvement in bilateral relations or secure specific short-term goals, particularly in countries where the military are influential and/or defence is a significant element of wider UK engagement. Deployed training teams can also offer very specific and immediate benefits; for example, helping to prepare forces which are to deploy on peacekeeping missions or improving the capacity of partners to deal with internal security challenges. These courses, and our deployed training teams, help to develop strategic leadership skills, improve defence management and the ability to deal with crises whilst promoting responsible approaches to the planning of defence activity; for example, with relation to accountability, transparency & corruption, gender & conflict, human rights and humanitarian law.

NATO

We continue to make a significant contribution to NATO's Assurance Measures with over 4,000 personnel taking part in Land, Air and Maritime exercises across NATO's area. Since January 2017 we have been providing NATO's Land Component Command and Air Component Command, as well as leading the 13 nation strong Very High Readiness Joint Task Force (VJTF) Land brigade with a contribution of some 3,000 UK personnel. We have also contributed aircraft to NATO's VJTF Air element and warships to the VJTF Maritime force. We will be commanding half of NATO's Standing Naval Forces deployments from July 2017.

The UK has a leading role in NATO's enhanced Forward Presence (eFP), which comprises four multinational battlegroups deployed on a persistent and rotational basis in the three Baltic States and Poland. The UK is providing the framework battalion in Estonia. These are in addition to our existing commitments to NATO.

In 2017 we will participate in Southern Air Policing based in Romania. The UK provided Baltic Air Policing for the previous four years and the deployment of UK Typhoons to police the Black Sea region recognises the increased Russian presence there. This move does not preclude us from returning to the Baltic in the future.

We contribute to NATO in other ways including an uplift in UK military personnel in Afghanistan to around 500 personnel. We are focussing on the Alliance's priorities and ensuring we have a command structure that can respond to the most pressing threats. We encouraged greater coherence of NATO initiatives in the South at the Warsaw Summit in July 2016; NATO agreed to provide Airborne Warning and Control System support to the counter-Daesh coalition; NATO Training and Capacity Building in Iraq (NTCB-I); continuation of the NATO Aegean counter migration activity; NATO support to EU Operation SOPHIA counter-migration and counter-arms tasks; and preparedness to assist the Libyan Government when requested. NATO members also agreed to make cyberspace a domain of operations. This has helped focus NATO's efforts in this area and, again, the UK has a leading role. The UK helped ensure the launch of NTCB-I. The Libyan Prime Minister has also requested NATO assistance and the UK will help shape NATO's response to ensure it is calibrated to the political and security conditions. The PM attended a NATO Leaders' Meeting on 25 May 2017. Discussion focused on NATO's support to international efforts to counter terrorism and increased burden sharing by Allies. At the Meeting, NATO agreed to join the counter-Daesh Coalition and Allies agreed to incorporate the Defence Investment Pledge in their national plans.

British Soldiers from 16 Air Assault Brigade take part in Exercise Swift Response in June 2016 in Poland and Germany, alongside US and Polish troops



European Union

On 23rd June 2016, the people of the United Kingdom voted to leave the European Union. The UK formally notified the EU of our intention to leave under Article 50 of the Treaty of the European Union on 29th March 2017.

While we are leaving the European Union, we are not leaving Europe. We want to ensure that Europe remains strong and prosperous and is capable of projecting its values, leading in the world, and defending itself from security threats. As the Prime Minister has made clear, we want a new, deep and special partnership between the UK and the EU which is based on both economic and security cooperation.

While we remain a member of the European Union, we will continue to contribute to EU operations and missions. In 2016, the UK increased its contribution to EU activity by expanding support to Operation SOPHIA in the Mediterranean. We maintained our commitment to the European Union Force (EUFOR) Operation ALTHEA in Bosnia Herzegovina and continued running the European Union Naval Force (EUNAVFOR) Operation Atalanta's Headquarters in Northwood. The UK continues to contribute to EU Training Missions in both Somalia and Mali.

We are also continuing to work with our European partners to strengthen European defence industry and develop the military capabilities that we need. We undertake this joint working through a number of forums, including the European Defence Agency, and we support the measures in the European Defence Action Plan to encourage cooperation in the research and development and acquisition of defence capabilities.

USA

The USA is our pre-eminent partner for security, defence, foreign policy and prosperity. Our defence relationship with the USA remains fundamental to our shared interests, particularly for the conduct of operations and for strategic capability programmes.

We continue to work together with the USA in NATO and across the globe to coordinate the delivery of shared objectives. This includes providing political leadership and vital operational capabilities to the counter-Daesh campaign, and working ever more closely with the USA to plan and conduct operations. Our unrivalled intelligence sharing partnership remains vital to our national security and that of the USA.

This defence and security partnership with the USA continues to underpin the successful delivery of leading edge capabilities to our Armed Forces. We have sustained our delivery of 'Continuous at Sea Deterrence' based on a common stock of Trident D5 missiles, and are making good progress with the Common Missile Compartment project, a critical component of the Dreadnought-class of ballistic submarines as well as the USA equivalent programme. We have continued to move towards bringing our carrier enabled power projection capability into service, working closely with the US Navy and Marine Corps to ensure even greater inter-operability than before. We signed the foreign military sales agreement for 9 P-8 Maritime Patrol Aircraft on 1 August 2016, having reached the same milestone with the Apache AH-64E helicopter programme on 12 June 2016. We have agreed a strategic 5-year exercise programme with the US Army. In October 2016, a successful trial of a UK Brigade under US division command took place, and we will be testing a UK division under US Corps-level command in 2017-18. We continue to align our science and technology investments to tackle our most pressing challenges and to deliver disruptive capabilities to both our Armed Forces.

We have continued to seek a more level playing field for UK defence exports to the USA, and to remove the bureaucratic hurdles to our bilateral cooperation. In November 2016, the UK was selected to be a global repair hub providing maintenance, repair, overhaul and upgrade services for F-35 avionics and aircraft components, estimated to be worth over £2Bn to the UK.

In engaging with the new Administration, we will seek opportunities to strengthen our bilateral defence cooperation and interoperability with the USA across all Services and at all levels. From the Prime Minister's engagement with President Trump, through to Secretary of State for Defence's engagement with US Secretary of Defence, Jim Mattis, and engagement at levels below; we will seek to sustain our existing relationships and build new ones to achieve this.

France

The bilateral defence relationship with France continues to deepen and broaden, and the Amiens Summit in March 2016 agreed a programme of further work. Core UK and French defence policy is closely aligned and engagement extends across almost all areas of defence policy, with a focus on NATO and on current strategic challenges. UK and French forces operate alongside each other in the Middle East as part of the coalition against Daesh. French forces will be supporting the UK-led NATO enhanced Forward Presence deployment in Estonia. The UK is providing some logistic support to French operations in Africa and in response to industry requests, our Navies have established a merchant vessel reporting centre for the Gulf of Guinea, aimed at assuring maritime trade and improving the safety of the seafarer in the region.

The Combined Joint Expeditionary Force (CJEF) concept was successfully tested and validated in April 2016 in Exercise Griffin Strike and we are now taking forward a joint programme to develop it further in light of the lessons identified. Equipment cooperation includes the €2Bn programme to develop operational demonstrators by the mid-2020s for a possible future remotely piloted air system (the Future Combat Air System), and we launched the next phase of our joint Maritime Mine Counter Measures project in October 2016. We are working together on a range of missile programmes, where we launched a joint concept phase for a possible Future Cruise/Anti-Ship Weapon at the end of March 2017; on supporting our transport aircraft fleets; and to identify new areas of cooperation. We are also collaborating on maintaining the safety and reliability of our nuclear stockpiles, through construction of a specialist facility in France and materials research cooperation at Aldermaston. We will continue to deliver a joint research and development programme with France which supports our military capability objectives.

Germany

The bilateral relationship strengthened further during 2016. The UK was named a key partner in Germany's July 2016 Defence White Paper (reciprocating Germany's prominence in SDSR15), and we continued our programme of bilateral meetings at ministerial and senior official / military levels, hosted by our respective Governments, and in the margins of NATO, EU and other multilateral meetings. We have finalised a bilateral "Joint Vision Statement" and are identifying an opportunity for signature. A shared roadmap is being developed to underpin our bilateral work. As part of NATO defence and deterrence measures agreed at the Warsaw Summit, the UK and Germany worked together in the planning for their roles as framework nations for NATO enhanced Forward Presence in Estonia and Lithuania respectively.

A workshop on increasing operational cooperation was held in Berlin during August which discussed a wide range of current operational activity, including counter-Daesh and capacity building in Africa. In the Middle East, German Tornados contribute to counter-Daesh operations alongside our own, and the RAF and Luftwaffe have worked together to ensure that German Tornado and Typhoon aircraft are, for the first time, certified to undertake routine Air-To-Air refuelling from RAF Voyager tankers during training and operational sorties. Building on a strong tradition in the area of equipment and capability development (for example on Tornado, Typhoon and A400M), the UK and Germany held a capability symposium in London with the aim of identifying new areas for cooperation. The event produced 26 new project proposals spanning the Air, Land, Maritime, Joint, Medical, Cyber and 'Overarching' domains; these are now in the early

stages of development. Our Defence Procurement Ministers also initiated the Ministerial Equipment and Capability Cooperation (MECC) dialogue, which convened in March 2016 and September 2016.

Europe Bilateral Relations

Close defence co-operation with our European partners is overwhelmingly in our national interest. For example, we have agreed defence collaboration agreements with Sweden, Finland and Croatia in 2016-17 – and others are planned in 2017. Our NATO deployments (e.g. to eFP and Southern Air Policing) provide opportunities for UK forces to increase interoperability and perform training exercises with regional partners. The signing of the Turkish Fighter Programme agreement in January 2017 paves the way for an ever more substantive defence partnership with Turkey. The UK is leading work to develop the Joint Expeditionary Force (JEF) with Denmark, Estonia, Latvia, Lithuania, the Netherlands and Norway, which can operate as part of NATO or independently. The Northern Group continues to develop as a forum for defence and security co-operation in northern Europe.

Ukraine

The UK remains committed to providing support and assistance to the Ukrainian Armed Forces and its Ministry of Defence as they tackle both immediate and longer-term issues. Our military training is defensive and non-escalatory, delivered by Short-term Training teams (Op ORBITAL) at up to 14 Ukrainian units across the country, away from the Line of Contact. The British Army has delivered against the direct training target of 5,000 personnel by 31 March 2017. Since autumn 2015, training activity has expanded from medical, infantry, and logistics to include defensive urban operations, operational planning and ground sign awareness. Co-ordination with other Allies delivering training – in particular, Canada, Lithuania, Poland, and the USA – continues from the strategic through to the tactical level as a result of regular meetings between Ministers, Ambassadors and Defence Attaches of these countries; and the presence of the UK Liaison Officer at the USA-led Joint Multinational Training Group based at Yavoriv. The UK is also supporting Ukraine's ambitious defence reform programme, led by the UK Special Defence Advisor embedded in the Ukrainian MOD, and through the appointment – on a visiting basis – of a senior retired British Army General to the Ukrainian Defence Minister's Defence Reform Advisory Board.

UN

UN Peacekeeping plays a critical role in international security. UK leadership through the UN Security Council, our financial and military contributions, and support of UN reform demonstrates our commitment to UN Peacekeeping. Our commitment to doubling the number of UK troops on UN Peacekeeping missions from some 300 to around 600 personnel was achieved in May 2017, through our deployments to South Sudan and Somalia. The UK deployment to the UN Mission in South Sudan, of up to nearly 400 engineering and medical personnel, will make it one of the largest Defence deployments. Additionally, we continue to maintain our major commitment to the UN mission in Cyprus, of around 280 Service Personnel, and some 18 officers deployed in UN missions in the DRC, Mali and Libya, and, most recently, Colombia.

In September 2016, Secretary of State for Defence and the Foreign Secretary hosted a global UN Peacekeeping Ministerial of over 70 countries and organisations which generated 30 new pledges of personnel and equipment for peacekeeping operations. The associated Communiqué was agreed by 63 countries and undertook to improve UN peacekeeping operations, particularly in the areas of leadership, women's participation in peacekeeping and addressing sexual exploitation and abuse. In December 2016, the UN Peacekeeping Joint Unit was launched bringing together MOD, FCO and DfID teams to implement the Government's UN peacekeeping reform agenda.

MOD has made good progress on its commitments to the Women, Peace and Security (WPS) agenda in the past year. We have developed a comprehensive MOD Strategy on Women, Peace and Security which focuses on: mainstreaming gender in the Armed Forces; improving the participation of women in the Armed Forces; and building the capacity of international partners. This Strategy will improve awareness and coordination of our efforts to better equip UK personnel and overseas forces to protect civilians and prevent sexual exploitation and abuse.

We are developing a cadre of gender specialists (Gender Advisors and Gender Focal Points) within the UK Armed Forces who will advise at command and unit level on integrating gender perspectives into the planning, execution and evaluation of operations. In May 2017, we deployed a UK Gender Advisor to the United Nations mission in Democratic Republic of the Congo. Training in this area is already included in the pre-deployment training provided to all UK troops. WPS is also an important element of the training provided by our Armed Forces to a range of international partners. The British Peace Support Team (Eastern Africa) provides training to over 7,000 African peacekeeping personnel every year. This includes sexual and gender based violence training to those deploying to the African Union Mission in Somalia from Kenya and Uganda. We have also provided gender sensitive training to over 7,500 Kurdish Peshmerga in Iraq.

Middle East North Africa

We continue to develop and broaden our relationships with countries across the Middle East and North Africa, with the MOD playing the load-bearing role for UK engagement in some countries, in support of HMG objectives throughout the region. Efforts are broad ranging, from seeking to reduce migration flows across the Mediterranean to capacity building, and are designed to contribute to the security of the UK and its interests while also supporting regional partners to better defend themselves and uphold regional stability in the long term.

Our commitment is significant and has included the forward basing of up to 1,500 military and civilian defence personnel across the region and the deployment of 130 bespoke capacity-building training teams covering increasingly high-end capabilities from Counter Improvised Explosive Device training to trauma medicine. There have been more than 30 bilateral or multilateral exercises that have helped develop interoperability with our key allies. We have also conducted over 90 ship visits to Gulf countries alone. Personnel from across the region have taken nearly 400 individual training places on our highly regarded defence courses in the UK. We have reinforced the network of defence attachés and liaison staff including the establishment of a British Defence Staff in the Gulf region. The latter will help bring better coherence to all that we do. We also continue to make significant infrastructure investments, with the planned opening of two new port facilities and a land training hub which has the potential to provide region-wide support.

In addition, there has been regular engagement from senior officials in defence and at ministerial level including the Secretary of State for Defence, for whom regular contact with regional leaders is fundamental to pursuing UK policy objectives in Yemen, Syria, Iraq and Libya. The Prime Minister attended the Gulf Cooperation Council (GCC) Summit, which took place in Bahrain in December. She delivered the keynote speech, developing ideas for mutual security, prosperity, and values. Addressing shared concerns about the impact of terrorism, extremist violence and ideology and organised crime, she discussed regional stability, security and building sustainable economies with GCC leaders.

Whilst the region as a whole remains fragile, beset by persistent conflicts and significant instability, Defence is working hard to manage the clear existing risks to UK national interests and to help prepare regional security forces for the challenges ahead.

Africa

The expansion of Defence's network in Africa has continued, with the establishment of a 1-star BDS West Africa post in Abuja in December 2016, and a new defence section in Dakar which formally opened in January 2017. We have also created a new Defence Adviser post in Senegal who will cover the Sahel region and we will be establishing a military liaison officer in Cameroon in April 2017. Together this will help improve our understanding of the many challenges the region faces.

We have continued to provide UK training and advisory support to the Nigerian Armed Forces to help Nigeria combat Boko Haram terrorists. Our resident British Military Advisory and Training Team continues to provide valued support, as does the additional Liaison and Support Team that provides specific military guidance. November 2016 saw the UK's busiest period of capacity building in Nigeria, with over 100 personnel deployed on seven concurrent tasks, including a 70-strong short-term training team (STTT) to Nigeria, the largest STTT that the UK has yet deployed to this country.

The UK also continues to provide strategic airlift support to French operations in Africa in response to requests for assistance following the terrorist attacks in France. Together with the USA and France we are also supporting the countries of the Lake Chad region in their efforts to coordinate action against Boko Haram.

Last year we committed to provide training and assistance to help the Sierra Leone Armed Forces re-establish its previous ability to deploy personnel on peacekeeping missions, which in time, will allow Sierra Leone to once more make a positive contribution to wider regional and African peace and stability. We exercised at the Sierra Leone Jungle Training School, the first time that this facility has been used since the Ebola outbreak in 2014.

The MOD continues to contribute to the Government's Somalia strategy. We have worked to improve the capacity of the African Union's peace support mission in Somalia focussing on delivering and mentoring of troop contributing countries in East Africa. Additionally, we have provided military personnel to the United Nations Support Office in Somalia who will help bring greater cohesion to UN efforts and provide advice to the Government of Somalia and to African Union Mission In Somalia (AMISOM).

In October 2016, the UK-Kenyan Defence Co-operation Agreement (DCA) came into force after ratification by both national parliaments, securing access to the British Army Training Unit Kenya at Nanyuki. Following this, the inaugural Defence Staff Talks were held in Nairobi in December 2016.

In June 2016, a small military team deployed to South Sudan as the beginning of the UK's increased support to the UN Peacekeeping Mission in South Sudan. The Government has committed to deploy up to 400 extra personnel, who will focus on improving the infrastructure of UN Protection of Civilians camps, and build a field hospital for UN troops.

Asia Pacific

The UK has continued to build defence relationships throughout the Asia Pacific region through wide ranging engagement activities. This included English language training for a variety of countries to assist in their preparations for UN peacekeeping deployments. We have deepened our relationship with Japan, as we set out to do in the SDSR. We have focused on developing an enduring capability partnership with Japan but our activity has also included Japanese Ground Self-Defence Force troops conducting their first ever deployment to the UK where they took part in Exercise VAMBACE WARRIOR.

Two major RAF deployments have taken place across the region. Exercise EASTERN VORTEX saw RAF Typhoon, Voyager and A400M aircraft deploy to undertake: a Five Power Defence Arrangements exercise in Malaysia alongside Malaysian, Australian, Singaporean and New Zealand forces; a bilateral exercise with the Japanese Air Self Defence Force; and a joint exercise with the

Republic of Korea Air Force and US Air Force in South Korea. The RAF Aerobatic Team (the Red Arrows) also visited the region on Exercise EASTERN HAWK, with engagement, displays and support to the prosperity agenda in numerous countries. Of particular significance was the Red Arrows' first ever visit to China, where they performed at Airshow China in Zhuhai.

In December 2016, we established the BDS (Asia Pacific) in Singapore. Its role will be to support our engagement across the region, coordinating our activity and in particular it will contribute to efforts to build defence institutions. We continue to work closely with our key Allies, Australia and New Zealand, particularly on equipment and capability development. The annual Australia-UK Ministerial meeting endorsed the forward work programme across the areas of strategy, capability, management and people.

Red Arrows performing a display over the marina area of Singapore during their biggest overseas tour in a decade to the Middle East, South Asia and the Asia-Pacific region



South Asia

Following the agreement of the Defence and International Security Partnership in 2015 and the subsequent visit by the Prime Minister in 2016, the UK-Indian defence relationship has moved forward at great pace with the establishment of 8 capability partnerships spanning Counter Terrorism to Carrier Cooperation and military doctrine to training. Over the next 12 months, exercises in the Land, Air and Maritime domains are planned. The RAF Aerobatic Team displayed in India as part of Exercise EASTERN HAWK, and the Royal Navy exercised with the Indian Navy during Exercise KONKAN.

After the UN High Commissioner for Human Rights Report in 2015, the MOD developed a Defence Relations Re-engagement Strategy with Sri Lanka, using a Non-Resident Defence Advisor to the High Commission in Colombo to implement a conditions-based, incremental programme focused on the role of the military in democracy, accountability, transparency and ethics. In Bangladesh we have focused on education and training to professionalise the Bangladeshi military and reinforce understanding and compliance with ethical behaviours and International Humanitarian Law. In Nepal we continue to focus on reinforcing our long and distinguished relationship, enhancing the Nepalese Army's capabilities to ensure that they remain a major troop contributing country to UN Peacekeeping Operations. In addition we have delivered Counter Improvised Explosive Device training and Disaster Management Training through UK-approved Universities.

Latin America and the Caribbean

Following SDSR15 we have re-established the British Army's jungle training facility in Belize. We expect up to 2,000 British troops to pass through the British Army Training Support Unit Belize this year, and we plan on extending courses held there to the Armed Forces and coastguards of Caribbean countries. A Royal Navy frigate (HMS PORTLAND) and Royal Fleet Auxiliary tanker (RFA

GOLD ROVER) took part in Chile's prime naval exhibition, Exponaval, in Valparaiso alongside vessels from other regional countries.

The Caribbean Nations Security Conference saw progress made in dealing with trans-national and trans-regional threats. We have extended the non-resident accredited footprint of our Defence Attaché in the Caribbean to the eastern Caribbean.

The Jungle Warfare Specialists of 40 Commando in the jungles of Belize conducting vital training



Arms Control and Counter Proliferation

The National Security Risk Assessment 2015 has two Tier Two proliferation-related risks and highlights both as risks which may become even more likely and/or more impactful over the longer term:

- CBRN attacks: attack using chemical, biological, radiological or nuclear (CBRN) weapons.
- Weapons Proliferation: increase in either advanced conventional armaments or CBRN technology.

In 2016-17, the MOD has contributed to meeting the Government's wider arms control and counter-proliferation objectives.

The MOD worked with Other Government Departments to establish the new joint units announced in SDSR15. Three of these units provide the MOD's contribution towards the Government's arms control and counter-proliferation objectives, as set out in the National Counter Proliferation Strategy to 2020, published in March 2016:

- The MOD hosts the Counter-Proliferation and Arms Control Centre (CPACC), which started work in July 2016, comprising staff from the FCO, MOD, the Department for Business, Energy and Industrial Strategy (BEIS) and the Department For International Trade (DIT);
- The MOD has a team embedded in the Export Control Joint Unit (ECJU), hosted in the DIT, along with FCO counterparts. The ECJU also went live in July 2016, coordinating the cross-Government operation of UK export controls for items which have a military purpose or could be used for both civilian and military purposes; and

- The MOD care part of the Euro-Atlantic Security Policy (EASP) unit, hosted by the FCO, and launched in October 2016, with responsibilities that include leading the Government's work on conventional arms control in Europe.

The MOD continued to provide expertise to strengthen the Chemical Weapons Convention and supported the FCO at the Eighth Review Conference of the Biological and Toxin Weapons Convention, including through the provision of scientific and technical expertise. Support to the international community in addressing chemical weapons concerns in Syria remains a priority. The MOD continued to work with FCO and international partners with the goal of achieving the full declaration and destruction of Syria's entire chemical weapons programme, and ensuring effective investigation and response to the use of chemical weapons in Syria.

Working with the Organisation for the Prohibition of Chemical Weapons (OPCW) and international partners, the MOD made a significant contribution to UK and international efforts to safely destroy precursor chemicals from Libya's historic chemical weapons programme. It was agreed by the international community that these chemicals should be removed from Libya and destroyed in a safe and timely manner in a third country, in order to prevent their acquisition by non-state actors. The Defence Science and Technology Laboratory at Porton Down provided support to the OPCW to enable safe transportation and destruction of the chemicals. In late August 2016, RFA Mounts Bay escorted a Danish-led task group which transported the chemicals from Libya through the Mediterranean. The chemicals were transported to Germany, where they are being safely destroyed. The MOD's efforts successfully helped to ensure that these chemical weapon precursors did not fall into the hands of extremist groups such as Daesh.

The MOD continued to work closely with international partners to strengthen international cooperation in the field of biological security. Supporting the G7 Global Partnership against the Spread of Weapons and Materials of Mass Destruction, the MOD continued to implement a variety of projects to strengthen biological security, primarily in Central Asia, the Caucasus, the Middle East, and North Africa.

The MOD has continued its ground breaking work in the field of nuclear warhead dismantlement verification by conducting research into the multilateral verification of disarmament activities in a quadrilateral relationship with Norway, Sweden and the US. The MOD also supported the International Partnership for Nuclear Disarmament Verification. This US initiative channels expertise from both nuclear and non-nuclear weapon states to address the complex challenges which would be involved in the verification of nuclear disarmament.

The MOD has fulfilled its obligations in 2016-17 as the National Authority responsible for the UK's commitment to the Comprehensive Test Ban Treaty, supporting the Comprehensive Test Ban Treaty Organisation in Vienna.

The MOD continued to work closely with FCO on considering the possible scope of a Fissile Material Cut-off Treaty. The MOD provided technical support to expert discussions in Geneva, with the aim of informing future negotiations in the Conference on Disarmament, and ensuring that UK equities will be protected under any such Treaty.

The MOD implements key politically and legally binding Conventional Arms Control agreements on behalf of the UK. During the year, MOD hosted four missions, which checked the UK's compliance with Conventional Arms Control agreements; and led or participated in 32 verification missions in other countries.

The MOD supported UK participation in counter-proliferation regimes such as the Wassenaar Arrangement, Missile Technology Control Regime, Australia Group and Nuclear Suppliers Group.

The MOD also supports UK engagement on International Humanitarian Law, including the Geneva Conventions and the Convention on Certain Conventional Weapons.

The promotion and support of responsible Defence exports, consistent with our obligations under Treaties, Regimes and the Consolidated EU and National Arms Export Licensing Criteria regime to support Her Majesty's Government's prosperity agenda remains a priority. Through the ECJU, the MOD acts as the authority for the MOD Form 680 procedure which supports defence exports by assessing the proposed release by companies to foreign entities of equipment or information with a classification of OFFICIAL SENSITIVE or above. The target is to clear 60% of MOD Form 680 applications within 30 working days, which has again been exceeded: in 2016 the MOD processed 69% of applications within this timescale. The figures for 2015 were 71%; for 2014, 67%; and for 2013, 63%.

Official Development Assistance

The MOD spent £5.11M of Official Development Assistance (ODA) in Calendar Year 2016⁵. The main activities reported as ODA were:

- Certain aspects of defence education and training which fall within ODA guidelines;
- Elements of the support to international partners in maritime charting provided by the UK Hydrographic Office;
- Assistance to refugees in the UK Sovereign Base Areas in Cyprus;
- Retraining programme for local staff in Afghanistan benefitting from an in-country option of a range of courses such as High School diplomas and qualifications in Engineering and Law.

UK Military Personnel on hand to transfer refugees arriving at the British Sovereign Area on the island of Cyprus



Additionally, elements of activity delivered by MOD, but funded by cross-Government funds have been reported as ODA against those budgets; for example, MOD contributions to Security Sector Reform funded from the Conflict, Stability & Security Fund, or the Hydrographic Office contribution to the Commonwealth Marine Economies Programme, funded from the Prosperity Fund.

MOD is involved in spending ODA because it has unique capabilities which can contribute to development outcomes. In particular, defence education and training can contribute to the development of effective, accountable and inclusive institutions, recognised in the UN Sustainable Development Goals as being at the core of sustainable development.

⁵ ODA is reported on the basis of Calendar Years rather than the UK Financial Year, and is reported on a cash rather than an accruals basis.

Strategic Objective 3: Promote Our Prosperity

Objective:

We will contribute to the UK's economic security, support our industry including through innovation and exports, continue to invest in science and technology and contribute to wider skills and citizenship development that supports British society, through Cadet Forces, University Units and investment in skills, including through apprenticeships.

Key Performance Indicators:

- New target of 50,000 Apprentices to be trained during the SDSR15 period 2015 to 2020
- Increase the number of Cadet Units from 354 to 500 by 2020
- Promote defence exports with UK Trade and Investment
- Spend 1.2% of the defence budget on science and technology
- Increase the proportion of MOD spend with Subject Matter Experts (SME) to 25% by 2020
- Launch a Defence Innovation Initiative to remain in step with our allies and ahead of our adversaries
- Contribute to the wider UK's skills agenda (see Apprenticeships)
- Release surplus MOD land to support new housing

MOD Apprentices

The MOD is currently committed to enrolling 50,000 Apprentices by 2020. We have enrolled 25,557⁶ apprentices between April 2015 and January 2017, so are on track to exceed this target. The MOD is an active member of the Apprenticeship Ambassador Network and National 5% Club, hosting the latter in 2016 and taking the opportunity to celebrate delivery of the 150,000th⁷ Defence apprenticeship (including those undertaken by Civil Servants) since accurate records began. Fully supportive of Government Apprenticeship Reform, all three Services remain actively involved in Trailblazer groups which are developing the new Apprenticeship Standards.

The Naval Service is currently piloting Higher Apprenticeship (HA) Level-4 for 15 Marine Engineers (Submarines), if successful there is an aspiration for all members of this branch to start within 3 years. It also intends to trial a one year top up Degree Apprenticeship Level-6 commencing September 2017 for potential engineering officers from within the Fleet. The intention is to develop Higher and Degree Apprenticeships in Leadership & Management, Teaching and Engineering within the next 2 years. Continuing efforts to offer all recruits a Level-2 Apprenticeship (Standards dependent) and in several roles Level-3 Apprenticeships. The Royal Marines will commence delivery of the HM Forces (Public Service) Apprenticeship during 2017. Total numbers of Apprenticeships delivered by the Naval Service is 45,000⁷ since 2002.

The Army has introduced Level 4 Apprenticeships in Intelligence Analysis for the Intelligence Corps and IT and Telecommunications for the Royal Artillery. In addition, the Army will be trialling a Level 6 Degree level Apprenticeship in Leadership and Management for senior soldiers. The Army is just about to see its first completions on a pilot of the Level 4 Higher Apprenticeship Standard in Network Engineering in the Royal Signals. All those participating in the pilot are expected to complete their programme between April and June 2017. The Infantry has participated in the

development of an Apprenticeship Standard in HM Forces (Public Service) and this will be piloted later in 2017. Later in 2017, the Army is looking forward to delivering its 75,000th⁷ Apprenticeship qualification since 2004.

The RAF has been actively engaged in developing Apprenticeship Standards within Trailblazer Reform, currently sitting on 15 Standards Working Groups, this is to ensure appropriate accreditation for training, providing a transferability route to and from industry and to exploit Apprenticeship Levy funding. The first RAF Reservist has been placed on an Apprenticeship (Chef mobilised for two years). Communications Infrastructure Technicians Apprenticeship has been upgraded to a Level 3 award with the opportunity for legacy tradespeople to upgrade. The RAF has completed over 26,000⁷ apprenticeships from 2002 to May 2017.

The MOD is also heavily involved in apprenticeship delivery to the Civil Service with over 20 schemes available and is one of the major deliverers of such Apprenticeships across Government Departments. MOD has committed to meeting the 2.3% Civil Service target from April 2017 to March 2020. Nearly 400⁶ civilian apprentices have been recruited externally to a range of schemes including Engineering and Science Apprenticeships and fast-track Civil Service schemes providing opportunities for all those aged over 16 from a diverse range of backgrounds. Ten further Apprenticeship schemes have been made available to internal staff and we anticipate that over 500⁶ internal staff will be enrolled by the end of this reporting year.

Rt Hon Earl Howe hosts the apprenticeship 5% club and presents the 150,000th MOD apprenticeship



Cadets

The Ministry of Defence sponsors and supports four different cadet forces (voluntary youth organisations): the Sea Cadet Corps, the Army Cadet Force and the Air Training Corps based in the community, and the Combined Cadet Force based in schools. In total there are just over 128,000 cadets in the UK. The cadet forces offer challenging and enjoyable activities for young people,

⁶ The figures include all apprenticeship places taken up that meet the Skills Funding Agency definition for an apprenticeship. While these numbers have been quality assured, they have not undergone the full quality assurance process that would be used for official statistics.

⁷ The figures include all completed apprenticeships that meet the Skills Funding Agency definition for an apprenticeship. While these numbers have been quality assured, they have not undergone the full quality assurance process that would be used for official statistics.

providing them with opportunities to develop valuable life skills such as self-discipline, resilience and leadership which can improve employability and social mobility. The Government has committed £50M of LIBOR⁸ funding to increase the number of cadet units in schools across the UK to 500 by 2020 through the Cadet Expansion Programme. The programme, which focuses on state schools in less affluent areas, is on track to meet this target with over 360 units already parading⁹ and interest from schools remaining high.

The Ministry of Defence is also implementing its Cadet Force 2020 Strategy which will ensure that the cadet experience continues to stimulate, challenge and inspire young people whilst delivering coherence, innovation and value for money. The critical success factor for cadet forces is the continuing commitment of sufficient, high-quality adult volunteers to instruct the cadets. Therefore a key priority for the Strategy is to ensure that the contribution of adult volunteers as national youth organisation leaders is appropriately recognised and valued.

Air Cadets studying drones during their STEM (Science, Technology, Engineering and Mathematics) Camp



Supporting Industry including Small and Medium Enterprises and Defence Exports

The SDSR15 committed the MOD to “refresh its defence industrial policy and take further action to help the UK’s defence and security industries to grow and compete successfully”. The MOD is leading work to refresh Defence Industrial Policy which is closely aligned with cross-Government work on Industrial Strategy.

The MOD has committed in its Single Departmental Plan to take action to enable Small and Medium-size Enterprises and non-traditional suppliers to bid for defence and security contracts more easily. There is currently a challenging target that 25% of its procurement spend should go directly and indirectly to SMEs by 2020.

⁸ Funding that has been made available to the MOD by HM Treasury from fines levied on the banks for attempting to manipulate the London Interbank Offered Rate (LIBOR).

⁹ This figure includes all parading cadet units in schools across the UK. Each school is counted once: if there are multiple sections in one school this is counted as one unit. If units are temporarily closed at the date of counting then a judgement will be made as to whether or not they are counted as parading units at that time. While these numbers have been quality assured, they have not undergone the full quality assurance process that would be used for official statistics.

In support of this target MOD published a refreshed SME policy in March 2016 and has introduced a number of initiatives during the year. These include the appointment of the MOD Commercial Director as the department's Supply Chain Champion. He is supported in this role by a network of 'Supply Chain Advocates' who are tasked with simplifying the engagement between the department and new and prospective suppliers and matching suppliers to our business needs. We also launched the new MOD Supplier Portal hosted on www.gov.uk in April 2016, and we are working to develop this into an intuitive, user-friendly tool for all suppliers. We recognise the need for information about our business to be readily accessible to non-traditional suppliers who will not be familiar with the MOD organisation or our terminology.

The Department for International Trade Defence & Security Organisation (DSO) has overall Government responsibility for defence export promotion. DSO works with MOD to support industry-led export campaigns, leveraging the MOD's position as the primary user of UK derived capabilities. Through the MOD/DSO Service Level Agreement, MOD provides support to campaigns including direct customer engagement by Ministers and senior officers/officials; supporting the development of bid proposals; provision of expert military advice and/or assets for demonstrations; support to equipment evaluation; and the provision of training and/or other key enablers. In addition, the MOD leads on supporting strategic defence export campaigns.

As the focal point for the provision of advice and information to companies wishing to do business with MOD, the 'Doing Business with Defence' team provides an outreach service for new suppliers and plays a key role in the department's efforts to improve access to contracting opportunities for smaller businesses. The team works closely with the DSO Small Business Unit. The departments have worked closely together for some years providing mutual support to one another. They work jointly to explain what Government support is available for selling to home and overseas Armed Forces and offering more specific advice and assistance where required. This partnership has significantly increased the number of opportunities to address SMEs at various organised seminars and events across the UK and to offer advice and information from shared exhibition stands and other platforms.

Science, Technology and Innovation

Science and Technology

Science and Technology (S&T) provides a vital and effective contribution to UK defence and security, helping the Armed Forces maintain freedom of action and operational advantage and contributing to UK prosperity and growth. This was recognised in the SDSR15 which included the commitment to invest at least 1.2% of the Defence budget on the core MOD S&T programme under the direction of the MOD Chief Scientific Adviser.

Throughout this reporting year the Defence S&T Enterprise has been restructured to achieve the headmarks set in the SDSR15 and the Science Capability Review¹⁰ (2015). These included:

- Stronger governance through a reinvigorated Research, Technology and Innovation Board, chaired by Minister (Defence Procurement), ensuring that MOD's S&T capability is effectively balanced and exploited to meet future defence and security challenges.
- Separating S&T commissioning and delivery functions to provide better accountability and control over prioritisation and investment in S&T capability.

¹⁰ Professor Sir Mark Walport (the Government's Chief Scientific Adviser) led a review of Defence Science in 2015, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/458623/20150414-MOD_Science_Capability_Review_Executive_Summary.pdf.

- Developing an interim S&T Capability Strategy and a transformational S&T Portfolio that: prioritises high-risk yet high-reward research (that builds on ongoing investment in disruptive capabilities¹¹); achieves a better balance between MOD's long and short-term needs; maintains critical sovereign S&T capabilities and skills; and, ensures the 'golden thread' can be tracked from requirement through to delivery and exploitation. Transition to the new portfolio commenced in April 2017.
- Strengthening peer review and S&T capability assurance, holding the S&T Enterprise to account for quality and ensuring the effectiveness of S&T capability against future priorities required by defence.

Innovation

In addition to our commitment to S&T, the Government announced in the SDSR a step change in our approach to innovation, including the current commitment to invest £155M from 2015-20 to develop innovative solutions, with the aim that UK Defence finds and works more effectively with new partners, tests unconventional ideas alongside more traditional ones, and is prepared to take risks.

In September 2016, the Secretary of State for Defence launched the 'Defence Innovation Initiative', setting out how we will catalyse cultural change in MOD, especially its approach to risk and procurement, and how we will develop solutions to key future defence challenges through a systematic approach that encompass our people, organisation and processes as well as S&T.

The Innovation and Research InSight Unit (IRIS) will research and analyse the longer-term implications of emerging technologies and innovations relevant to defence and security in order to inform senior decision-making and future defence strategy.

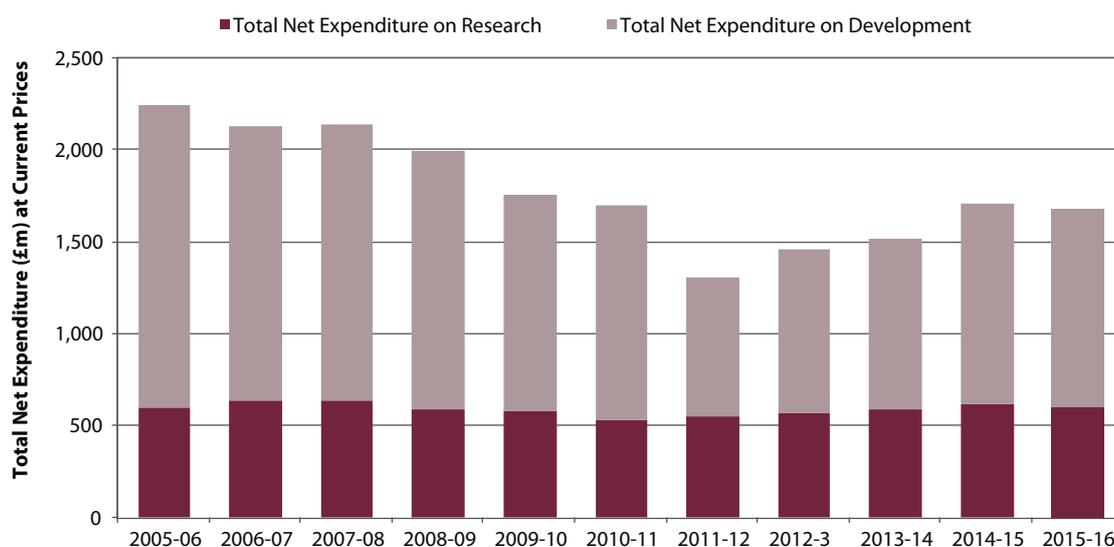
An Innovation Fund of around £800M over the next 10 years provides the MOD with the freedom to pursue and implement innovative solutions, taking forward the best ideas sourced from within and outside of Defence, in an open competitive process.

The Defence and Security Accelerator provides an online gateway for innovators, external to MOD to submit proposals for novel solutions to defence and security challenges. It will support innovators to more rapidly progress ideas into solutions; and work with Government procurement bodies to embed these solutions into service. The first 'Enduring Challenge' was launched on 26 January 2017, funded by the S&T programme and Innovation Fund. The Accelerator is delivering the first Innovation Fund competition with the winners of phase one selected in April 2017. The Accelerator is run, on behalf of Government, by Dstl.

In addition to this, MOD continues to use the Small Business Research Initiative (SBRI), a key SME engagement mechanism and has supported the recent Government wide review into future opportunities for its use.

¹¹ Disruptive capabilities are areas of research that can deliver potentially significant and novel step-change to UK Defence capability.

MOD Research and Development Expenditure 2015-16



1. 2016-17 figures are not available until completion of a survey run by Defence Economics for the Office for National Statistics to identify R&D expenditure in the Annual Report and Accounts that meets the Frascati international definition of R&D.

Land Release

The Ministry of Defence (MOD) is currently undertaking a programme of Defence Estate Optimisation to enable Defence capabilities through a smaller but better defence estate. The programme was announced in part as 'A Better Defence Estate' in Parliament on 7th November 2016. The release of MOD sites will also free up land that can potentially be used for housing, counting towards the current Government target to release public sector land in England for housing. To date the MOD has either released or transferred land with the potential for over 5,200¹² Housing Units against a target of 55,000. MOD has further plans to sell or transfer land with the majority of the identified sites becoming available toward the end of the Public Sector Land Release programme. The land release sales will also provide an estimated contribution of £915.5M¹³ in gross receipts towards the current £1Bn target for land release sales from 2016-17 to 2020-21, which the Department plans to reinvest in estate optimisation.

Government Estate Strategy

DIO are driving forward the MOD's contributions to the Government Estate Strategy. The key contributions are:

National Government Hub Programme – MOD will consider co-location at Government hubs on a case by case basis. The Defence Estate Optimisation programme is considering use of hubs in the North West and West Midlands. An early example is the Birmingham hub, as one of two down selected options being assessed for the future location of activities currently in DIO Sutton Coldfield. Self-assessment of smart working maturity has still to be carried out, but MOD is

¹² This figure is based on the amount of land that has been scored for release (meaning they have planning certainty and a contract with the Private Sector for their sale is in place by 2020). Sites are scored in a number of ways including transfers to the Homes & Communities Agency, building of single living or service families accommodation, homes that MOD have previously been leasing which are now released. For sales that are released for development, expert judgement is used to assess how many homes are likely to be built on these sites, based on a number of factors (size of site, types of homes likely to be built). While these numbers have been quality assured, they have not undergone the full quality assurance process that would be used for official statistics.

¹³ This is based on actual gross sales receipts for sites that have been sold during this period and estimated gross sales receipts for sites that are expected to be sold during this period. While these numbers have been quality assured, they have not undergone the full quality assurance process that would be used for official statistics and forecast receipts are estimates and subject to revision.

modernising its main office type IT provision under the MODnet programme with elements already in delivery.

Office Benchmark Target – MOD continues to optimise office space, where possible, to support the Government’s current target to achieve 8 square metres per fulltime equivalent employee by March 2018. Utilisation studies have been and continue to be carried on major ‘Office’ type sites across the estate to assist with meeting this target. The Main Building Optimisation Project completed in December 2016 has released two out of eight floors of the MOD Main Building in Whitehall for Other Government Departments (OGDs). This will drive efficient and sustainable utilisation of the Main Building, which will help MOD to meet the Government’s building utilisation and workspace density targets whilst protecting defence outputs.

Strategic Asset Management Plan – DIO has developed an interim Strategic Asset Management Plan 2017 (SAM Plan) and is currently working with the Government Property Unit (GPU) to develop a version suitable for external publication. The interim SAM Plan provides both infrastructure and wider stakeholders with a clear view of the current plan for the whole of the Defence Estate, whilst providing a baseline position against which defence planners can assess and plan their own current and future activity. The Strategic Asset Management planning process is being developed further to support the planned future delegated operating model.

Strategic Objective 4: Maintain a strategic base & integrated global support network, and manage the Department of State

Objective:

We will maintain an agile strategic base and global support network that enables the command, generation, preparation, projection, sustainment, maintenance, operation and redeployment of military capability in support of the Defence objectives. This reflects the nature of the department as a Strategic Military Headquarters as well as being a Department of State. We will command UK military operations worldwide, while providing the necessary enablers such as infrastructure, equipment, logistics and medical.

Key Performance Indicators:

- Spending £178Bn over 10 years on equipment and support (Major Projects Authority Reports)
- Implementation of the 44 SDSR Decisions
- Workforce Dynamics and Diversity e.g. BAME and Gender
- Reduce Civilian Numbers from 56,240 to 41,000 by 2020

Major Projects

Approximately 70% (27) of the Integrated Assurance Reports¹⁴ on the MOD projects in the Government Major Programmes Portfolio received a delivery confidence rating of Amber¹⁵ or better. This compares with 76% (22) the previous year. Half of the programmes that were better than amber have undertaken a follow-up review within the financial year, the remainder have one scheduled. Where a further review was done 60% (three) received an improved rating. Notable successes in Departmental Major Projects Portfolio (DMPP) projects and programmes include:

Lightning II – The Ministry of Defence has announced that the UK has been chosen by the F-35 Program Office to be a global repair hub providing maintenance, repair, overhaul and upgrade services for F-35 avionic and aircraft components. Over the lifetime of the programme, components for F-35 aircraft will be serviced and maintained in North Wales, generating hundreds of millions of pounds of revenue for the UK defence industry, help to create hundreds of high-end jobs and safeguard thousands more, and be a substantial boost to UK exports with the potential to unlock more than £2Bn of future F-35 support revenue over the lifetime of the programme.

A400M – The fifteenth transport aircraft was delivered into service with the RAF in March 2017. Aircraft availability in 2017 has seen an improvement, with a corresponding increase in the percentage of ‘fit for purpose’ aircraft for use by the Front Line. The Medium Term Contract was let in November 2016. This 10-year support contract, with a five year firm price, provides an output service-based A400M support arrangement that is designed to provide available aircraft task lines 24/7, and delivered some £190 million of savings. This UK national contract provides a comprehensive level of support underpinned by a single, tri-national Airframe Global Support contract working closely with our French and Spanish partners.

¹⁴ MOD Integrated Assurance uses the IPA Toolkit and includes Gateway Reviews.

¹⁵ The ratings are based on the IPA Delivery Confidence Assessment definitions as outlined on gov.uk: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/580597/project_assurance_reviews_delivery_confidence.pdf

Dreadnought – The Dreadnought programme will design, develop and manufacture four nuclear-armed submarines to replace the Vanguard Class fleet. Following the re-commitment of the Government to the production of four Dreadnought class submarines in the SDSR15, there is strong engagement from both tier 1 and 2 industry partners. Several hundred suppliers will be involved in the programme at its peak, almost 85 per cent of those based across the UK – securing jobs from Scotland to the South of England.

Queen Elizabeth Programme (QEP) – Successful alongside testing of HMS Queen Elizabeth has now paved the way to commencement of the Aircraft Carrier Alliance's (ACA) sea-trials on 26 June 2017. HMS Queen Elizabeth will return to port for a planned engineering period before proceeding back to sea for a period of further testing and commissioning of her essential mission systems. She is on track to move to her homeport of Portsmouth and to be accepted by the MOD from the ACA by the end of the year.

HMS Queen Elizabeth, the first QE Class aircraft carrier, set sail from Rosyth to commence first stage sea trials off the North-East of Scotland



Puma – The Puma Life Extension Programme has addressed obsolescence and safety issues with the Puma HC Mk1 aircraft, extending the Out of Service Date of 24 helicopters from December 2012 to 2025. The programme involved upgrading the aircraft to Puma HC Mk2 standard and the modifications provide greater performance through the introduction of more powerful and efficient engines, digital cockpit displays and modern navigation and communication equipment and a Digital Automatic Flight Control System to improve handling characteristics.

Hestia – Hestia is the programme designed to deliver a core set of standardised services for Soft Facilities Management (FM) to Defence sites within the UK. Hestia will vastly reduce the number of Soft FM contracts to seven regional contracts with three of the seven contracts having now been placed. The Hestia contracts are designed to meet changing Service demands and provide the flexibility needed to accommodate future changes to the Defence estate under the Better Defence Estate Strategy whilst delivering significant savings to Defence.

Logistics Commodities Services (LCS(Transformation)) – Construction of the LCS (T) programme's Defence Fulfilment Centre, in Donnington, was completed on 7 November 2016. The 90,000m²

facility, has enabled the introduction of commercial best practice and technology into the storage and distribution elements of the military supply chain, enabling a better service to the Front Line Commands at a lower cost. The rapid and guaranteed access to the commercial logistics market now available to the MOD reduces strategic operational risk and increases the UK's overall military logistic capabilities.

The Army Basing Programme (ABP) – The Army Basing Programme has achieved a key milestone with the signing of the variation to the Project Allenby Connaught (PAC) contract with Aspire Defence Ltd at the end of October 2016. This will ensure the delivery of all necessary behind the wire single living, working and technical accommodation for units relocating across Salisbury Plain Training Area (SPTA) and Aldershot. Work on the related SPTA Service Families Accommodation (SFA) project also achieved milestones with the appointment of a preferred bidder in August 2016 and the submission of a Main Gate Business Case to build 917 new homes on MOD land at three sites around Salisbury Plain. Away from Salisbury Plain work continues at a number of sites to deliver the necessary infrastructure for units that have already relocated, including the approval to award a £60M contract for works at Catterick. Four further units relocated from Germany in 2016 bringing the total number of troops to have already returned from Germany to over 80% and work remains on track to deliver the required infrastructure to enable the return of all units from Germany in 2019.

Maritime Sustainment Programme (MSP) – On 30 March 2017, Royal Fleet Auxiliary Tidespring, the first of the four MARS Tankers arrived in the UK, following its maiden voyage from its production yard in South Korea. The joint working between MOD and Daewoo Shipbuilding and Marine Engineering (DSME), the South Korean supplier, has meant that Royal Fleet Auxiliary Tidespring is now ready to undergo its UK Customisation Phase. This will equip the vessel with state-of-the-art components to transform it from a commercially-built fuel tanker, into a highly capable military vessel, with significant self-defence capabilities, and ability to accompany a Carrier Task Group in the most challenging theatres. Ships 2, 3 and 4 will follow in short order. UK investment of the programme represents some 25% of the Navy's investment in the ships. This, coupled with the UK-based longer term logistic support for the ships, will be a significant boon for the UK's on-shore ship-building and maritime support sectors.

Crowsnest – Following an intensive period of negotiations in the second half of 2016, MOD awarded a £269M contract to Lockheed Martin UK as the Primary Contractor to design and fit the highly capable CROWSNEST early warning system for the Merlin Mk2 helicopters, which will support the UK's future Carrier Strike capability. The signing of the contract was the culmination of months of talks, securing a deal which provided the required technical capabilities and value for money, whilst supporting more than 200 jobs in one of the UK's most strategically important high-tech industries.

Land Environment Tactical Communication & Information Systems (LE TacCIS) – LE TacCIS aims to provide a single, comprehensive tactical network capability within the Land Environment which allows timely and effective information exploitation within a coalition context. Both, the Land Deployable Gateway and the Falcon EXPLOIT Theatre Network and Service Management capabilities have reached Full Operating Capability. The largest and most complex constituent part of the Programme, MORPHEUS, has awarded a £330M initial phase contract to General Dynamics United Kingdom Limited to design and develop the next-generation tactical communication and information system. This contract will support 250 high skilled jobs in the UK Defence Industry.

Implementation of the SDSR15 – Efficiencies

We are a year into the efficiency programme from Spending Review 2015, and the department is making ground on what is an ambitious and challenging target. From 2016-17 all savings from efficiencies and reprioritisation will be reinvested in the defence budget, enabling £9.2Bn to be invested in new capability over the Spending Review period. The efficiency programme is transforming almost every part of Defence through a combination of business and behavioural changes:

Military manpower: We have implemented the previously announced 1% public sector pay restraint. This will deliver a significant saving over the course of the Spending Review period which will be redirected to our top capability requirements. Other work has included the revision of the military allowance package – including the phasing out of Commitment Bonuses due to insufficient evidence that they acted as an effective retention tool beyond four years' service.

Civilian pay and manpower: We are clear that we need to decrease civilian numbers to 41,000 by 2020, and we are advancing toward this current target. The MOD has been proactively assessing the most cost-effective and sustainable solution for achieving this, including looking at the total shape, size, and structure of our civilian workforce; the functions, and processes that they are engaged in, and how they can be made more efficient. These difficult decisions will afford us the opportunity to reinvest in our ambitious capability outputs required to deliver our SDSR15 commitments.

Equipment: Continuing to drive efficiencies in our Equipment Programme is paramount to achieving our current departmental efficiency target. We are transforming the procurement function via the DE&S Transformation Programme. The DE&S Transformation Programme has been contributing to overall procurement improvement by embedding new ways of working with the aim of delivering significant efficiencies within DE&S – including new tools and techniques to improve performance and reduce waste. We will also continue to implement the Single Source Contract Regulations Regime, review Equipment Support costs, and transform Defence logistics – all of which are expected to deliver significant efficiency savings.

Estate and Infrastructure: The department is working toward delivering a smaller, more efficient and better quality estate for the military to live, work and train in. The Future Accommodation Model will look to provide greater flexibility to Armed Forces personnel in their living arrangements, while providing efficiency savings for Defence.

Other areas of spending: The department is working to identify novel cross-cutting efficiency measures with the goal of instilling a culture of efficiency in everything we do. In particular, Defence is focusing on reducing our reliance on external assistance, driving better value for money from our Private Finance Initiative (PFI) projects and continuing to find ways of operating more collaboratively.

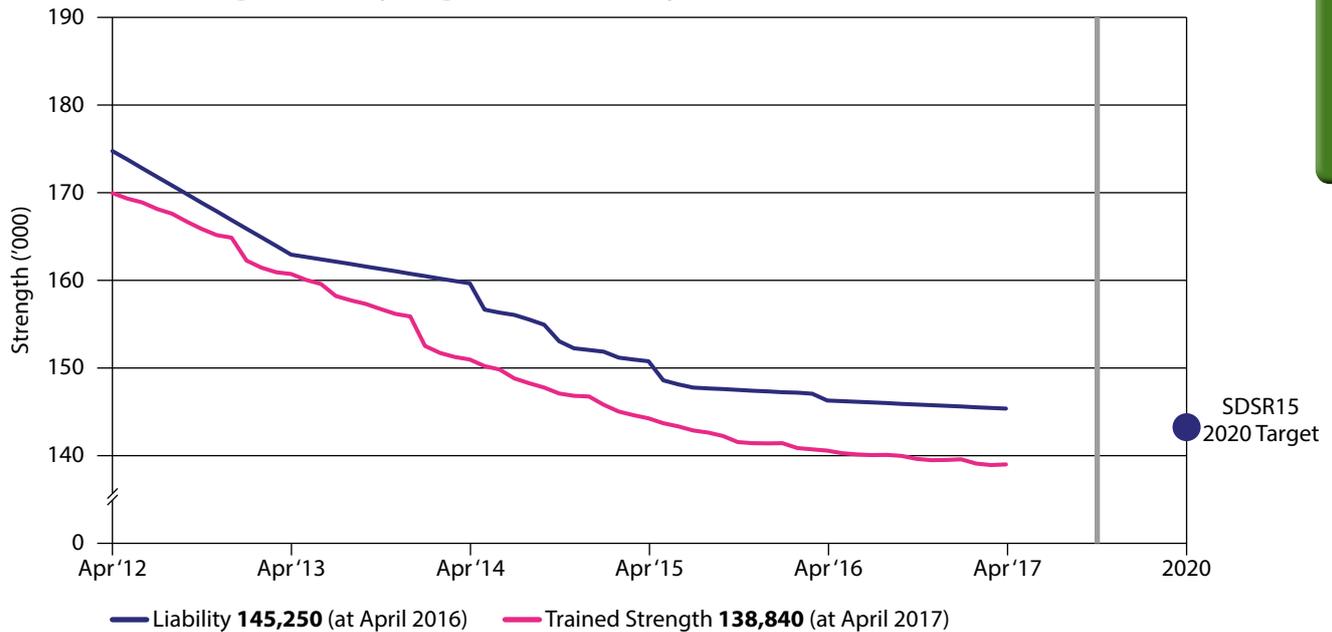
Workforce size, shape and dynamics¹⁶

Military Full Time Trained Strength and Civilians	01 April 2017	2020 Target
Royal Navy / Royal Marines	29,580	30,450
Army	78,410	82,000
RAF	30,850	31,750
Total Full Time Trained Strength	138,840	144,200
Civilian	56,680	41,000
Total Personnel	195,520	185,200

Future Reserves 2020 Trained Strength	01 April 2017	2020 Target
Maritime Reserve	2,560	3,100
Army Reserve	26,660	30,100
RAF Reserves	2,150	1,860
Total Reserves	31,360	35,060

¹⁶ <https://www.gov.uk/government/statistics/uk-armed-forces-monthly-service-personnel-statistics-2017>

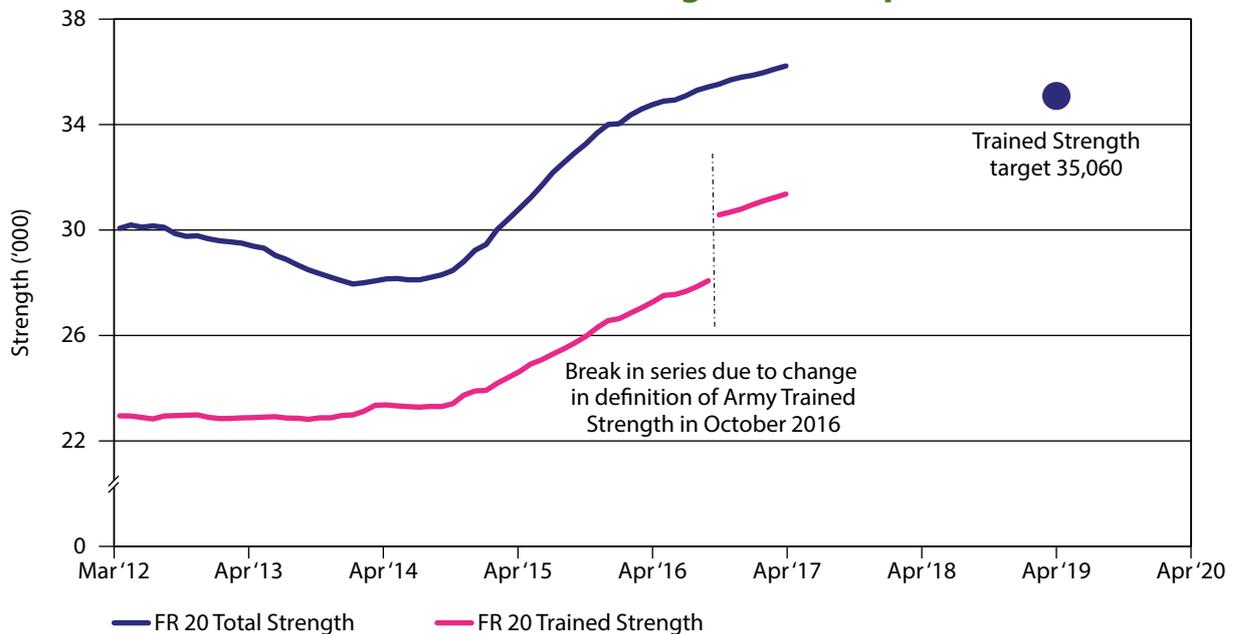
Military Full-Time Trained Strength (RN/RM + RAF) and Full-Time Trade Trained Strength (Army) against Liability



Notes

1. Full-Time Trained/Trade Trained Strength is the element of the UK Armed Forces comprising trained UK Regular Forces, trained Gurkhas and a number of Reserve Forces personnel filling Regular posts whilst serving on FTRS. It does not include mobilised reservists.
2. Trained Strength comprises military personnel who have completed Phase 1 and 2 training for Royal Navy/Royal Marines, the Army (prior to 1 October 2016) and the Royal Air Force. Following the change in definition of trained strength for Army, from 1 October 2016, trained strength for the Army comprises of personnel who have completed Phase 1 training.
3. Approximately 270 Full Time Reserve Service personnel are counted in both the Full Time Trained/Trade Trained Strength and Future Reserves 2020 populations.

Tri Service FR20 Volunteer Reserve Strength as at 1 April 2017



Notes

- 1) Future Reserves 2020 Total Strength includes volunteer reserves who are mobilised, HRR and volunteer reserve personnel serving on ADC or FTRS contracts. Sponsored Reserves who provide a more cost effective solution than volunteer reserve are also included in the Army Reserve FR20. Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI) and University Officer Cadets and Regular Reservists are excluded.
- 2) Future Reserves 2020 Trained Strength comprises only those military personnel who have completed Phase 1 and 2 training for the Maritime Reserve, the Army Reserve (prior to 1 October 2016) and the Royal Air Force Reserves. Following the change in definition of trained strength from 1 October 2016, trained strength for the Army Reserve comprises of personnel who have completed Phase 1 training.

Manning Levels for each service

UK Regular Forces (Trained and Untrained)											
	1 Apr 12	1 Oct 12	1 Apr 13	1 Oct 13	1 Apr 14	1 Oct 14	1 Apr 15	1 Oct 15	1 Apr 16	1 Oct 16	1 Apr 17
All Services	179,800	175,940	170,710	166,460	159,630	156,630	153,720	152,150	151,000	149,560	149,370
Officers	30,700	30,010	29,060	28,540	27,850	27,680	27,230	27,140	26,820	26,440	26,990
Other Ranks	149,100	145,930	141,650	137,920	131,770	128,950	126,490	125,020	124,180	123,130	122,380
RNRM	35,540	34,680	33,960	33,520	33,330	32,900	32,740	32,480	32,500	32,500	32,540
Officers	7,190	7,100	6,940	6,880	6,800	6,820	6,780	6,820	6,770	6,830	6,790
Other Ranks	28,350	27,580	27,020	26,640	26,530	26,080	25,960	25,670	25,730	25,660	25,750
Army	104,250	102,760	99,730	97,030	91,070	89,200	87,060	86,080	85,040	83,860	83,560
Officers	14,480	14,340	13,890	13,680	13,200	13,120	12,830	12,840	12,590	12,190	12,680
Other Ranks	89,780	88,420	85,840	83,340	77,860	76,090	74,230	73,240	72,450	71,670	70,880
RAF	40,000	38,500	37,030	35,920	35,230	34,520	33,930	33,580	33,460	33,210	33,260
Officers	9,030	8,560	8,230	7,980	7,850	7,740	7,630	7,480	7,460	7,420	7,520
Other Ranks	30,970	29,930	28,790	27,930	27,380	26,780	26,300	26,110	26,000	25,790	25,740

FR20 –Trained Strength of the Future Reserves 2020											
	Actual Apr-14	Target Apr-14	Actual Oct-14	Actual Apr-15	Target Apr-15	Actual Oct-15	Actual Apr-16	Target Apr-16	Actual Oct-16	Actual Apr-17	Target Apr-17
All Services	23,360	21,780	23,420	24,630	23,090	25,970	27,270	23,700	30,570	31,360	30,880
of which:											
Maritime Reserve	1,870	1,780	1,920	1,980	1,790	2,190	2,350	1,900	2,400	2,560	2,320
Army Reserve	20,060	18,800	20,040	21,030	19,900	22,040	23,030	20,200	26,190	26,660	26,700
RAF Reserves	1,430	1,200	1,450	1,620	1,400	1,730	1,890	1,600	1,980	2,150	1,860

1. Future Reserves 2020 includes volunteer reserves who are mobilised, HRR and volunteer reserve personnel serving on ADC or FTRS contracts. Sponsored Reserves who provide a more cost effective solution than volunteer reserve are also included in the Army Reserve FR20. Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI) and University Officer Cadets and Regular Reservists are excluded.

2. Break-in-series between April and October 2016 due to the changes in definition of Army Trained Strength.

Civilian Personnel Strengths

Civilian personnel by grade equivalence (Full Time Equivalent)											
	1 Apr 12	1 Oct 12	1 Apr 13	1 Oct 13	1 Apr 14	1 Oct 14	1 Apr 15	1 Oct 15	1 Apr 16	1 Oct 16	1 Apr 17
Civilian Level 0 Total	71,010	67,710	65,400	63,670	62,500	62,130	58,160	56,860	56,240	56,420	56,680
Non Industrial Total	43,910	41,730	40,410	39,910	39,040	39,420	39,540	30,360	30,320	30,390	30,440
Of which: SCS & Equivalent ¹	240	230	240	240	230	240	250	180	200	200	200
Industrial² Total	8,600	8,100	7,660	7,580	7,540	7,370	7,220	5,590	5,380	5,160	4,940
Royal Fleet Auxiliary Total	2,000	1,960	1,900	1,880	1,820	1,850	1,890	1,920	1,950	1,950	1,930
DE&S Trading Entity Total³	*	*	*	*	*	*	*	9,530	9,840	10,120	10,670
Trading Funds Total	7,110	7,170	7,170	7,130	7,110	7,050	4,490	4,510	4,400	4,430	4,460
Locally engaged civilians Total	9,390	8,740	8,250	7,170	6,990	6,430	5,020	4,950	4,350	4,380	4,250

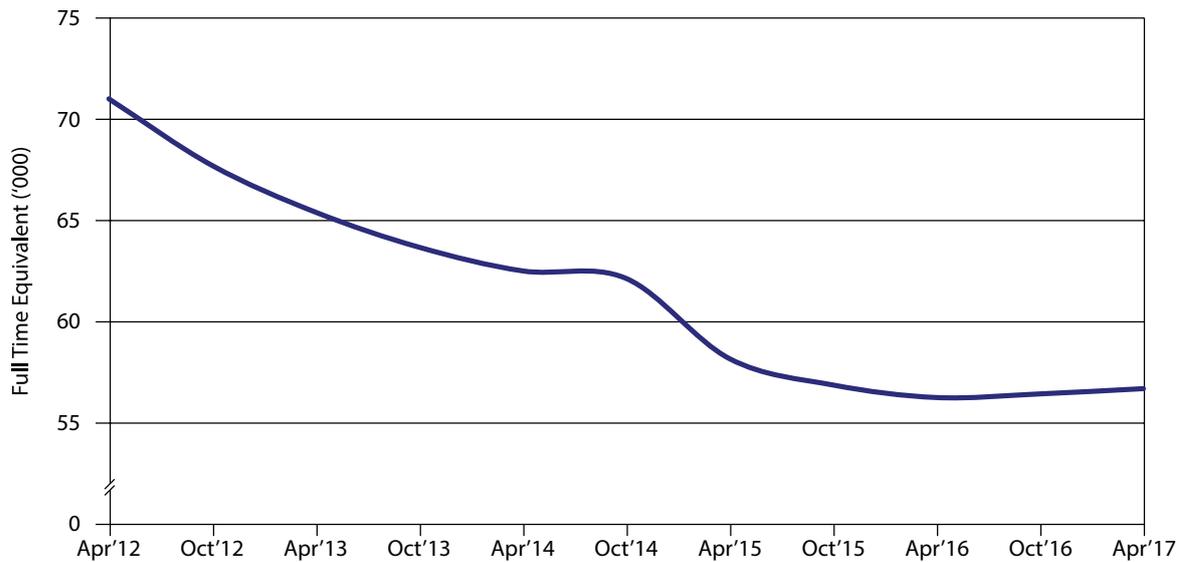
Notes:

1. Includes personnel outside the Senior Civil Service but of equivalent grade, primarily Senior Medical Specialists.

2. Industrial personnel are civilian personnel employed primarily in a trade, craft or other manual labour occupation. This covers a wide range of work such as industrial technicians, air freight handlers, storekeepers, vergers and drivers.

3. Defence Equipment and Support was reported as a bespoke trading entity from 1 July 2015. Prior to this it was reported as an extant TLB. This time-series break is indicated by "I" symbol in the Table. These data are not directly comparable before and after 1 July 2015.

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



People Strategy

A range of major People Change Programmes are underway which will ensure we are well positioned for future strategic challenges, including the Future Defence Civilian Programme. Updates against some of these programmes are included below.

Armed Forces People Programme

Under the Armed Forces People Programme we are continuing to develop new terms and conditions for our Service Personnel. This is being developed through four projects.

- **Flexible Engagement System (FES):** We know Service Personnel who have dedicated themselves to public service sometimes struggle to meet their full military commitment and this means that the only option is sometimes to leave the Armed Forces. This is reducing our ability to attract and retain the quantity, quality and diversity of people we need. To address this challenge we are developing a modern FES, whereby those personnel can temporarily change the nature of their Service, enabling part-time working or protection from deployment. This will be in support of an individual's personal circumstances and needs but not at the expense of operational capability or to avoid essential duty. We also intend to improve opportunities for Reservists to be employed in higher commitment jobs to add to this flexibility and add to the options for employment across Defence. The increased flexibility of FES will be underpinned by changes to legislation, which will take time to deliver; we expect FES implementation to commence before 2020.
- **Future Accommodation Model (FAM):** FAM is looking at how to deliver a new accommodation model that improves choice and supports more Service Personnel to both rent private accommodation and better meet their aspirations for home ownership, whilst still fulfilling the needs of the Services and remaining affordable. A survey with over 24,000 responses from Service Personnel was conducted in September 2016, and the results published in January 2017¹⁷ showed that over half of Service Personnel (55%) considered FAM proposals attractive. Options for the model have been developed from feedback received; these range from options similar to our current system with Service Family Accommodation (SFA) widely available, to options where FAM will make more use of private market rentals. In the coming months the MOD will continue to engage with Service personnel and their families in further developing these options.

¹⁷ <https://www.gov.uk/government/statistics/mod-future-accommodation-model-survey-2016>

- **Enterprise Approach (EA):** Responding to SDSR15 and supporting the wider People work-strand, EA aims to make it easier for people to move between the different elements of the 'Whole Force' over their careers and will work collaboratively with industry to explore how to make skills available across organisational boundaries when and where needed. Over the past year we have had continued engagement with industry over the potential career development path of trades such as nuclear engineers, and continue testing the concept of working with industry to collaboratively manage critical skills across MOD and industry. We will continue to explore a range of policy options for EA, addressing those areas that threaten defence outputs of trades and skills, focussing on the future demand for skills out to 2040.
- **New Joiner Offer (NJO):** The NJO project is developing a new Armed Forces offer for new joiners, aiming to be applicable from 2019, to better meet the expectations of future recruits and target resources on the people we need most. It will reflect the realities of modern life, and the UK's current financial position, whilst preserving those elements that reflect the unique demands that military service imposes on our people. Over the past 12 months we have entered the early stages of policy development, and begun to review all aspects of the offer, including pay, pensions, X-Factor, personal development, and how we support our personnel. We have explored how these can be better targeted through differentiation, by length of service, skill and the lived experience. The New Joiner Offer survey, launching in the coming months, will help inform decisions on the type and scale of financial and non-financial offer Service personnel value throughout their careers and an update will be forthcoming towards the end of the year.

Future Defence Civilian Programme

The SDSR15 has set a target that we will reduce our civilian headcount by 30% to 41,000 by 2020, and, in the process, reduce our annual civilian pay bill by £150M. Work to achieve these targets is being taken forward under the Future Defence Civilian Programme (FDCP), which is focused on re-shaping the workforce, including considering alternative models to deliver Defence outputs, and developing a modern employment offer. At the same time the programme is being used as a catalyst for changing the culture within the MOD to be one that is more empowered and open to challenge (a key finding of the Chilcot Report) and increasing our change leadership capability throughout the department.

Over the coming years we will reshape the workforce in line with the Whole Force Approach. To succeed in this, we need to ensure that each element of the Defence workforce (military, civil servants and contractors) makes the contribution they are best suited to deliver and that they do so in the most appropriate way. We are challenging ourselves on which functions we still need to carry out, and who is best placed to deliver them.

For example, in summer 2016, we established the Defence Services Value for Money study to look more closely at three clusters of functions. The study reported earlier this year. It identified specific opportunities for Driving and Transport, and Storekeeping and Warehousing, and made recommendations for taking forward the Administration and Business Support function, in the context of a wider pan-Defence exercise. Both the Driving and Transport and the Storekeeping and Warehousing projects will examine the scope for increased efficiency and for alternative delivery models.

A programme, known as 'Business Modernisation', will be established to examine the work of Business Administration and this larger group of Civil Servants, to get a more joined up understanding of what they do, and in the process, check whether there is scope for delivering these functions more efficiently. This will be a dynamic process to understand more about our diverse civilian workforce, identifying practical opportunities for change and delivering as many as possible before 2020.

We need to be sure that we are always getting maximum value for every taxpayer's penny we spend, and, wherever possible, rebalance our investments towards the front line. Through these activities, aimed at delivering increased efficiency across Defence, we will achieve the reduction in our civilian workforce by 2020 and create a department that is better able to face future challenges.

Defence Diversity and Inclusivity Programme

The Defence workforce is not representative of the demographic within society. In order to address this, the Defence Diversity and Inclusivity Programme (DDIP) was established in 2013 to increase the diversity of the workforce, both civilian and military, and to create a more inclusive working environment in which people are able to reach their full potential.

The department is currently working towards a military recruitment target that 10% of recruits will come from Black, Asian or Minority Ethnic (BAME) backgrounds, as announced by the Prime Minister prior to the 2015 election. Additionally, we have set ourselves a 15% female recruitment target¹⁸. The date for both targets to be realised is 2020. It has been recognised that this is challenging; however, progress to improve diversity has previously been slow and these targets will provide impetus to increase diversity in the Armed Forces.

Future Reserves 2020

The aim of Future Reserves 2020 (FR20) is to restructure and revitalise the Reserve Forces. The trained strength of the FR20 Tri-Service Volunteer Reserve at 1 April 2017 was 31,360 against commitment to achieve 35,060 by 2020. In the 12 months from 1 April 2016 to 31 March 2017 6,630 people joined the Tri-Service FR20 Volunteer Reserve.

New Employment Model

The New Employment Model (NEM), which provides updated Terms and Conditions of Service for Service Personnel, is in its closure phase. The NEM aim is to increase the agility of the Whole Force and maximise recruitment and retention effect, within available resources. It is designed to produce a modernised offer that allows Military personnel and their families more choice, whilst still meeting the Services' needs. Now in the final stages of delivery, having implemented the majority of its components, the programme is expected to close by the end of 2017, with transition continuing to the nominal end-of-life of the programme in 2020.

Other initiatives in place to support our Armed Forces

The Armed Forces Covenant

The Armed Forces Covenant (AFC) is a promise by the nation to ensure that those who serve, those who have served, and their families, are treated fairly and face no disadvantage in accessing public and private services, with special provision made for those who have sacrificed the most, including the bereaved and injured.

The Covenant is enshrined in law and puts our people at the front and centre of policy making and delivery. We have introduced a range of initiatives to improve the lives of Service personnel, Veterans and their families as detailed in the latest AFC Annual Report¹⁹ published in December 2016. These include: launching a Veterans' Trauma Network to provide an additional level of support for trauma-recovering Veterans and transitioning Service personnel; allocating over £22M

¹⁸ <https://www.gov.uk/government/statistics/uk-armed-forces-monthly-service-personnel-statistics-2017>

¹⁹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/588140/30012016_AFC_Report_FINAL_WEB.PDF

to help more than 73,000 school children from Service families through the Service Pupil Premium; extending the Forces Help to Buy scheme to 2018, which as at April 2017 has loaned over £163M to help 10,800 personnel get on or stay on the property ladder since the scheme started in April 2014; and launching the first ever UK Armed Forces Family Strategy. The Government has shown its commitment to the continued delivery of the Covenant by providing a £10M per annum fund in perpetuity.

Delivery of the Covenant is a collective responsibility, which includes central Government, Devolved Administrations, the business world, Service charities and wider society. Every Local Authority in Great Britain has signed the Covenant. Over 1,700 commercial organisations have also signed, pledging specific support for the Armed Forces Community. This year, we will be working with local authorities to implement an action plan, to take forward the findings of the independent "Our Community Our Covenant" report, to encourage improvements and greater consistency in delivering the Covenant locally. We will continue to work with commercial organisations to ensure that their pledges of support are the best they can be for our people. We will also be working with key sectors from the commercial world to ensure that the Armed Forces can enjoy the same access to their goods and Services as the rest of society, and do not face disadvantage in trying to do so.

Priority setting and in-year monitoring of delivery is undertaken by the Cabinet Office-chaired Covenant Reference Group (CRG) on behalf of the Government. The CRG's membership comprises policy leads from each Government Department, representatives from the Scottish and Welsh Governments, the Northern Ireland Office, Service Families' Federations and Service charities. The CRG also assists the Secretary of State for Defence in compiling the annual report to Parliament outlining the progress that has been made. This year we will launch a new Inter Ministerial Group on the Covenant which will oversee delivery of the Covenant at ministerial level. (Subject to Ministerial confirmation following the 2017 General Election).

Improving communications on the Covenant remains a priority. Steps we have taken to enhance and reinforce understanding of the Covenant across society through a variety of channels include: facilitating a series of Parliamentary debates following the publication of the 2016 Covenant annual report; launching a dedicated Covenant campaign website; social media activity; news stories; Covenant signings, conferences and events; circulating the annual report and accompanying summary version more widely; and through a range of stakeholders which include the charitable sector, parliamentarians, the Services Families Federations and a cadre of roughly 200 Covenant champions across the Armed Forces. Delivery of the Covenant is an enduring commitment. We will continue to strive for fair treatment, and we pledge that through the Armed Forces Covenant we continue to do our utmost for our people.

Welfare

Support to our Service personnel and bereaved families remains a key priority. The focus of work has been to update the policy for the Casualty and Compassionate processes following an internal audit. This is a complex area and we are working with colleagues across the department to get this right.

The Defence Discount Service continues to go from strength to strength with over 4,000 supporting businesses and 350,000 members (including both serving personnel and veterans). This contract will be retendered in 2017.

The MoneyForce programme, maintained and delivered in collaboration with The Royal British Legion continues to support the improvement of knowledge regarding personal finances and administration. The enablement of access to Credit Unions via JoiningForcesCU has given additional choice to our people when they consider their financial options.

Work continues on the drawdown of the Navy, Army and Air Force Institutes (NAAFI) in Germany and the provision of its services across the remainder of the globe, where the service is well received.

Much work is also underway in reviewing Leave entitlements, the Deployed Welfare package and in the provision of Wi-Fi to all Service Personnel.

We have undertaken and published an independent Quinquennial review of the Armed Forces Compensation Scheme for injured personnel this year; the department is considering the recommendations with any changes anticipated to come into effect from April 2018.

Health and Wellbeing

The department continues to take its duty of care for Defence people seriously and has introduced a number of initiatives aimed at improving the health and wellbeing of the Whole Force. Initiatives include measures to reduce the number of Defence people who smoke; encouraging a more responsible attitude to alcohol; development of a weight management programme; and raising awareness of mental health conditions that affect the workforce. Key achievements include; stopping instructors from smoking in front of new recruits; introduction of an alcohol screening procedure at annual dental inspections and an accompanying brief intervention and a partnership with DrinkAware to increase awareness of the dangers of alcohol misuse across Defence. Modification of the DrinkAware 'have a little less, feel a lot better' campaign for use in Defence has been very well received. A refresh of the 2011 Mental Health Strategy is underway and seeks to reinforce a through-life approach to mental health, wellbeing and healthcare that is accessible, consistent, appropriate and based on evidence of what works for the Armed Forces community.

Families

The first Armed Forces Families' Strategy was published in January 2016, with its associated Action Plan being agreed in October 2016. It articulates the relationship between the Service Person's family, operational capability and recruitment and retention. The aim remains to ensure that Service personnel are confident that their family can access the right support when required. Support is provided by MOD, the single Services and by partners, such as local authorities or many of the charities with which we work.

The Spousal Employment Support Trial commenced in October 2015 and continues in its support to spouses in finding employment, with the interim report indicating that the trial has been well received. The final Report is due in January 2018. Also, external to Defence, work continues with universities to assist with spousal preparation for employment in the form of CV writing and interview coaching.

Veterans

The provision of welfare support for veterans is a Cross-Government responsibility and by adhering to the principles of the AFC, the MOD continues to work closely with Other Government Departments, Local Authorities, Devolved Administrations and the Charitable Sector to ensure they receive appropriate support.

The Veterans' Gateway was identified as a top priority for delivery in 2017. The Royal British Legion as the lead organisation for a consortium of partners including the Soldiers, Sailors, Airmen and Families Association (SSAFA), Combat Stress, Poppyscotland and Connect Assist were awarded a grant for £2M from the Covenant Grant Fund. The service is due to be launched in the early summer of 2017. The Veterans' Gateway has been established to manage the journey for veterans to get to the help and support they need. With over 2,000 military charities it can be confusing to

know where to start. The Veterans' Gateway will provide a single point of contact to overcome that confusion. The Veteran's Gateway represents a pathway to a full list of services from housing and recovery to mental health services, financial advice and employment support.

There are a few other initiatives which provide funding in support of veterans' issues including;

- The five year, £30M Aged Veterans Fund, which supports non-core health, wellbeing and social care needs for older veterans born before 1950.
- The £10M MOD annual Covenant Grant fund launched in 2015 with priorities set annually by the Covenant Reference Group.

As part of our regular liaison with the Service charities, the MOD chairs the Service Charities Partnership Board which is a standing body comprising senior MOD staff and representatives of the Confederation of Service Charities (Cobseo) Executive Board. It is the focal point for structured liaison and engagement between the MOD and the Service charities, covering both the serving and veteran communities.

We are planning to host a Ministerial Summit on veterans later this year inviting key allies from the USA, Canada, Australia and New Zealand. The intention is to consider future policy for veterans and to share good practice with the other nations that could be adapted for use in the five countries.

Workforce shape, dynamics and diversity (BAME / Gender)

The following tables provide a breakdown of workforce for UK Regular Forces, MOD Civilians and Reserves to show the proportion who are female and Black Asian and Minority Ethnicity.

Percentage of UK Regular Forces Personnel¹ / MOD Civilians² who are Female

	1 Apr 2012	1 Oct 2012	1 Apr 2013	1 Oct 2013	1 Apr 2014	1 Oct 2014	1 Apr 2015	1 Oct 2015	1 Apr 2016	1 Oct 2016	1 Apr 2017
RN/RM	9.2	9.1	9.1	9.0	9.1	9.2	9.3	9.3	9.3	9.3	9.3
Army	8.2	8.3	8.4	8.6	8.7	8.9	9.0	8.9	9.0	9.0	9.1
RAF	13.8	13.9	13.9	13.8	13.8	13.9	13.9	13.9	14.0	14.0	14.0
Civilian	37.4	37.2	37.1	37.3	37.7	37.9	38.1	40.3	40.6	41.1	41.6

1) The figures in these tables are regarding UK Regular Forces which comprises trained and untrained personnel and excludes Gurkhas, Full Time Reserve Service personnel and mobilised reservists.

2) Civilian figures include all core MOD and Industrial personnel, but exclude all Trading Funds personnel, Royal Fleet Auxiliary and Locally engaged civilians. Figures up to April 2015 include DE&S. From July 2015 onwards DE&S is classified separately as a Bespoke Trading Entity and is not included in the figures. The inclusion of DE&S in figures up to April 2015 and its exclusion from the figures after this point explains the increased percentage of Civilian Female representation between April 2015 and October 2015.

Percentage of FR20 Personnel¹ who are Female

	1 Apr 2012	1 Oct 2012	1 Apr 2013	1 Oct 2013	1 Apr 2014	1 Oct 2014	1 Apr 2015	1 Oct 2015	1 Apr 2016	1 Oct 2016	1 Apr 2017
Maritime Reserve	*	16.5	16.8	15.7	15.5	15.7	15.9	15.7	14.9	14.9	15.0
Army Reserve	13.3	13.1	13.2	13.2	13.1	13.1	13.1	12.9	12.9	13.1	13.2
RAF Reserves	*	15.8	15.8	16.3	16.3	16.7	17.9	19.0	19.6	20.1	20.6

1) Future Reserves 2020 includes volunteer reserves who are mobilised, HRR and volunteer reserve personnel serving on ADC or FTRS contracts. Sponsored Reserves who provide a more cost effective solution than volunteer reserve are also included in the Army Reserve FR20. Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI) and University Officer Cadets and Regular Reservists are excluded.

* Centrally held data by Defence Statistics dates back to October 2012 for the Maritime Reserve and Royal Air Force Reserves and April 2012 for the Army Reserve.

Percentage of UK Regular Forces Personnel¹ / MOD Civilians² who are BAME^{3,4}

	1 Apr 2012	1 Oct 2012	1 Apr 2013	1 Oct 2013	1 Apr 2014	1 Oct 2014	1 Apr 2015	1 Oct 2015	1 Apr 2016	1 Oct 2016	1 Apr 2017
RN/RM	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Army	9.9	10.1	10.2	10.3	10.3	10.2	10.2	10.2	10.2	10.2	10.6
RAF	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.2	2.2	2.2
Civilian	3.7	3.7	3.8	3.8	3.9	4.0	4.1	4.1	4.2	4.3	4.4

1) The figures in these tables are regarding UK Regular Forces which comprises trained and untrained personnel and excludes Gurkhas, Full Time Reserve Service personnel and mobilised reservists.

2) Civilian figures include all core MOD and Industrial personnel, but exclude all Trading Funds personnel, Royal Fleet Auxiliary and Locally engaged civilians.

3) Ethnicity is self-declared. Non-declarations have been excluded from figures.

4) BAME – Black, Asian and Minority Ethnic.

Percentage of FR20 Personnel¹ who are BAME^{2,3}

	1 Apr 2012	1 Oct 2012	1 Apr 2013	1 Oct 2013	1 Apr 2014	1 Oct 2014	1 Apr 2015	1 Oct 2015	1 Apr 2016	1 Oct 2016	1 Apr 2017
Maritime Reserve	*	2.9	2.7	2.7	3.1	2.8	2.8	2.9	3.0	2.8	2.9
Army Reserve	4.9	5.0	5.1	5.1	5.2	5.3	5.3	5.4	5.6	5.7	5.8
RAF Reserves	*	3.3	3.3	3.7	3.8	4.1	3.9	3.9	3.9	4.3	4.5

1) Future Reserves 2020 includes volunteer reserves who are mobilised, HRR and volunteer reserve personnel serving on ADC or FTRS contracts. Sponsored Reserves who provide a more cost effective solution than volunteer reserve are also included in the Army Reserve FR20. Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI) and University Officer Cadets and Regular Reservists are excluded

2) Ethnicity is self-declared. Non-declarations have been excluded from figures.

3) BAME – Black, Asian and Minority Ethnic.

* Centrally held data by Defence Statistics dates back to October 2012 for the Maritime Reserve and Royal Air Force Reserves and April 2012 for the Army Reserve.

2020 Intake target for Female personnel in the UK Regulars^{1,2} and FR2020^{3,4} (15% by April 2020)

12 Months Ending:	2016 31 March	2016 30 September	2017 31 March
All Services	11.2	11.4	11.4
RN/RM	11.1	10.8	11.3
Army	10.1	10.5	10.1
RAF	17.3	16.8	17.5

1) UK Regulars Full time Service personnel, including Nursing Services, but excluding Full Time Reserve Service (FTRS) personnel, Gurkhas, mobilised Reservists, Military Provost Guard Service (MPGS), Locally Engaged Personnel (LEP), Non Regular Permanent Staff (NRPS), High Readiness Reserve (HRR) and Expeditionary Forces Institute (EFI) personnel. Unless otherwise stated, includes trained and untrained personnel.

2) Intake to UK Regular Forces Comprises new entrants, re-entrants, direct trained entrants (including Professionally Qualified Officers) and intake from the reserves. It excludes all movements within the Regular Forces; including flows from the untrained to trained strength, transfers between Services and flows from Ranks to Officer due to promotion.

3) Reserve population comprises Future Reserves 2020, including mobilised Future Reserves 2020, High Readiness Reserves (HRR), Future Reserves 2020 serving on Full Time Reserve Service (FTRS) and Additional Duties Commitments (ADC). Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI), Regular Reserves, Sponsored Reserves, Honorary Reserves and University Officer Cadets are excluded.

4) Intake to FR20 Volunteer Reserve Forces Comprises new entrants, Regular to Reserve transfers, Reserve re-joiners, and Reserve personnel joining from another part of the Reserves that are not included in the FR20 target population.

2020 Intake target for BAME personnel in the UK Regulars^{1,2} and FR2020^{3,4} (10% by April 2020)⁴

12 Months Ending:	2016 31 March	2016 30 September	2017 31 March
All Services	5.7	5.8	7.2
RN/RM	3.0	2.9	3.0
Army	6.7	6.9	9.0
RAF	4.0	4.0	4.1

1) UK Regulars Full time Service personnel, including Nursing Services, but excluding Full Time Reserve Service (FTRS) personnel, Gurkhas, mobilised Reservists, Military Provost Guard Service (MPGS), Locally Engaged Personnel (LEP), Non Regular Permanent Staff (NRPS), High Readiness Reserve (HRR) and Expeditionary Forces Institute (EFI) personnel. Unless otherwise stated, includes trained and untrained personnel.

2) Intake to UK Regular Forces Comprises new entrants, re-entrants, direct trained entrants (including Professionally Qualified Officers) and intake from the reserves. It excludes all movements within the Regular Forces; including flows from the untrained to trained strength, transfers between Services and flows from Ranks to Officer due to promotion.

3) Reserve population comprises Future Reserves 2020, including mobilised Future Reserves 2020, High Readiness Reserves (HRR), Future Reserves 2020 serving on Full Time Reserve Service (FTRS) and Additional Duties Commitments (ADC). Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI), Regular Reserves, Sponsored Reserves, Honorary Reserves and University Officer Cadets are excluded.

4) Intake to FR20 Volunteer Reserve Forces Comprises new entrants, Regular to Reserve transfers, Reserve re-joiners, and Reserve personnel joining from another part of the Reserves that are not included in the FR20 target population.

Voluntary Outflow Statistics

The table below show the voluntary outflow for Regular Forces by Officers and Other Ranks between 2012 and 2017.

12 Months Ending:	2012	2012	2013	2013	2014	2014	2015	2015	2016	2016	2017
	31 Mar	30 Sep	31 Mar								
All Services											
VO number	7,750	8,260	8,800	8,650	8,050	7,650	7,610	7,730	7,840	7,540	7,340
VO rate	4.6	5.0	5.4	5.5	5.3	5.2	5.3	5.5	5.6	5.5	5.4
Officers											
VO number	1,000	1,070	1,080	1,120	1,180	1,100	1,100	1,230	1,200	1,080	1,050
VO rate	3.5	3.8	3.9	4.2	4.5	4.3	4.4	5.0	4.9	4.4	4.3
Other Ranks											
VO number	6,750	7,190	7,720	7,540	6,880	6,550	6,510	6,500	6,640	6,460	6,290
VO rate	4.8	5.2	5.7	5.8	5.4	5.3	5.5	5.6	5.8	5.7	5.6
Royal Navy/Royal Marines											
VO number	1,450	1,600	1,850	1,760	1,690	1,720	1,740	1,660	1,480	1,350	1,300
VO rate	4.2	4.8	5.7	5.6	5.5	5.7	5.8	5.6	5.0	4.6	4.4
Officers											
VO number	200	240	240	240	260	250	250	270	240	220	200
VO rate	3.1	3.7	3.7	3.9	4.3	4.1	4.2	4.6	4.1	3.7	3.5
Other Ranks											
VO number	1,250	1,370	1,610	1,520	1,420	1,470	1,490	1,390	1,240	1,130	1,090
VO rate	4.4	5.1	6.2	6.1	5.8	6.1	6.2	5.8	5.2	4.8	4.7
Army											
VO number	4,980	5,280	5,530	5,300	4,710	4,320	4,200	4,380	4,770	4,730	4,620
VO rate	5.2	5.6	5.9	5.8	5.4	5.1	5.1	5.5	6.1	6.1	6.0
Officers											
VO number	560	620	640	630	650	610	590	670	690	640	590
VO rate	4.1	4.6	4.8	4.9	5.1	4.9	4.8	5.5	5.8	5.4	5.0
Other Ranks											
VO number	4,420	4,660	4,890	4,660	4,060	3,710	3,610	3,720	4,070	4,090	4,030
VO rate	5.4	5.7	6.1	6.0	5.4	5.1	5.2	5.5	6.2	6.3	6.2
Royal Air Force											
VO number	1,320	1,370	1,430	1,600	1,650	1,620	1,670	1,700	1,600	1,460	1,430
VO rate	3.4	3.6	3.9	4.5	4.8	4.9	5.2	5.3	5.1	4.7	4.6
Officers											
VO number	230	220	210	240	260	250	260	300	270	230	260
VO rate	2.8	2.7	2.6	3.2	3.6	3.4	3.7	4.3	4.0	3.4	3.9
Other Ranks											
VO number	1,090	1,160	1,220	1,350	1,390	1,370	1,410	1,400	1,330	1,230	1,170
VO rate	3.5	3.9	4.2	4.9	5.2	5.2	5.5	5.6	5.4	5.1	4.8

Figures show Voluntary Outflow (VO) from the trained UK Regular Forces.
 Voluntary Outflow (VO) encompasses all personnel who voluntarily exit before the end of their agreed engagement or contracted period (Time Expiry).
 Rates are the number of people who leave, per 100 of the mean average trained strength, trained Officer strength OR trained Other Ranks strength as relevant.

Armed Forces Continuous Attitude Survey (AFCAS)

The Armed Forces Continuous Attitude Surveys (AFCAS) is a key source of information on the attitudes, opinions and experiences of Armed Forces Regular Service personnel and their perceptions of working in the Armed Forces. AFCAS 2017 was distributed to a sample of 27,967 Service personnel. Overall, 12,469 responses were received, representing a response rate of 45%.

The key findings from the 2017 survey showed that 42% of Service personnel are satisfied with Service life in general, but with overall levels of self, Unit and Service morale showing a decline from 2016 levels. Satisfaction with the basic rate of pay and pension benefits continue to decline. Satisfaction with the overall standard of Service accommodation continues to fall, driven by decreased satisfaction with Single Living Accommodation.

Statistics from AFCAS are used by both internal MOD teams and external bodies to inform the development of policy and measure the impact of decisions affecting personnel, including major programmes such as the Armed Forces Covenant and New Employment Model.

MOD People Survey

MOD Staff Survey Results Department only; People Survey Metrics		2016	2015	Percentage Change
Engagement Index (%)		58%	58%	-
Theme Scores (%)	Leadership and Managing Change	30%	30%	-
	My Work	74%	74%	-
	Pay and Benefits	30%	31%	-1%
	My Manager	63%	63%	-
	Learning and Development	50%	51%	-1%
	Resource and Workload	69%	69%	-
	Organisational Objectives and Purpose	78%	78%	-
	My team	77%	77%	-
	Inclusion and Fair Treatment	73%	73%	-

Despite extensive work in 2016 on the People Survey the results remained largely unchanged from the previous year. The Engagement Index (comprised of the 5 key questions that make up the score/engagement index) has now fallen 1 percentage point below the Civil Service average and is 5 percentage points below the Civil Service high performers. We have dropped to second place in the big five Government Departments, behind DWP.

MOD recognises that there is room for improvement and have taken a three pronged approach responding to the feedback. Primarily, at the corporate level, we are focusing on two key areas of concern, Leading and Managing Change and Bullying and Harassment. We will continue to build on developed initiatives going forward and equally introduce new pieces of work in direct response to the feedback given in the survey. These will include:

- Developing a leadership framework / leadership offer
- Launching Change Leadership training
- Senior Leadership conferences to be developed in line with the Civil Service Vision
- A Bullying and Harassment Toolkit which was launched in June 2017

- Producing an online corporate induction pack

Secondly, we are continuing to raise the profile and importance of engagement through locally agreed action plans.

Finally, we are working with the Executive Committee to see where they would wish to show leadership on this agenda, recommending they focus on three themes: Resources and Workload, Ways of Working, and Leadership.

Legal challenges against military personnel

To ensure our Armed Forces overseas are not subject to persistent human rights claims that undermine their ability to do their job, the MOD has been working closely with the Ministry of Justice on developing a wide ranging set of measures. The first of these was announced on 4 October 2016 by the Prime Minister and the Secretary of State for Defence, who set out the Government's intention to derogate from the relevant Articles of the European Convention on Human Rights in future conflicts, where this is appropriate to do so for the military operation in question. In the event of such a derogation, UK Armed Forces will continue to operate to the highest standards and be subject to the rule of law.

On 1 December 2016, the Secretary of State for Defence launched a public consultation ('Better Combat Compensation') on the Government's plans to provide enhanced compensation for service personnel injured, or the families of those killed, as a result of enemy action in combat, whilst also legislating to bar all future civil claims against the Government in such circumstances. We will announce details of further measures in due course.

Following the Solicitors Disciplinary Tribunal decision to strike off Mr Phil Shiner following revelations that he had made unauthorised payments to Iraqi claimants, the Iraq Historic Allegations Team (IHAT) has concluded that the majority of cases under investigation are unprosecutable. The majority of cases are now in the process of being terminated, and the Secretary of State for Defence has announced his decision to close the IHAT by summer 2017, with any remaining investigations to be completed by the Service Police.

Sustainable MOD

Whilst the Ministry of Defence does not lead on the UK's commitments to the UN Global Sustainable Development Goals (SDGs), the Department contributes in numerous ways to these goals through Defence outputs and the management of the Department. This report highlights some of the activities that contribute, from fisheries protection helping to ensure sustainable use of marine resources (Goal 14); Defence engagement and training internationally in approaches to the planning of defence activity with relation to accountability, transparency & corruption, gender & conflict, human rights and humanitarian law (Goals 10 and 16); work to make the defence estate and the strategic base resilient to climate and reduce carbon emissions from our infrastructure (Goal 13); to the Department's contribution to land release for housing to support sustainable cities and communities in the UK (Goal 11). The below table indicates where MOD activities make a contribution to the SDGs.

As one of the largest departments, the MOD also makes a significant contribution towards the Greening Government Commitments and targets, and further detail on our performance against these, and other sustainability activity can be found in the Sustainable MOD Annual Report 2016-17²⁰, and the MOD Sanctuary Magazine²¹.

²⁰ <https://www.gov.uk/government/publications/sustainable-mod-annual-report-2016-to-2017>

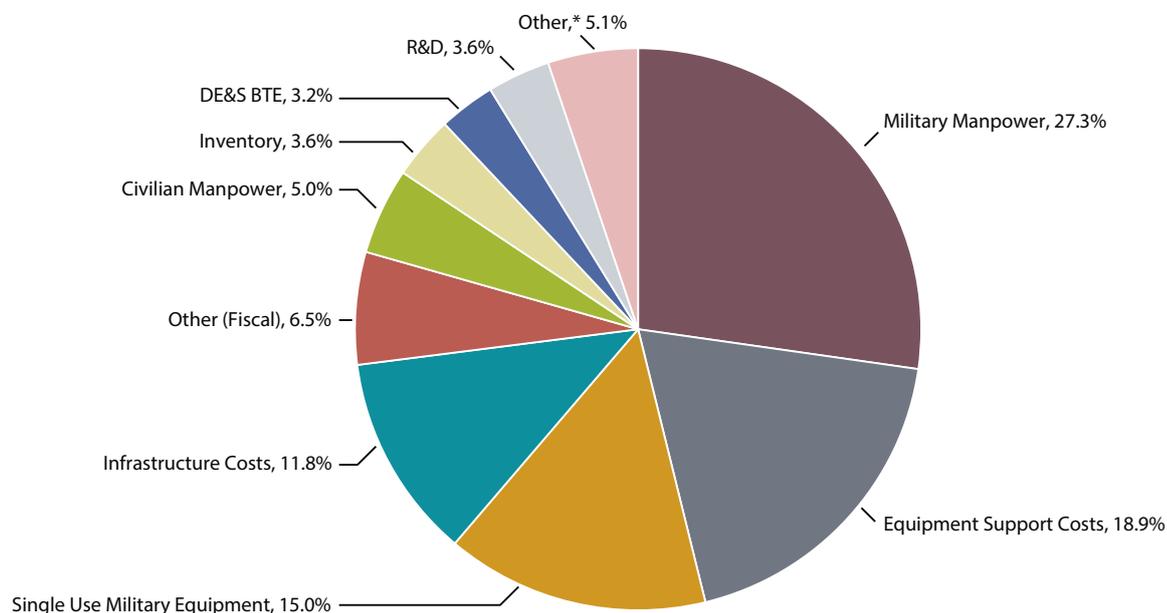
²¹ <https://www.gov.uk/government/publications/sanctuary>

Global Sustainable Development Goals	Contribution by MOD Strategic Objective?			
	Protect Our People	Project Our Global Influence	Promote Our Prosperity	Promote Our Prosperity
Goal 1: No Poverty – Ending poverty in all its forms everywhere	✓			
Goal 2: Zero Hunger – End hunger, achieve food security and improved nutrition and promote sustainable agriculture.		✓		
Goal 3: Good Health – Ensure healthy lives and promote well-being for all at all ages	✓			✓
Goal 4: Quality Education – Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	✓			
Goal 5: Gender Equality – Achieve gender equality and empower all women and girls	✓	✓		
Goal 6: Clean Water and Sanitation – Ensure availability and sustainable management of water and sanitation for all				✓
Goal 7: Affordable and Clean Energy – Ensure access to affordable, reliable and modern energy services				✓
Goal 8: Decent Work & Economic Growth – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	✓	✓	✓	✓
Goal 9: Industry, Innovation and Infrastructure – Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation			✓	✓
Goal 10: Reduced Inequalities – Reduce inequality within and among countries		✓		✓
Goal 11: Sustainable Cities and Communities – Make cities and human settlements inclusive, safe, resilient and sustainable			✓	✓
Goal 12: Responsible Consumption and Production – Ensure sustainable consumption and production patterns				✓
Goal 13: Climate Action – Take urgent action to combat climate change and its impacts				✓
Goal 14: Life Below Water – Conserve and sustainably use the oceans, seas and marine resources for sustainable development	✓			✓
Goal 15: Life on Land – Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt reverse land degradation and halt biodiversity loss				✓
Goal 16: Peace and Justice – Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	✓	✓		
Goal 17: Partnerships for the Goals – Strengthen the means of implementation and revitalize the global partnership for sustainable development	✓	✓		

Financial Review

Management Commentary

Defence Expenditure by Commodity Block in 2016-17



*Other includes travel & subsistence, professional services & fees, training, receipts from various sources, costs recoveries, dividends, interest, release of provisions, Conflict Stability and Security Fund, War Pension Benefits and spend on Arm's Length Bodies.

The Department's spending plans for 2016-17 were based on the first year (of five) of the Spending Review 2015 (Cm 9162) published in November 2015. The MOD Main Estimate in June 2016 set out the plans for 2016-17 and the Supplementary Estimate (SE) in February 2017 updated these plans along with various transfers.

The Statement of Parliamentary Supply, as detailed in the Accountability Report, compares the final outturn of the Department against the SE.

Expenditure against voted Total Departmental Expenditure Limit was £44.1Bn, including £0.6Bn for Operations and Peacekeeping and £8.8Bn non-cash expenditure for depreciation and impairment. The remaining £34.7Bn is within -0.5% of SE and reflects mainstream MOD business. This is a successful outcome in challenging circumstances, reflecting strong financial discipline across the Department.

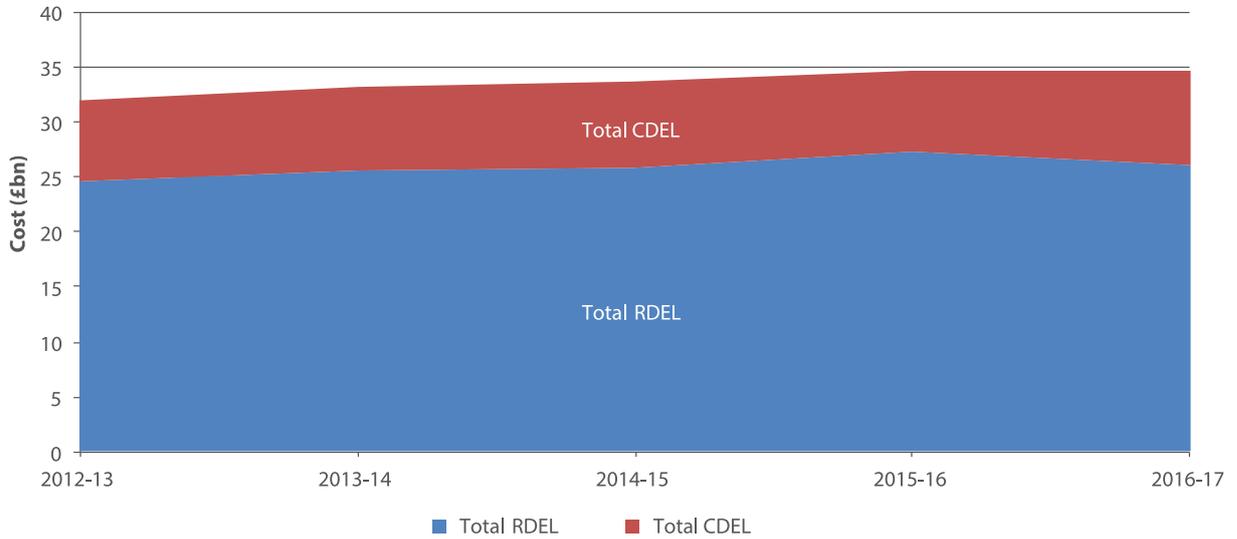
The Department is voted resources to cover the net additional costs of Operations and Peacekeeping Programme expenditure. To ensure that there are sufficient funds for costs of all operations, provision must be made for all potential expenditure and therefore underspends are not uncommon. The £0.1Bn underspend reflects continued receipts related to settling final costs on contracts related to operations in Afghanistan before December 2014 which are returned to the Special Reserve, and reduced support costs for aircraft involved in operations over Iraq and Syria.

The £0.1Bn non-cash resource expenditure variance was largely due to the Department not making as many impairments as was originally foreseen. This variance does not impact on Defence spending power as it is a non-cash accounting adjustment.

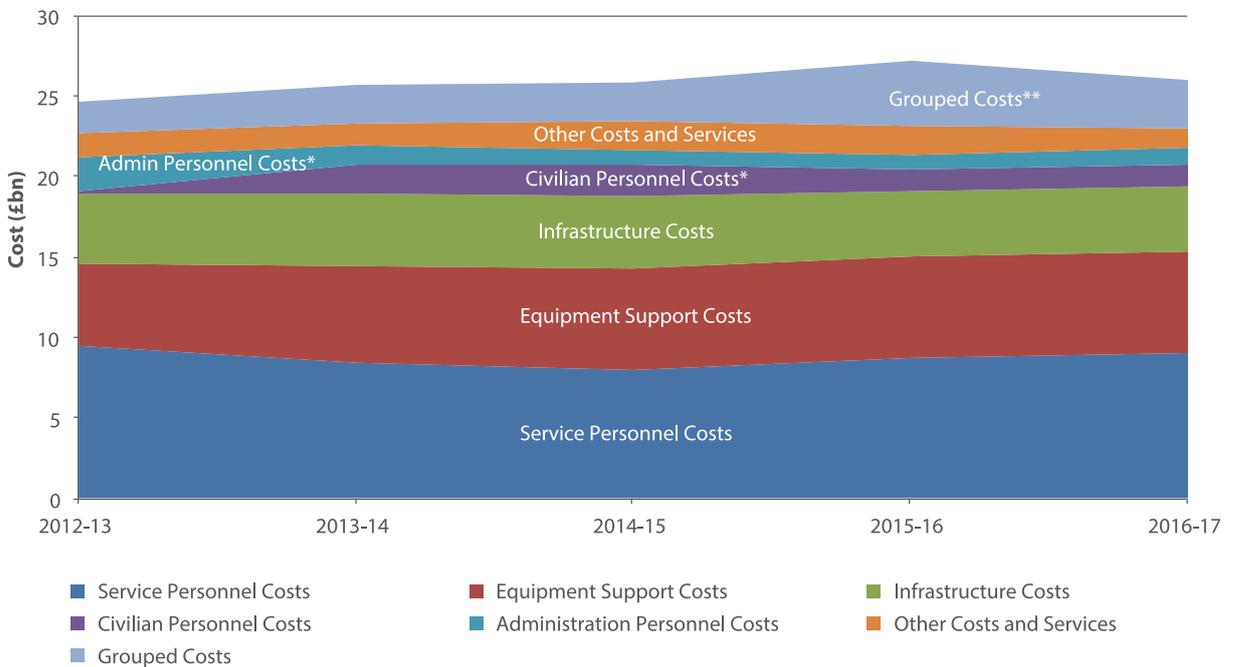
Annually Managed Expenditure is demand led and volatile so cannot be absorbed within normal Departmental Expenditure Limit controls. For 2016-17 we had a SE of £1.7Bn and the final outturn consisted of negative non-cash movements totalling £0.2Bn. The variance of £1.9Bn of SE includes a number of impairment reversals made during the year, the effect of revaluation of fuel derivatives

and the favourable impact from the movement in the foreign exchange rates due to Sterling Forward Purchase. The variance does not impact on Defence spending power as it is a non-cash accounting adjustment.

DEL Expenditure (excluding Non Cash RDEL) 2012-13 to 2016-17



Analysis of Cash Resource DEL by type of expenditure 2012-13 to 2016-17



* A new Administrative Cost Regime for 2014-15 onwards was agreed with HM Treasury. 2013-14 figures have been restated. Admin Personnel Costs are for Civilian and Service Personnel.

**Grouped Costs include Income, Admin Other Costs, R&D, Inventory Consumption.

Stephen Lovegrove
Accounting Officer

11 July 2017



The Accountability Report



Corporate Governance Report

The Corporate Governance Report explains the composition and organisation of the MOD and our governance structures and how they support the achievement of the Department's objectives. It includes the Directors Report, the Statement of Accounting Officer's Responsibilities and the Governance Statement.

The Directors' Report

Management

Details of individuals who served as Ministers or members of the Defence Board, including Mr Stephen Lovegrove – the Permanent Secretary and Head of the Department - are set out in the Remuneration and Staff Report.

Directorships and Significant Interests.

Details of directorships and other significant interests held by Ministers are set out in the Register of Lords' Interests and the Register of Members' Financial Interests which are available on the UK Parliament website at: <https://www.parliament.uk/mps-lords-and-offices/standards-and-financial-interests>. In accordance with Cabinet Office guidance, MOD maintains registers of interest which record details of directorships and other significant interests held by senior managers in the Department.

Details of Related Party Transactions, including those arising as a result of the interests of Ministers or Defence Board members, are listed at Note 21 – 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 to individuals who hold appointments in outside organisations where a conflict of interest might arise, or might be perceived.

Personal Data Related Incidents

The following tables set out details of the Department's personal data related incidents during 2016-17. 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.

No protected personal data related incidents were reported to the Information Commissioners Office (ICO) in 2016-17.

Summary of Other Protected Personal Data Related Incidents 2016-17

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.	4
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	-
III	Insecure disposal of inadequately protected paper documents.	-
IV	Unauthorised disclosure.	59
V	Other.	5

The Statement of Accounting Officer's responsibilities

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 Bodies designated by order made under the GRAA by Statutory Instrument 2016 No. 1243 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed at Note 22 to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and the Departmental Group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows 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 Non-Departmental and other Arm's Length 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.

Stephen Lovegrove was appointed as the Permanent Secretary and the Department's Accounting Officer on 26 April 2016 (Louise Tulett discharged the role from 5 April 2016 and Jonathan Thompson was the Accounting Officer prior to that).

As Accounting Officer for the Department the Permanent Secretary has appointed the Chief Executives of the Department's Agencies and sponsored Non-Departmental and other Arm's Length Bodies as Accounting Officers. The details of the accountability relationships and processes within the MOD are set out in the MOD Accounting Officer System Statement.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Department or Non-Departmental and other Arm's Length Bodies for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

Statements as to Disclosure of Information and objectivity of the Annual Report and Accounts

The financial statements of the Department (including Defence Equipment & Support (Bespoke Trading Entity) and the Defence Electronics and Components Agency), five of its ALBs (the National Army Museum, the National Museum of the Royal Navy, the RAF Museum, the Single Source Regulations Office and the Royal Hospital Chelsea) and the Armed Forces Pensions Scheme are audited by the Comptroller and Auditor General. The audit fees for this work are included in the accounts. The Department did not contract with its external auditor for any non-audit services.

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.

I take personal responsibility for the annual report and accounts and the judgements required for determining that as a whole it is fair, balanced and understandable; which I can confirm.

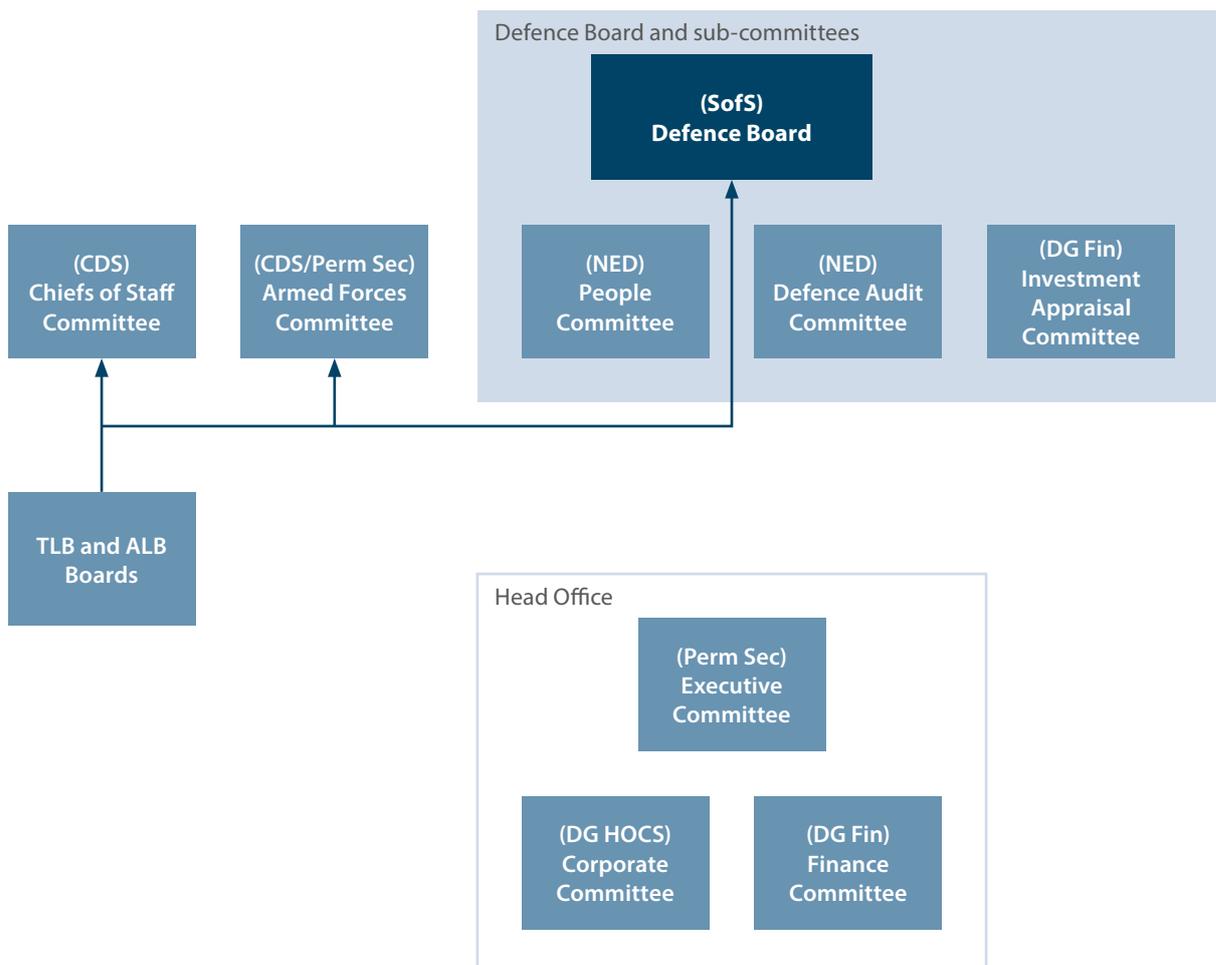
The Governance Statement

Introduction

This Governance Statement evaluates the effectiveness of governance, risk management and internal control arrangements for the Ministry of Defence for the financial year 2016-17 and up to the date of signing of the Annual Report and Accounts. It represents my assurance to Parliament that, as Accounting Officer, I am satisfied that the Department's aggregated system of internal control is effective.

Governance Structure

The governance structure of the MOD is summarised in the diagram below. The Defence Board is the senior committee in Defence and is the main decision-making forum for non-operational matters, supported by three sub-committees: the People Committee, the Defence Audit Committee and the Investment Approvals Committee. The Armed Forces Committee is jointly chaired by myself and the Chief of The Defence Staff (CDS) and its membership is made up of all Top Level Budget (TLB) holders. It is the forum at which relevant issues are discussed to allow the joint-Chairs to represent TLB holder views at the Defence Board. In addition, in 2016-17 the Executive Committee was established to take decisions on the day to day running of Defence. I am in the process of refining further governance arrangements, aimed at improving corporate management and decision-making.



TLB and ALB Boards report to the Chiefs of Staff Committee and the Armed Forces Committee who report performance against Defence tasks to the Defence Board.

Highlights of Board /Committee Activities

The Defence Board

Chaired by the Secretary of State, the Defence Board provides top-level leadership and direction in managing the Department, focusing on strategy and plans for generating military forces, including financial planning, performance against those plans, and risk. Attendance at Board meetings held during 2016-17 was as follows:

Name of Board Member	Post Title	Number of Meetings Eligible to Attend	Number of Meetings Attended
The Rt Hon Sir Michael Fallon MP (Chair)	Secretary of State for Defence	12	12
The Rt Hon The Earl Howe PC	Minister of State in The House of Lords	7	7
Philip Dunne MP	Minister of State for Defence Procurement	4	4
Stephen Lovegrove CB	Permanent Under-Secretary of State	11	9
Jonathan Thompson	Permanent Under-Secretary of State	1	1
Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL	Chief of The Defence Staff and previously as Vice Chief of The Defence Staff	12	10
General Sir Nicholas Houghton GCB CBE ADC Gen	Chief of The Defence Staff	4	4
General Sir Gordon Messenger KCB DSO OBE ADC	Vice Chief of The Defence Staff	10	9
Louise Tulett CBE	Director General Finance	12	12
Sir Gerry Grimstone	Non-Executive Board Member	12	12
Graham Williams	Non-Executive Board Member	12	12
Paul Skinner CBE	Non-Executive Board Member	12	12
Danuta Gray	Non-Executive Board Member	12	12

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

The Defence Board has had another busy year, meeting 12 times during the reporting period. The role of the Board continues to be to ensure that the Department operates within its financial envelope whilst delivering the military capability required by the Armed Forces to meet the demands placed on us by the National Security Council in safeguarding the UK and all its dependent territories.

The agenda has been full, with a focus on the business and structural decisions needed to deliver Defence outputs. Issues have included the optimisation of the Defence Estate and how to manage better our infrastructure, the further development of the delegated model, transformation, the Chilcot report, Defence Industrial Policy, and the Efficiency Programme, a very high priority for the Department. The Board has also spent a considerable amount of time on financial planning – both in-year management to ensure the Department stays within its control total, and also longer term financial planning for future years to ensure the right balance of capability and risk.

The Board has continued to own the top-level Departmental risks, with six monthly reviews of the process and a deep-dive at each meeting in to each of the most significant risks. Our work in this area has become increasingly sophisticated. Topics we have focused on this year have included operational capability, cyber and information technology, infrastructure, Brexit, the recruitment and retention of personnel, critical skills, safety, industrial support to outputs, the Nuclear Enterprise, and efficiencies.

We have also met with representatives at the most senior level from key Defence suppliers and with the Comptroller and Auditor General, Sir Amyas Morse.

The Board has continued its programme of visits to different Defence locations, to enable it to meet and engage with the widest possible range of people working in Defence, and to hold to account the different delivery arms of the MOD. We have reviewed cyber at Corsham, Defence Equipment & Support (DE&S) in Bristol, infrastructure at Tidworth, the RAF at Waddington, the Royal Navy at Portsmouth (where the preparations for the arrival of the Queen Elizabeth class Aircraft Carriers were very much in evidence), and the Army in Edinburgh.

A priority this year has been to strengthen and expand the cadre of Non-Executives that operate throughout Defence. All our Boards and relevant Committees now have high-quality independent membership and we expect this to improve further the quality of decision-making and challenge in all the various aspects of the Department's work.

I continue to monitor the performance of the Board, to ensure it remains highly effective. We have implemented the improvements we identified last year, and we continue to seek to improve our performance including seeking external advice.

The Defence Board continues to be, in my opinion, one of the most effective Departmental Boards in Whitehall, and operates to an equivalent standard to some of the best Boards in the private sector. This is due in large part to the commitment and chairmanship of the Secretary of State, who continues to value highly the advice he receives from the Board, to the contributions made by all Board members, and to the information and reporting we receive from the Ministry of Defence.

Sir Gerry Grimstone

The Defence Audit Committee

The Defence Audit Committee (DAC) is chaired by Graham Williams, Non-Executive Defence Board Member, with two Non-Executive members: Mary Hardy and Paul Smith. Mary Hardy is also Chair of the Royal Navy Audit Committee and Paul Smith chairs the Audit Committees at DIO and DE&S. The DAC is currently one NED short, although work is on-going to fill this position within the near future in line with DAC Terms Of Reference. The DAC reviews and challenges the adequacy of the Department's internal controls and processes and how risk is managed across Defence, with the objective of providing me, as the Accounting Officer, with assurance that the systems and processes are working as they should. The DAC met 6 times during this reporting period. The National Audit Office (NAO), Defence Internal Audit (DIA), Director Audit Risk and Assurance and Director General Finance as the Executives' representatives attended each meeting, and I am briefed as Accounting Officer on key issues.

The Defence Board receives a summary report following each of the DAC's meetings and the Chair had unfettered direct access to me as, the Accounting Officer. During the year, the DAC's programme of business primarily focused on the Department's internal control and assurance framework and fully supported the Department's assurance process of the TLB holders and Defence Authorities by providing further scrutiny of their annual assurance reports, and raising any issues to the attention of the Defence Board.

The DAC has commissioned assurance maps against each of the top Departmental risks; this work is on-going but has already enabled the Department to make changes to the way it gains assurance at a process level. The DAC has considered assurance maps for the following Board risks: safety, management information, efficiencies, and infrastructure.

The DAC reviewed the DIA outputs and conclusions and also considered the DIA 2017-18 audit programme, giving top-down direction on where the focus should be.

During the year, the DAC monitored the progress of issues raised in NAO Management letters and other key audit outputs, and has reviewed annual reports on fraud and whistleblowing.

The DAC Chair has also convened meetings of the Chairs of the TLB Audit Committees in order to address cross-cutting issues and provide guidance on how Audit Committees can add the most value and drive improvements across Defence.

The DAC reviewed the Departmental Annual Report and Accounts and Governance Statement and progress of key audit issues. It was satisfied that the Governance Statement reflected the aggregated assessment of assurance from the TLB Holders and Defence Authorities.

Name of Board Member	Post Title	Number of Meetings Eligible to Attend	Number of Meetings Attended
Graham Williams (Chair)	Non-Executive Member	6	6
Mary Hardy	Non-Executive Member	6	5
Paul Smith	Non-Executive Member	6	6

People Committee

The People Committee is chaired by Danuta Gray, a Non-Executive Defence Board Member and provides Departmental direction, guidance and oversight on all strategic Defence people and training matters, oversees the delivery of the People Change Portfolio and holds the Chief of Defence People to account for delivery and for his role as the Defence Authority for People. It also assures the Defence Board that people issues are being appropriately managed.

The People Committee met 10 times this year (see the table below). A summary report is provided by the Chair to the Defence Board after each meeting. The Committee has discussed and taken decisions on the main components of the Armed Forces People Programme, including the Future Accommodation Model, the Flexible Engagements System, the New Joiner Offer, and the Enterprise Approach, and the Future Defence Civilian Programme. It has also held in-depth examinations of the Department's performance on recruitment and retention and diversity and inclusion, on the Department's critical skills requirements and on Defence Medical Services, including mental health.

Name of Board Member	Post Title	Number of Meetings Eligible to Attend	Number of Meetings Attended
Danuta Gray (Chair)	Non-Executive Board Member	10	10
Penny Mourdaunt	Minister for The Armed Forces	2	2
Stephen Lovegrove CB	Permanent Under-Secretary of State	10	6
Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL	Chief of The Defence Staff and previously as Vice Chief of The Defence Staff	10	2
General Sir Nicholas Houghton GCB CBE ADC Gen	Chief of The Defence Staff	1	1
General Sir Gordon Messenger KCB DSO OBE ADC	Vice Chief of The Defence Staff	9	7
Louise Tulett CBE	Director General Finance	10	6
Lieutenant General Richard Nugee CVO CBE	Chief of Defence People	10	10
Lieutenant General Mark Poffley OBE	Deputy Chief of the Defence Staff (Military Capability)	10	8
Julie Taylor	Director General Head Office & Commissioning Services	10	10
Laura Whyte	Non-Executive Member	10	9

The Investment Approvals Committee

I have delegated to the Director General Finance responsibility to approve departmental investment decisions, for which she is supported by the Investment Approval Committee (IAC) which she chairs.

The IAC is responsible for considering major investment proposals on behalf of the Defence Board, forwarding advice to Ministers as necessary on high-value, complex, innovative, risky, novel or contentious investments.

The IAC decides other cases itself or delegates those decisions to a level consistent with the value or nature of the proposal. Approvals for investment decisions below £400 million²² (except infrastructure approvals where the threshold is £75 million²³; and Information Communication and Technology (ICT) where the threshold is £100 million) are delegated to the Directors of Resource in each TLB (each of whom reports to the Director General Finance as well as to their TLB holder). Further sub-delegation of TLB approvals are referred to the Director General Finance for endorsement. TLBs are allowed, without referral, to sub-delegate expenditure below £10 million to Defence Equipment and Support (DE&S) and Information Systems and Services (ISS). The Defence Infrastructure Organisation (DIO) has a delegated limit of £1 million.

²² The approvals delegation to Navy Command was reduced from £400 million to £250 million from 3 November 2015, with Category B cases between £250 million-£400 million subsequently approved within MOD Head Office.

²³ Reduced from £100 million to £75 million on 16 June 2016.

The Committee met eleven times in 2016-17 (it did not meet in August 2016), see table below for more detail:

Name of Board Member	Post Title	Number of Meetings Eligible to Attend	Number of Meetings Attended
Louise Tulett CBE (Chair)	Director General Finance	11	11
General Sir Gordon Messenger KCB DSO OBE ADC	Vice Chief of The Defence Staff	9	9
Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL	Vice Chief of The Defence Staff	2	2
Lieutenant General Mark Poffley OBE	Deputy Chief of the Defence Staff (Military Capability)	11	10
Professor Vernon Gibson	Chief Scientific Adviser	2	2
Dr Simon Cholerton	Director Defence Science and Technology (representing vacant Chief Scientific Adviser post)	8	8
Lois Nicholson	Head Scrutiny (representing vacant Chief Scientific Adviser post)	1	1
Steven Morgan	Director Commercial	9	9
Jennifer Giblett Representing Director Commercial when not available	Head Commercial Assurance, Scrutiny and Due Diligence	2	2
Frances Nash	Director Central Legal Services	2	2
Robert Miller	Deputy Director Central Legal Services	9	9

In addition, extraordinary meetings were held on 28 June 2016 to discuss Dreadnought Submarines and on 21 July 2016 to discuss Protect Advance²⁴.

The Director General Finance provided to the Defence Board a monthly oral update on the IAC's activities and a summary of IAC considerations in the monthly Management Information pack.

The IAC considered a broad range of projects, including: Defence Fire and Rescue; Dreadnought and Astute-class submarines; Multi-Mission Aircraft; Armed Forces People Programme; UK Military Flying Training System; Military Afloat Reach and Sustainability Fleet Solid Support; Commercially Supported Shipping Future In-Service Support; Attack Helicopter and Chinook Capability Sustainment; Protector; Beyond Line of Sight Communications; Cryptographic Enabling Services; HESTIA (support and soft facilities management for the military); Brimstone, Ceptor and Advanced Short Range Air To Air missiles; New Style of Information Technology; Submarine Training Facility; Falkland Islands Ground-Based Air Defence; Offshore Patrol Vessels; and Future Combat Air System.

During 2016-17, the IAC concluded its consideration of 129 investment approval cases for projects categorised as the most significant²⁵, including 29 Main Gate or Initial Gate Business Cases. This represents an approximate 40% increase in cases when compared to the previous financial year. The remaining 100 cases considered by the IAC related to Review Notes and Information Notes submitted by project teams.

²⁴ Project Advance aims to significantly improve delivery performance of submarine design and build.

²⁵ Including Equipment Procurement and Equipment Support cases over £400M; ICT cases over £250M; Infrastructure cases over £75M (e.g. HESTIA); and Policy cases where the IAC supports the Defence Board (e.g. Armed Forces People Programme); and novel or contentious cases.

TLB Approving Authority delegated approvals are up to £400 million for Category B; Category C is £20 million to £100 million, and Category D is below £20 million. An exception is infrastructure approvals where there is no Category B, with delegated approvals limited to £75 million, and where Category C covers approvals from £10 million to £75 million. TLB approval activity for 2016-17 is as follows:

TLB	Approval Category		
	B	C	D*
Navy Command	4	24	18
Army HQ	5	18	8
Air Command	5	20	13 [^]
JFC	4	16	19
DIO	-	36 [~]	26
HO&CS	0	0	0

* Category D expenditure > £10M and < £20M. Infrastructure cases >£10M and <£20M in DIO fall within Category C, but are included as Category D in this table for comparison purposes.

[^] Includes one project for which both Initial Gate and Main Gate cases were approved during 2016-17.

[~] Includes one case between £75M-£100M approved before the reduction of delegation from 16 June 2016.

The Executive Committee (ExCo)

The Executive Committee (ExCo), which I co-chair with the Chief of the Defence Staff, was established to consider the major managerial and strategic policy issues impacting Defence at a more delivery-focused level than the Defence Board.

ExCo provides top-level leadership across Defence, as a Department of State by:

- owning the operating model of Defence and managing its risks;
- agreeing plans for delivery of defence objectives;
- ensuring coherence; and
- leading transformation.

The Committee drives the annual Defence Plan and is the portfolio board for change. The Committee is increasingly taking interest in governance, audit, risks and issues and is kept abreast of these areas through regular routine updates on sub-committee activity and by taking papers on these (and other) issues put forward by members and the secretariat.

Attendance at the 14 meetings held during the year was as follows:

Name of Board Member	Post Title	Number of Meetings Eligible to Attend	Number of Meetings Attended
Stephen Lovegrove CB (Chair)	Permanent Under-Secretary of State	14	14
Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL	Chief of The Defence Staff	14	6
General Sir Gordon Messenger KCB DSO OBE ADC	Vice Chief of The Defence Staff	14	10
Louise Tulett CBE	Director General Finance	14	13
Lieutenant General Richard Nugee CVO CBE	Chief of Defence People	14	11
Lieutenant General Mark Poffley OBE	Deputy Chief of the Defence Staff (Military Capability)	14	12
Julie Taylor	Director General Head Office & Commissioning Services	14	12
Dr Simon Cholerton	Director Defence Science and Technology (representing vacant Chief Scientific Adviser post)	14	13
Lieutenant General Mark Carleton-Smith	Deputy Chief of the Defence Staff (Military Strategy and Operations)	14	11
Ian Forber	Director General Nuclear	14	10
Peter Watkins CBE	Director General Security Policy	14	9

Defence Nuclear Executive Board

The Defence Nuclear Executive Board (DNEB) meets quarterly and is co-chaired by myself and the Vice Chief of the Defence Staff. The board oversees the management of the Defence Nuclear Enterprise including the strategic level risks. While significant progress has been made in improving the effectiveness of this board and the management of the Defence Nuclear Enterprise, the appointment of the Director General Nuclear and the stand up of the Submarine Delivery Agency (SDA) provide us with the opportunity to strengthen these arrangements even further.

Arms Length Bodies

The **Defence Equipment and Support (DE&S) organisation** is an executive agency, and falls inside the Departmental accounting boundary and is overseen by an Owner's Council, which is chaired by the Minister of State for Defence Procurement. The DE&S Board is chaired by a Non-Executive Director, alongside four Non-Executive colleagues, the Chief Executive of DE&S²⁶, the Director General Head Office & Commissioning Services, the Director General Resources DE&S and Deputy Chief Defence Staff (Military Capability). There is an Audit, Risk and Assurance Committee chaired by one of the Non-Executive Board members. The Chief Executive of DE&S receives from me a Letter of Delegation; and as an Accounting Officer, a Letter of Authority. DE&S produces an Annual Report and Accounts. DE&S produce an Annual Assurance Report which forms the basis of his assurance to me, and on which I draw to represent relevant issues in this statement.

²⁶ The Chief of Defence Materiel functional responsibilities were amalgamated with those of the Chief Executive Officer in December 2015.

The **Defence Electronics and Components Agency (DECA)** is an executive agency, and falls within the Departmental accounting boundary and is overseen by a Ministerial Steering Group, which is chaired by the Minister of State for Defence Procurement. The Board is chaired by a Non-Executive Director, alongside four Non-Executive colleagues and a Departmental Representative. The Board has established two sub-committees including an Audit, Risk and Assurance Committee which is chaired by a Non-Executive Director. DECA is led by a Chief Executive who receives from me a letter of delegation and a letter of authority as an Accounting Officer. It produces its own Annual Report and Accounts, including a Governance Statement, which forms the basis of his assurance to me, and on which I draw to represent relevant issues in this statement.

Four Executive Non-Departmental Public Bodies²⁷ – the **National Museum of the Royal Navy**, the **National Army Museum**, the **Royal Air Force Museum**, and the **Single Source Regulations Office** – are sponsored by the Department and fall within the Departmental accounting boundary. They each have an Accounting Officer appointed by me and produce Annual Report and Accounts. They operate within a financial memorandum agreed between their respective Boards and the MOD.

Two MOD Trading Funds – the **Defence Science and Technology Laboratory** and the **UK Hydrographic Office** – fall outside the Departmental accounting boundary and their Chief Executives are Accounting Officers in their own right. The Chief Executives prepare Governance Statements for their Annual Accounts. Representatives from Head Office sit on the Trading Funds' Management Boards and are members of their Audit Committees, which are chaired by Non Executive Directors. Ministers, supported by an Owners' Council, are responsible for setting the key annual targets. The respective Audit Committee of each Trading Fund provides the Board and Accounting Officer with an Annual Report, which covers activity through-out the year and highlights any control risks and weaknesses found. On 13 January 2016, MOD announced that following a review of its status²⁸, the Defence Science and Technology Laboratory will remain an Executive Agency of the MOD, but its Trading Fund status has been revoked from 1 April 2017.

A Public Corporation – the **Oil and Pipelines Agency**²⁹, provides an Oil Fuel Depot and Petroleum Storage Depot capability to the Department. It is governed by the Oil and Pipelines Act 1985, it falls outside the departmental accounting boundary and its Annual Accounts are published separately. The Public Corporation has a Board of Directors on which the MOD is represented. The Accounting Officer is their Chief Executive and is appointed by me, and produces a Governance Statement detailing the organisation's governance framework and internal control issues, which is included in their Annual Report and Accounts.

Defence Authorities

I have appointed 18 senior individuals as Defence Authorities, who are authorised to issue mandated direction and best practice guidance concerning a specific aspect of the Defence Operating Model. The Defence Authorities are responsible for designing and publishing policies, processes and internal controls for their area of responsibility. Each Defence Authority is required to provide me with an Annual Assurance Report capturing risks and outlining how relevant controls have operated during the year. The list of Defence Authorities can be found in "How Defence Works"³⁰

²⁷ A full list of agencies and public bodies, can be found here: <https://www.gov.uk/government/organisations#ministry-of-defence>

²⁸ <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Lords/2016-01-13/HLWS456/>

²⁹ In 2015-16 the Department sold its interest in the Government Pipelines and Storage System, which was managed by the Oil and Pipelines Agency.

³⁰ <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>

Quality Assurance of Analytical Models

As required by the Macpherson Review³¹, my Governance Statement must confirm that we have an appropriate quality assurance framework for analytical models.

As part of our annual assurance process we have asked the TLBs to confirm their quality assurance arrangements. The Department has well established arrangements in its core analytical areas and we have continued to test and build on these in the last year. The Department has been effective in extending this good practice to other parts of the business and it will continue to focus on this in the coming year.

Notable progress since April 2016 includes:

- Collating and publishing a list of our latest business critical models. MOD is one of the lead departments in taking forward this recommendation of the Macpherson review. The April 2017 list comprised of 145 models;
- Issuing further guidance and organising workshops to identify business critical models; and
- Providing e-learning opportunities for model Senior Responsible Owners.

The Department will continue to look for opportunities to build on its quality assurance framework.

Accounts Qualification

IFRIC 4

MOD has not complied with the IFRIC 4 requirement in the Financial Reporting Manual to assess its supplier arrangements to determine whether they have the characteristics of a lease and if so to recognise the associated assets and liabilities in the financial statements. The Department has decided, with the support of HM Treasury, not to implement IFRIC 4 for existing contractual arrangements, as it does not represent value for money, given the complexity, time and considerable costs involved in doing so. During 2016-17 the Department undertook an exercise to determine the feasibility of implementing IFRIC 4 for new contracts which involved single use contractor sites under one Departmental contract. Although during the review there were no contracts identified that met the limited criteria the Department will continue to implement IFRIC 4 for this subset of contract whilst working with HM Treasury to shape the implementation of IFRS16 which replaces IAS 17 and IFRIC 4 in January 2019.

The Risk and Control Framework

Active management of risk is fundamental to the effective achievement of Defence objectives and central to the way business is conducted within the Department. It informs operational decision making, contingency planning, investment decisions, and the financial planning process. The Department's overall approach to risk management is summarised in "How Defence Works"³². The detailed guidance underpinning it is captured in an internal Joint Service Publication. The Defence Board has previously identified its strategic risks and went through an exercise to refresh these after the year-end. It receives a detailed report, focused on reporting individual strategic risks facing Defence, the combined risk profile and the shorter-term delivery risks to the current Defence Plan, as well as having visibility of the key risks being managed by the TLB Holders and Defence Authorities. The Defence Board also has a rolling programme of risk reviews where one strategic risk

³¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206946/review_of_qa_of_govt_analytical_models_final_report_040313.pdf

³² <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>

is subject to a more detailed discussion at the monthly board meeting. The complete list of risks is not published for reasons of national security but it includes risks associated with:

- the right numbers of people with the right skills;
- attraction and retention of sufficient, capable and motivated people;
- the delivery of operational capability;
- adequacy of management information;
- delivery of efficiency saving programme;
- protection of our information, including from cyber-attack; and
- a disruptive event such as a flu epidemic or terrorist attack.

The risk management framework continues to mature and horizon scanning is also now undertaken on a regular basis. TLBs are now also undertaking deep-dives into specific risks at their Board meetings including an annual refresh of their risks assisted by the Director of Audit, Risk and Assurance (DARA). Risk management is also now being embedded in the activities of the Defence Authorities.

The guidance provides a broad and high level framework of good practice. Our risk management framework is fully aligned to this new guidance.

In January 2017, the Cabinet Office published new guidance on Management of Risk in Government³³. The guidance provides a broad and high level framework of good practice. Our risk management framework is fully aligned to this new guidance.

The Department's tolerance of risk varies between the different functions and areas of Defence. Military operations inherently involve taking risks. The level of risk that Ministers agree to accept is based on advice from civil servants and senior military officers. Every effort is made to provide personnel and assets with proper protection through planning, equipment, and training, but we ultimately rely on the judgement of Force Commanders to manage the operational risks on a day-to-day basis. The Department holds quarterly meetings of the Risk Committee which includes a Non-Executive member and reviews the combined risk report before it is discussed by the Defence Board.

DARA continues to lead the development of Internal Control and Assurance Frameworks for key processes to improve the overall control environment. During the year we have completed the development and implementation of the control and assurance framework for financial management. This framework sets out, for each finance process, the key risks and key controls along with plans to obtain assurance over their operation and effectiveness. We also have commenced the development of the Commercial and Contract Management Internal Control and Assurance Framework which should be completed by July 2017.

The Department has continued to operate the annual assurance process which uses a standard reporting template supported by a questionnaire which covers key governance, risk management and internal control matters for completion by the TLB Holders and Defence Authorities. The TLB Holders' Annual Assurance Reports are reviewed by their Audit Committees and also scrutinised as part of the Performance and Risk Reviews. DARA reviews all the Defence Authority Annual Assurance Reports and provides a briefing note to aid the scrutiny process which is undertaken by the Corporate Committee or other relevant Management Boards, except for three assurance reports

³³ <https://www.gov.uk/government/publications/management-of-risk-in-government-framework>

which were reviewed by the Vice Chief of the Defence Staff. In addition, DARA has produced an overall Departmental Annual Assurance Report for me and the DAC highlighting key internal control issues. DARA has provided an overall opinion of 'limited assurance' for 2016-17. The key internal control issues and management action being undertaken to address these are set out in more detail under the section "Significant Control Risks identified for 2016-17".

The DAC reviews the Department's approach to internal control and provides independent advice both to the Defence Board and me, as the Accounting Officer, as to the effectiveness of the policies and processes in use.

Most TLB Holders, with the exception of Head Office and Corporate Services TLB, are supported by an Audit Committee or equivalent, which is chaired by a Non-Executive member and at which representatives from the internal and external auditors are present. Like the DAC, these committees focus their activities on providing advice on wider business risk and assurance processes. The DAC also meets the Chairs of the TLB Audit Committees at least once a year to seek their opinion on potential issues to be raised in this Governance Statement.

An annual risk-based programme of internal audit is provided by DIA, which is the primary source of independent assurance within MOD. The audit programme is comprehensive and covers the Department's strategic and operational risks and key operational processes.

Overall, the opinion provided by the Group Head of Internal Audit is 'limited assurance'. In his annual report he highlighted the following:

- 2016-17 has seen the continued development of significant change and transformation programmes across a range of TLBs. Defence Authorities, as process owners, have also continued to implement a range of new policies, processes and systems, to improve internal controls. Internal Audit work, in these areas, identified encouraging progress.
- There has been further embedding of strategic and operational risk management processes across the Department and an increased reference to risk management, as a tool to help shape planning activity.
- Internal audit has identified the need to strengthen internal controls and processes in contract management, the quality of management information and project management arrangements.
- Compliance audits on behalf of Defence Authorities have identified ongoing issues over the consistent application of controls and compliance with policy and guidance, noting that some Defence Authorities are developing improved assurance frameworks.
- The continued transformation of the Department's structures, systems and processes provide an opportunity to increase the robustness of internal controls and assist in the efficient delivery of objectives, provided they are adequately supported with appropriate resource and levels of oversight.

Other sources of independent assurance include the Defence Safety Authority, the Health and Safety Executive, the Single Source Regulations Office, OFSTED and the National Audit Office.

Significant Risks

Update on Significant Control Risks Reported in 2015-16.

Estates Management

Contract Management

Last year, I reported the Defence Infrastructure Organisation (DIO) had identified 31 contracts with inadequate audit trails of approval authority. The lack of an audit trail meant that it was not possible to check the status of approval actually given; some contracts having originated a number of years ago. Therefore to legitimise all arrangements HM Treasury approval was sought for 9 contracts outside the Department's delegation with a total value of £1.259Bn and 22 contracts valued at £850M which fell within the Department's delegated authority.

During the year DIO has strengthened their internal control framework by the introduction of a Central Approvals Project Office and a Contract Management Responsibility Matrix. The matrix sets out the responsibilities for managing the approvals envelope. Commercial delegations have been revised and finance staff responsibilities in respect of assuring contracts are managed within approved envelopes have been reinforced. These revised processes are now embedded across the organisation.

During the year I commissioned additional work across the Department undertaken by DIA. This work identified one additional contract in DIO and a small number of contracts in other TLBs with inadequate audit trail of approval authority. All of these contracts originated a number of years ago. The extant control framework in place which includes the newly implemented Contract, Procurement and Finance (CP&F) system provides higher degree of assurance that similar issues will not arise going forward.

Cabinet Office Review

Last year I reported that the Cabinet Office and HM Treasury had conducted a review of Strategic Business Partner (SBP) contract performance, and wider issues such as DIO's capability and governance. This review recommended areas for improvement which shaped Departmental thinking on the way forward.

During the year we undertook the Defence Infrastructure Management Review (DIMR), and included the Cabinet Office, HM Treasury, UK Government Investments Ltd and the Infrastructure Projects Authority as part of the Senior Officers Group established to advise on its remit. The DIMR findings were considered and approved by the Defence Board in December 2016 and are being implemented, including the delegation of infrastructure funding to the customer TLB's from April 2018.

Strategic Management Changes

The SBP for DIO provides an Executive Management Team to lead and manage the organisation. This includes key roles, such as the Chief Executive. Last year I reported that turnover within the senior management team has been higher than expected and this has an impact on stakeholder confidence.

The issue of succession planning has been addressed as part of the contractual requirement to develop and update the Exit Plan on an annual basis. The Exit Plan includes succession planning for the senior management team. More widely the role of the SBP in managing and leading DIO has been examined as part of the Defence Infrastructure Model Review (DIMR). The recommendations were approved by the Defence Board in December 2016 and are now being implemented and will result in a change in the future operating model for DIO, which should ensure greater stability in key roles.

Footprint Strategy

Last year I reported that the Footprint Strategy was showing good progress after a slow start and was expected to be endorsed by the Defence Board in September 2016, which was later than originally planned. Additional time was required for DIO to conduct the customer engagement that is vital to ensure operational perspective informs the Footprint Strategy.

I am pleased to report that the Footprint Strategy was approved by the Defence Board in September 2016 and this resulted in the establishment of the Better Estate Strategy as a major programme. A Senior Reporting Officer has been appointed and a Programme Board established to provide governance supported by a portfolio office to manage projects and programmes, together with interdependencies.

Service Families Accommodation

Last year I reported that there had been significant shortcomings in the delivery of maintenance services under the National Housing Prime contract, which have impacted on Service Personnel and their families. This was also subject to a Public Accounts Committee hearing where we stated that an improvement plan had been put in place, and we had started to see improvements.

During the year we have closely monitored the performance of the contractor including undertaking independent assessments which have confirmed a sustained level of performance. New governance arrangements have also been put in place during the year that include regular meetings of MOD officials, TLBs, Families Federations, DIO and the contractor to review progress and performance. These governance and assurance processes will remain in place for the foreseeable future to ensure that the performance of the contractor does not deteriorate.

Management Information

Last year I reported that notwithstanding improvements to the Defence Board Management Information Pack, the lack of quality Management Information (MI) continued to be an issue across the Department with variable data quality and a large number of fragile legacy systems and no single 'version of the truth'. Management Information had been brought formally under the remit of the Defence Authority for Information. To support the Defence Authority a Corporate and Management Information team was established and a Management Information governance framework and strategy had been agreed.

During the year we established control to prevent the proliferation of MI applications via the Joint Service Publication and have continued to mature data management through the appointment of Defence Data Owners. The MI Strategy was published in July 2016 and the revised Defence Data Management Strategy published January 2017. These combine to set the direction improving data and behaviours across MOD. The principles contained within these continue to form a key assurance element for the Design Authority to measure all projects against. The MI risk is considered at Defence Board level and the mitigation activities are on track or already completed.

During the year we implemented the new Contracting, Purchasing and Finance (CP&F) system across the Department bringing together all the current e-procurement tools in one place. Further enhancements are planned during 2017 which will provide additional functionality and improved MI. Ongoing development of MI capabilities remain a key focus for the Department. There are plans for further improvement in data exploitation and decision support. Corporate and Management Information have developed detailed implementation plans for Data Management with MI plans under development. These will direct more improvements in line with MI and Data Strategic Objectives. These strategies and plans will be reviewed periodically with the first MI Strategy review due to take place June 2017.

Business Resilience

Last year I reported that although business continuity was generally well established, business resilience was less mature. The Defence Critical National Infrastructure Assets project (Def CNI), identifying Defence critical assets (including buildings, networks, people, systems, and processes) was established. The purpose of the project is to improve Defence resilience to both hazards and threats. Progress has been made and the work will continue to mature over the coming year.

A methodology for identifying Def CNI has been developed and a list of such sites has been compiled – this will require regular confirmation. Front Line Commands, with other internal stakeholders (such as DIO), have been assessing risks to Def CNI and to the overall resilience of Defence. We have produced a Defence Sector Security and Resilience Plan, to collate and control this information and to monitor control activities. Contributing work streams and policy development are overseen by the Def CNI Steering Group under DG Sec Pol, who is accountable to me.

Manpower and Skills

Last year I reported that recruitment and retention of staff and shortages in specific skills across the Department was recognised as a common issue and was being actively managed by the Defence Board. A range of measures had been implemented to address these issues and additional measures were planned which will be monitored by the Defence Board.

We made some progress but as I reported last year, many of these measures were of a long-term nature and will take time to affect. The single services are using a range of actions to address recruitment and retention challenges in specific areas including targeted marketing campaigns and recruitment programmes, changes to training pipelines, management action to improve harmony and financial retention incentives. TLBs are also implementing a number of initiatives to address specific issues.

Further work is underway to understand the strategic factors which are influencing the current recruitment and retention environment. This includes work on the influence of the economy, employment and wages trends as well as changes in the age profile / ethnic mix of the reducing main target population for Armed Forces recruitment. This is a significant stream of work which will continue into next year.

Work is underway to develop TLB Civilian Workforce Plans which are expected to provide a better understanding of longer term skills requirements across the civilian workforce. The TLB plans will be collated centrally and shared with the Heads of Profession. They should help to target future recruitment, training and development activities to meet future needs.

Significant Control Risks Identified for 2016-17

Business and Financial Planning

The Department's Annual Budgeting Cycle process is well established but, common with the budget cycles that followed the two previous Spending Reviews, it has been challenging to construct a sustainable long-term balance between the available budget and the cost of programmes which deliver the outputs set out in the Strategic Defence and Security Review (SDSR) 2015. As a consequence, Head Office had to introduce interventions and additional controls to execute more active central management of the in-year financial position than is ideal in the Departmental operating model design, but has successfully delivered a financial outturn within Parliamentary Control Totals.

Consistent with the designed operating model although a month later than desirable, TLBs were issued with budgets at the end of April for the forthcoming 2017-18 financial year. The delay was

largely a result of difficulties in securing a taut Business Plan to describe the outputs and activities to be undertaken by the TLBs. Work remains in hand to further mature these plans.

Systems Implementation

A new Contract, Procurement and Finance (CP&F) system was implemented during the year, which is the Department's end to end automated procurement to payment solution. This was a large scale Information System enabled business change programme spanning the finance, commercial and project management communities. As part of the implementation, revised standard business processes have been implemented, an internal control and assurance framework regime established and controls embedded within the CP&F system. During the system cutover and data transfer period and for a period after the system went live some issues temporarily interrupted the timely placement of orders and payment of suppliers. Business contingency arrangements were therefore invoked for a period to ensure key transactions could continue outside the system in a controlled manner, to ensure that the delivery of goods and services to the Department was not interrupted and that cash flow was maintained to suppliers.

National Security Vetting

In SDSR15 Government created a single vetting provider and made the Department responsible for all of Government's vetting, incorporating into Defence the processes and staff which previously sat within the Foreign and Commonwealth Office. Since the launch of the new organisation, a number of resource and system issues have arisen which have impacted the delivery of the service. Extra resource has been deployed to reduce the higher than usual queues of vetting applications and a recovery programme is in place to reduce delays and enhance the systems to improve resilience.

Physical Security of Assets and Infrastructure

The Department's security assurance arrangements are based on a three-tiered system with operators, TLBs and the Defence Authority for Security providing three separate lines of assurance. During the year it has been determined that it is appropriate to increase standards in some secondary assurance arrangements and accounting procedures. These issues are now being addressed.

Commercial Capability and Governance

The shortage of professional commercial staff across the function remains a concern, confirmed by work undertaken as part of the Cabinet Office Commercial Blueprint review including on workforce and succession planning. To mitigate any risk, contract management cells have been set up across the Commercial function, closer leadership and standards of commercial officer competences established with the Government Commercial Officer, and improvements introduced in the tools, processes and policies across the commercial function.

A DIA Audit in June 2016 highlighted the gaps in the Commercial functional governance structures. Work has been undertaken during the year to establish an appropriate governance structure and as part of this a new 2*/3* forum for the discussion of commercial function issues, including risk and assurance, was agreed and became operational from 5 December 2016.

Compliance with the Corporate Governance Code

I have reviewed the Department's compliance with the Code of Good Practice³⁴ issued in April 2017 and confirm that the Department complies with all of the requirements, with two exceptions. Section 5.9 of the Code requires that at least one Non-Executive Board Member should sit on the Audit Committee, in addition to the Chair. The DAC is chaired by one of the Defence Board Non-Executive Board Members and the other two members are Non-Executive chairs of DE&S and DIO Audit Committees. I believe that this membership provides a broad perspective of the Department's business, whilst maintaining the necessary independence of Audit Committee members.

Section 5.2 requires the Board to take the lead on, and oversee the preparation of the Department's Governance Statement. The Executive Committee, which I chair, reviews the governance statement. In addition, the DAC, on behalf of the Defence Board, takes the lead on and oversees the preparation of the Governance Statement and provides advice to me. Given the expertise of the members of the DAC and their on-going involvement in matters of governance, risk and internal control through the year, I believe these arrangements provide the right level of review and scrutiny.

Effectiveness of Whistleblowing

The DAC considered the Annual Whistleblowing Report and noted that good progress has been made.

The DAC acknowledged that since the launch of the revised Whistleblowing and Raising a Concern policy in 2015 there has been a strong increase in matters raised as confidence in the process increased.

Fraud

The DAC considered the Annual Fraud Report and recognised the renewed emphasis on risk and intelligence led counter-fraud activity, supported by a new lessons learned process which enables the Department to identify the root causes of fraud and ensure the control environment is adjusted as appropriate. It noted that the Department has actively supported the development of the Cabinet Office led cross Government approach to counter fraud, including the development and implementation of the Functional Standards for Counter Fraud.

Ministerial Directions

There were no ministerial directions to me as Accounting Officer during 2016-17.

Conclusion

There remain some challenges to further maturing the governance structure in a complex Department operating with a delegated model. Continuous improvement continues to strive to ensure that risk, control and assurance arrangements work effectively. The current governance arrangements and working practices will be further improved to strengthen senior management review of TLB and Defence Authority Assurance reports. In the context of the overall administration resource constraints on the Department, the pace of development of risk management and control and assurance frameworks has not been as fast as originally planned. I intend to consider these issues further as part of the current review of the governance and other Head Office arrangements.

Stephen Lovegrove
Accounting Officer

11 July 2017

³⁴ <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

The Remuneration and Staff Report

(The Remuneration and Staff Report has been subject to audit)

Remuneration Report

Remuneration Policy

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.

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

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

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their 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.

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

There is an established departmental procedure for the appointment of 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 which is in line with the Bank of England's non-executive Directors of Court and in accordance with the *Corporate governance in central government departments: code of good practice*. NEBMs have the option to waive their remuneration.

Performance and Reward

Salary and reward for Permanent Secretaries is considered annually by the Permanent Secretaries' Remuneration Committee 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 and awards are made 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 must be linked to demonstrable evidence of delivery.

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

All senior (2-star and above) military officers' (except for: the Chief of the Defence Staff (CDS), Legal Branch 2-star officers, medical and dental officers and those in the Chaplaincy branches) pay is dependent on their performance, time in rank and position on the pay scale, individuals can be awarded a single increment or no increment, and progress accordingly up the incremental pay scale for their rank. The average value of one incremental rise was 2.6% of salary in 2016-17 (2015-16: 2.6%).

Whilst Non-Executive remuneration is not directly linked to performance, in part to avoid any suggestion that an employee/employer relationship exists, NEBM performance is kept under review on at least an annual basis. The aim of the reviews, which are informal, is to consider the impact of individuals on the performance of the board, recognise the contribution of the NEBM and identify ways this could be improved, and provide feedback.

Senior Managers' Contracts

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, 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 Commission can be found at <http://www.civilservicecommission.org.uk/>.

Unless otherwise stated below, the civilian officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The lead NEBM appointment to the Defence Board was approved by the Prime Minister from a list of candidates recommended by the Cabinet Office. The appointment was for an initial period of three years, which was extended for a further three years to September 2017.

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.

The Chief of the Defence Staff and Vice Chief of the Defence Staff are appointed on the recommendation of the Secretary of State for Defence to the Prime Minister. Following the Prime Minister's agreement the final approval of the appointment lies with Her Majesty The Queen. Once selected the intention is that appointees hold the post for between 3 and 5 years.

Management

The following pages contain details of the pay, pensions and benefits-in-kind of individuals who served as Ministers or members of the Defence Board during the financial year. The disclosures

cover only the periods individuals were Ministers or Board Members in the MOD i.e. if an individual moves Department during the year the disclosure covers only remuneration earned to that date.

Ministerial Salaries, Allowances and Taxable Benefits

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

	2016-17				2015-16			
	Salary (£)	Benefits-in-kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total (to the nearest £1,000)	Salary (£)	Benefits-in-kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total (to the nearest £1,000)
Secretary of State for Defence The Rt Hon Sir Michael Fallon MP (from 15 July 2014)	67,505	Nil	18,000	86,000	67,505	Nil	27,000	94,000
Minister of State for the Armed Forces The Rt Hon Mike Penning MP*** (from 15 July 2016) <i>Full year equivalent salary</i>	22,568 31,680	Nil	6,000	29,000	Nil	Nil	Nil	Nil
Minister of State and Spokesperson on Defence in the House of Lords The Rt Hon the Earl Howe (from 12 May 2015)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Parliamentary Under-Secretary of State and Minister for Defence Procurement Harriett Baldwin MP*** (from 16 July 2016) <i>Full year equivalent salary</i>	15,879 22,375	Nil	4,000	20,000	Nil	Nil	Nil	Nil
Parliamentary Under-Secretary of State and Minister for Defence Veterans, Reserves and Personnel Mark Lancaster TD MP** (from 12 May 2015) <i>Full year equivalent salary</i>	22,375	Nil	6,000	28,000	19,849 22,375	Nil	7,000	27,000
Minister of State for the Armed Forces Penny Mordaunt MP*** (to 14 July 2016) <i>Full year equivalent salary</i>	9,112 31,680	Nil	2,000	11,000	28,103 31,680	Nil	8,000	36,000
Minister of State for Defence Procurement Philip Dunne MP*** (to 14 July 2016) <i>Full year equivalent salary</i>	9,112 31,680	Nil	Nil	9,000	30,629 31,680	Nil	Nil	31,000
Parliamentary Under-Secretary of State and Minister for Reserves Sir Julian Brazier TD (to 15 July 2016) <i>Full year equivalent salary</i>	6,496 22,375	Nil	Nil	6,000	22,375	Nil	6,000	29,000

*The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum less the contributions made by the individual. The real increase excludes increases due to inflation or any increases or decreases due to transfer of pension rights.

**Mark Lancaster was Parliamentary Under-Secretary of State and Minister for Defence Personnel and Veterans until 16 July 2016 when he assumed responsibility for the Reserves portfolio from Sir Julian Brazier and the Ministerial title changed to that shown above.

***The disclosures cover only the periods individuals were Ministers in the MOD. The actual total salary paid by the Department (including the balance of pay for the month in which they transferred Departments) was £10,560 each for Penny Mordaunt and Philip Dunne.

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. During 2016-17, in addition to the amounts set out in the table above, a severance payment of £5,594 was paid to Sir Julian Brazier. No payments were made in 2015-16.

Ministerial Salary

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

In respect of Ministers in the House of Commons, the Department bears only the cost of the additional Ministerial remuneration; the salary for their services as an MP – £74,962 pa with effect from 1 April 2016 (£74,000 pa with effect from 8 May 2015) 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, if applicable would be shown in full overleaf.

Ministers Benefits-in-Kind

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

Ministerial Pensions

The real increase in the value of the accrued pension compared to the 2015-16 value, is shown *in italics* (in bands of £2,500) in the first column of the table below.

	Total Accrued Pension at Retirement as at 31 Mar 17 £000	CETV* at 31 Mar 16 or date of Appointment if Later £000	CETV* at 31 Mar 17 or on Cessation of Appointment if Earlier £000	Real Increase in CETV* £000
Secretary of State for Defence The Rt Hon Sir Michael Fallon MP	5 - 10 0 - 2.5	129	155	17
Minister of State for the Armed Forces The Rt Hon Mike Penning MP	5 - 10 0 - 2.5	82	91	4
Minister of State and Spokesperson on Defence in the House of Lords The Rt Hon The Earl Howe	Nil	Nil	Nil	Nil
Parliamentary Under-Secretary of State and Minister for Defence Procurement Harriett Baldwin MP	0 - 5 0 - 2.5	7	11	2
Parliamentary Under-Secretary of State and Minister for Defence Veterans, Reserves and Personnel Mark Lancaster TD MP	0 - 5 0 - 2.5	21	26	2
Minister of State for the Armed Forces Penny Mordaunt MP	0 - 5 0 - 2.5	11	12	Nil
Minister of State for Defence Procurement Philip Dunne MP**	Nil	Nil	Nil	Nil
Parliamentary Under-Secretary of State and Minister for Reserves Sir Julian Brazier TD**	0 - 5	13	N/A	N/A

*CETV – Cash Equivalent Transfer Value.

**Philip Dunne has chosen not to be covered by the Parliamentary Contributory Pension Fund (PCPF). Sir Julian Brazier has chosen not to be covered by the PCPF during the reporting year; the disclosure above only covers the period he was a member of the scheme.

Cash Equivalent Transfer Value

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 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.

Real Increase in CETV

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 and uses common market valuation factors for the start and end of the period.

Pension benefits

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF; this pension is not included in the table above.

Further details of the scheme are available at: <https://www.mypcpcfension.co.uk/tools/library>

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

Chaired by the Secretary of State, the Defence Board is the main corporate board of the MOD. During the year the following served as members of the Defence Board.

	2016-17					2015-16				
	Salary £000	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000	Salary £000	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000
Secretary of State for Defence The Rt Hon Michael Fallon MP Minister of State and Spokesperson on Defence in the House of Lords The Rt Hon the Earl Howe (from 17 July 2016) Minister of State for Defence Procurement Philip Dunne MP (to 14 July 2016)	See Ministers' Salary Table									
Permanent Under-Secretary of State Stephen Lovegrove CB ***** (from 25 April 2016) <i>Full year equivalent salary</i>	165 - 170 175 - 180	Nil	Nil	59,000	225 - 230	Nil	Nil	Nil	Nil	Nil
Jonathan Thompson ***** (to 3 April 2016) <i>Full year equivalent salary</i>	0 - 5 185 - 190	Nil	Nil	(1,000)	0-5	185 - 190	Nil	59,000	240 - 245	Nil
Chief of the Defence Staff Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL (from 19 July 2016) <i>Full year equivalent salary</i>	170 - 175 245 - 250	Nil	49,500	Nil	220-225	Nil	Nil	Nil	Nil	Nil
General Sir Nicholas Houghton GCB CBE ADC Gen ***** (to 18 July 2016) <i>Full year equivalent salary</i>	75 - 80 260 - 265	Nil	21,000	31,000	125-130	255 - 260	67,900	98,000****	420 - 425****	Nil
Vice Chief of the Defence Staff General Sir Gordon Messenger KCB DSO* OBE ADC ***** (from 21 May 2016) <i>Full year equivalent salary</i>	145 - 150 170 - 175	Nil	42,600	292,000	480-485	Nil	Nil	Nil	Nil	Nil

	2016-17					2015-16				
	Salary £000	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000	Salary £000	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000
Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL (to 20 May 2016) <i>Full year equivalent salary</i>	25 - 30 190 - 195	Nil	8,600	Nil	30 - 35	190 - 195	Nil	55,100	23,000***	265 - 270***
Director General Finance Louise Tulett CBE (from 16 March 2015)	130 - 135	Nil	Nil	132,000	260-265	105 - 110	10 - 15	Nil	68,000	185 - 190
Non-Executive Board Members Sir Gerry Grimstone††† (from 15 September 2011)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Graham Williams (from 21 December 2011)	15 - 20	Nil	Nil	Nil	15 - 20	15 - 20	Nil	Nil	Nil	15 - 20
Paul Skinner CBE††† (from 1 September 2014)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Danuta Gray (from 1 February 2015)	15 - 20	Nil	Nil	Nil	15 - 20	15 - 20	Nil	Nil	Nil	15 - 20

*Where the current year's benefits-in-kind includes an element for the private use of official cars the figures are estimated. The agreement with HMRC for military Board members concludes after publication of the accounts and any necessary restatement is published in the following year's accounts with changes indicated by a †.

**The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum less the contributions made by the individual. The real increase excludes increases due to inflation or any increases or decreases due to transfer of pension rights.

***Restated following a recalculation of the accrued pension benefit for the year.

****The disclosures cover only the periods individuals were members of the Defence Board. For Jon Thompson the actual salary paid by the Department for April was £15,463.

††† Sir Gerry Grimstone and Paul Skinner have elected to waive the £15,000 fee to which they are entitled.

Defence Board Salary

Salary includes gross salary, taxable allowances and payment in lieu of untaken leave (if applicable). Any annual performance award paid is shown separately and is in respect of amounts paid in 2016-17 but based on performance in an assessment period prior to the start of the financial year. The payment of business expenses e.g. travel costs incurred on duty, is not part of salary and is not disclosed in the table.

Defence Board Benefits-in-Kind

For civilian members of the Board, where applicable, 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). Individuals pay the tax liability to HMRC and are reimbursed by MOD; this liability is included in the figures disclosed.

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

The following table contains details of pay multiples – the ratio between the highest paid Board members and the median remuneration of the remaining 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. The annual equivalent remuneration includes salary, performance related pay and benefits-in-kind. It does not include severance payments, employer pension contributions or the cash equivalent transfer value of pensions. A separate multiple has been calculated for the Armed Forces – comparing the 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 locally employed civilians overseas and agency staff covering permanent posts.

	2016-17	2015-16
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning military Board member in the table above.	£317,500	£322,500
Median total remuneration of Armed Forces personnel.	£33,674	£35,482*
Ratio	9.4	9.1
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning civilian Board member in the table above.	£182,500	£347,500
Median total remuneration of civilian staff.	£29,188	£29,001
Ratio	6.3	12.0

* Restated from the previously incorrectly published £35,842.

The military pay ratio decreased due to the increase in the median pay of the Armed Forces and the change in the comparator (as a result of a change in personnel) which resulted in the salary of the highest paid military Board member being at the lowest point on the pay scale for the appointment.

The decrease in the civilian pay ratio is mainly due to the change in the composition of the Board which now has the Permanent Secretary as the highest paid civilian Board member.

In 2016-17 the remuneration of civilian employees ranged from £15,681 to £380,750 and 5 (2015-16: nil) civilian employees received remuneration in excess of the highest paid director.

Defence Board – Pension Benefits

Pension benefits for individuals who served on the Defence Board are set out below. NEBMs are not employees and are therefore not enrolled in an employee related pension scheme. The real increase in the pension, from 2015-16, and where applicable the real increase in the lump sum payment, are shown in *italics* in the second column of the table below.

	Total Accrued Pension at Retirement as at 31 Mar 17 £000	CETV at 31 Mar 16 or date of Appointment if Later £000	CETV at 31 Mar 17 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
Secretary of State for Defence The Rt Hon Sir Michael Fallon MP				
Minister of State for Defence Procurement Philip Dunne MP				
Minister of State and Spokesperson on Defence in the House of Lords The Rt Hon the Earl Howe				
See Ministers' Pensions Table				
Permanent Under-Secretary of State Stephen Lovegrove CB	Pension 30 - 35 <i>2.5 - 5</i> Lump Sum <i>Nil</i>	424	479	25
Jonathan Thompson	Pension 40 - 45 <i>0 - 2.5</i> Lump Sum <i>Nil</i>	718	718	-1
Chief of the Defence Staff Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL	Pension 80 - 85 <i>Nil</i> Lump Sum 250 - 255 <i>Nil</i>	1,988	1,954	-23
General Sir Nicholas Houghton GCB CBE ADC Gen	Pension 145 - 150 <i>0 - 2.5</i> Lump Sum 440 - 445 <i>2.5 - 5</i>	3,431	3,462	13
Vice Chief of the Defence Staff General Sir Gordon Messenger KCB DSO* OBE ADC	Pension 80 - 85 <i>12.5 - 15</i> Lump Sum 250 - 255 <i>37.5 - 40</i>	1,795	2,149	307
Director General Finance Louise Tulett CBE	Pension 25 - 30 <i>5 - 7.5</i> Lump Sum 80 - 85 <i>17.5 - 20</i>	438	588	125
Non-Executive Board Members				
Sir Gerry Grimstone	N/A	N/A	N/A	N/A
Graham Williams	N/A	N/A	N/A	N/A
Paul Skinner CBE	N/A	N/A	N/A	N/A
Danuta Gray	N/A	N/A	N/A	N/A

Further details of various pension schemes available to Armed Forces personnel and MOD employees can be found at Note 16 of the accounts – Retirement Benefit Schemes, of the accounts.

Staff Report

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

Figures presented are for average Full Time Equivalent (FTE) staff for the Core Department & Agencies. Trading Fund, Royal Fleet Auxiliary (RFA) personnel, and Locally Engaged Civilians (LECs) are excluded.

	2016-17	2015-16
SCS Pay Band		
Band 1	250	210
Band 2	50	50
Band 3 and above	10	10

Staff numbers

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

	2016-17		2015-16	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Civilian Staff				
Permanent staff	51,760	54,781	52,410	55,269
Temporary staff	110	200	120	183
Ministers and special advisers	7	7	8	8
Armed Forces	157,723	157,723	159,230	159,230
Totals	209,600	212,711	211,768	214,690

In order to align with the total pay costs incurred during the year, the number of FTE civilian staff for the Core Department & Agencies (shown above) is based on a weighted average for the financial year. The figures reflect the number of personnel in organisations within the Departmental Accounting Boundary and therefore exclude those in the Trading Funds. LECs 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:

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

The figures for Military personnel include trained and untrained full-time Service personnel, including Nursing Services, Full Time Reserve Service personnel, Gurkhas and Locally Engaged Personnel, but exclude Mobilised Reservists, Military Provost Guard Service and Non-Regular Permanent Staff.

The number of FTE staff in the Departmental Group is the sum of the weighted average figure for the Core Department and Agencies plus the number of FTE staff at year end for the organisations listed at Note 22 to the accounts.

Staff costs

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

	2016-17		2015-16	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Staff costs comprise:				
Salaries and wages	8,019,225	8,094,208	7,841,613	7,916,213
Social security costs	765,057	778,511	576,365	586,470
Pension costs	3,285,816	3,293,204	3,209,935	3,217,931
Redundancy and severance payments	12,533	12,533	44,133	44,133
	12,082,631	12,178,456	11,672,046	11,764,747
Paid to:				
Armed Forces	9,776,731	9,776,731	9,471,757	9,471,757
Civilian	2,305,900	2,401,725	2,200,289	2,292,990
	12,082,631	12,178,456	11,672,046	11,764,747

For the year to 31 March 2017, of the total pension contributions for the Departmental Group in the table above, £338M (2015-16: £301M) were payable in respect of the various schemes in which civilian staff were members. Contributions to the PCSPS in the same period were £294M (2015-16: £289M). The contribution rates are set by the Scheme actuary to meet the cost of the benefits accruing to members up to retirement.

Where employees have opened a stakeholder pension with an employer contribution, the Department has made contributions of £2.8M (2015-16 £2.1M) to the pension providers; contributions range from 8% to 14.75% depending on the age of the member. MOD also matches any employee contributions up to 3% of pensionable pay and in addition made contributions of £0.5M (2015-16 £0.4M) representing 0.5% of pensionable pay to the PCSPS to cover the cost of provision of lump sum benefits on death in service and ill health retirement of these employees.

The Armed Forces Pension Schemes are unfunded, non-contributory, defined benefit, salary-related, occupational pension schemes. For the year to 31 March 2017 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £2,955M (2015-16: £2,917M) based on employer's contribution rates determined by the Government Actuary.

Special Advisors costs and severance payments

The salaries and other costs of Special Advisors paid during the year was £166,371. The amount of severance paid to Special Advisors, in line with the terms of the Model Contract for Special Advisors during the year was Nil. The amount of additional severance paid to Special Advisors, in line with the Prime Ministerial Direction to the Cabinet Office Secretary of 13 July 2016 was Nil. Further details of additional severance payments are available in the Cabinet Office Annual Report and Accounts 2016-17.

Civil Service and Other Compensation Schemes – Exit Packages

The figures in the following table include redundancy and other departure costs paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS). For ill health retirements, where there is a cost to the Department, these individuals are included in the table below; 168

individuals retired early on ill-health grounds during 2016-17 (2015-16: 203); their total accrued pension liabilities for the year were £0.3M (2015-16 £0.3M).

Where the Department has agreed early retirements the costs are met by the MOD and not by the Civil Service Pension Scheme. For staff leaving under voluntary exit or voluntary redundancy terms the cost includes any top-up to compensation provided by the Department to buy out the actuarial reduction on an individual's pension as well as the compensation payment.

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 are included in the table as 'other departures agreed'; non-applicants are listed as compulsory.

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
<£10,000	-	-	14	18	14	18
£10,000 - £25,000	13	9	132	205	145	214
£25,000 - £50,000	-	11	117	253	117	264
£50,000 - £100,000	-	3	139	129	139	132
£100,000 - £150,000	-	1	5	11	5	12
£150,000 - £200,000	-	1	-	4	-	5
£200,000 - £250,000	-	-	-	1	-	1
£250,000 - £300,000	1	-	-	-	1	-
Total Number of Exit Packages	14	25	407	621	421	646
	£M	£M	£M	£M	£M	£M
Total Resource Cost	0.5	1.0	16.8	23.9	17.3	24.9

In addition to the exit packages detailed above the Department may occasionally make use of early release schemes to reduce the number of civilian staff who are not members of the CSCS, for example locally employed staff in Germany and Cyprus, teachers and nursing staff.

Staff Sickness

(this section has not been subject to audit)

Levels of sickness absence for Ministry of Defence Civil Servants, including its Trading Funds, have reduced slightly over the year. The Average Working Days Lost per person for the 12 months ending 31 March 2017 was 7.18 (7.24 days for the 12 months ending 31 March 2016). Mental and behavioural disorders continues to be the highest cause of sickness absence at 21% of all absences (22% for the 12 months ending 31 March 2016). The percentage of staff with no sick absence for the 12 months ending 31 March 2017 was 46% (48% for the 12 months ending 31 March 2016).

The Department continues to review policy and initiatives to reduce sickness absence and improve health and wellbeing in the workplace.

Further detail can be found at the following link: <https://www.gov.uk/government/collections/mod-civilian-sickness-absence>.

Staff Policies (disability) applied during the financial year

(this section has not been subject to audit)

The MOD is dedicated to achieving a more diverse and inclusive workforce and is committed to recruiting the best people regardless of whether they have a disability. We promote equality of

opportunity for people with disabilities by ensuring that we do not discriminate against disabled people; and positively encourage disabled candidates to apply for jobs within Defence. To do this, the MOD complies with the requirements of the Equality Act 2010 (EA10).

The MOD's specific policy aim with regard to disability is that disabled staff should feel valued and supported; that line managers of disabled staff should have access to consistent advice and expertise; and reasonable adjustments will be made in a timely manner. A Reasonable Adjustments Service Team (RAST) was established in July 2014 to assist in the delivery of reasonable adjustments and since its launch it has helped over 2,000 people suffering from conditions such as back injuries, mobility issues, dyslexia, arthritis / rheumatism, vision impairment, and mental health by making adjustments (such as the provision of bespoke chairs and other furniture, IT hardware, car parking and return to work plans).

The team plays an ever increasing role in providing a voice for disabled people, capturing the actual lived experience, and facilitating improvements. For example, ensuring accessibility needs are fully addressed and part of preparation for the transition to a new IT system. The team also shares knowledge and experience with Other Government Departments as part of the cross government adjustment network, and collaborating with others to share and find best practice.

The RAST are also developing unique knowledge and experience of making adjustments for people in a diverse range of employment types, within an environment that needs them to take into account and find solutions that do not compromise the security considerations that come with a Department like the MOD. The Workplace Adjustment Passport has been introduced by all government departments to make it easier for employees who have a disability, health condition or who are undergoing gender reassignment to move jobs within the Civil Service. Prior to this the MOD had an Ability Passport in place for disabled employees. The new passport builds on this, with the benefit of being transferrable across all Departments. The Passport is particularly useful when a line manager changes as it helps the new line manager to understand the workplace adjustments the employee has in place, avoiding the need to begin the process again. It can also be helpful in identifying non-visible disabilities, such as mental health issues.

MOD operates anonymous sifting for recruitment with a view to creating a more level playing field in the assessment process. All employees must complete unconscious bias training to enable them to identify where biases may arise. MOD also participates in the Guaranteed Interview Scheme, whereby individuals who declare a disability are guaranteed an interview if they meet the minimum requirements. The Department makes this clear in its job adverts and application forms.

MOD is committed to supporting those who become disabled whilst employed by the Department and a range of learning and support is available. The Defence Civilian Disability Toolkit, created in 2016, acts as a signposting tool for members of staff who are disabled, or who become disabled while working for MOD, and their Line Managers. It offers, amongst other things, information on what employees should do once a diagnosis is confirmed and where they should go to seek support, including Access to Work, the Employee Wellbeing Service and the MOD Counselling Service. Civil Service Learning also has a number of resources available for people who become disabled, including videos created by colleagues across the Civil Service that offer support and guidance to those who have recently acquired a disability.

MOD ensures an inclusive approach to training, career development and promotion of disabled staff and opportunities are offered on a fair and open basis. The Career Consultancy Service, which is open to all staff, can offer particular support to those with a disability, offering tailored and impartial advice and guidance on career planning, training needs, job interview coaching, preparing a good job application and CV writing. In addition, the MOD Talent Management Toolkit offers advice and guidance to managers to ensure that all employees are treated fairly with regards to

career advancement. MOD also promotes talent programmes such as the Positive Action Pathway which is open to under-represented groups, including those with a disability.

Expenditure on Consultancy and Temporary Staff

(this section has not been subject to audit)

It does not make economic sense for the MOD to maintain all the specialist skills needed permanently in house, and access to some level of private-sector expertise is consequently of enduring value to the Department, we have therefore needed to contract short term both for independent advice and for specialist skills which cannot currently be found among the permanent workforce. Expenditure on consultancy and temporary staff by MOD, its Non-Departmental Public Bodies and On-Vote Defence Agencies during 2016-17 was £60.5M (2015-16 £48.7M) and £135.4M (2015-16 £112.7M) respectively.

More information can be found at - <https://www.gov.uk/government/publications/mod-workforce-management-information-january-to-december-2017>

Off-Payroll Engagements

(this section has not been subject to audit)

Following the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May 2012, departments must publish information on their high paid and/or senior off-payroll engagements. Government policy is that individual departments must themselves exercise governance over such appointments where the appointees are not engaged directly on departmental payrolls.

The tables below provides the total number of off-payroll engagements for the Core MOD Department and its on-vote Agencies, and Non-Departmental Public Bodies (the National Museum of the Royal Navy, the National Army Museum, the Royal Air Force Museum and the Single Source Regulations Office), who are earning in excess of £220 per day plus new engagements during the year, and also a table showing those who were board members or senior officials during the year.

Table 1: This table shows the number of off-payroll engagements as at 31 March 2017, paid more than £220 per day and have been in place for more than six months.

	Core Department and On-Vote Agencies	Non-Departmental Public Bodies
No. of existing engagements as at 31 March 2017	431	Nil
Of which...		
No. that have existed for less than one year at time of reporting.	235	Nil
No. that have existed for between one and two years at time of reporting.	115	Nil
No. that have existed for between two and three years at time of reporting.	36	Nil
No. that have existed for between three and four years at time of reporting.	17	Nil
No. that have existed for four or more years at time of reporting.	28	Nil

Table 2: This table shows all new off-payroll engagements that last longer than six months and those that reached six months in duration, between 1 April 2016 and 31 March 2017 and paid more than £220 per day.

	Core Department and On-Vote Agencies	Non-Departmental Public Bodies
No. of new engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	521	Nil
No. of the above which include contractual clauses giving the Department the right to request assurance in relation to income tax and National Insurance obligations	474	Nil
No. for whom assurance has been requested	521	Nil
Of which...		
No. for whom assurance has been received	243	Nil
No. for whom assurance has not been received	278 (Note 1)	Nil
No. that have been terminated as a result of assurance not being received.	Nil	Nil

Note 1: The detailed assurance process is still underway. Where satisfactory assurance is not forthcoming, the MOD will terminate contracts and refer the appointees involved to HM Revenue & Customs. If such action is necessary, this will be completed over the summer.

The MOD sought assurance from all its High-Paid Off-Payroll appointees that they have paid the right amount of income tax and National Insurance Contributions on work undertaken for the Department during the 2016-17 financial year, except where they were also in scope of governance in 2015-16 and either:

- a. provided satisfactory assurance and left post early in the 2016-17 financial year (by 31 July 2016); or
- b. were referred to HM Revenue & Customs for failing to provide satisfactory assurance and have left the Department.

In the interests of good governance, we have also sought assurance from appointees engaged under legacy contracts which do not include specific provision to seek evidence of compliance with the tax legislation. All new appointees on these legacy contracts are being asked to sign a declaration on taking up an MOD engagement that they are compliant with the tax legislation and that they agree to provide the appropriate evidence of compliance when asked.

Table 3: For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2016 and 31 March 2017.

	Main Department	Non-Departmental Public Bodies
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	Nil	Nil
Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility"	41	62 (Note 1)

Note 1: This includes all Trustees for the 3 Service Museums.

The Parliamentary Accountability and Audit Report

The Parliamentary Accountability and Audit Report describes how the Department has been financed through the Westminster Estimates process. Details are also provided regarding the regularity of expenditure, so that Parliament can be assured that funds have been expended in the manner intended. Further details of the Department's Estimate and Outturn are included in the Management Commentary in the Performance Report.

Statement of Parliamentary Supply (SoPS)

(This section has been subject to audit)

Summary of Resource and Capital Outturn 2016-17

	Note	Estimate			Outturn			2016-17 Total Voted Outturn Compared to Estimate Saving / (Excess)	2015-16 Outturn
		Voted £000	Non Voted £000	Total £000	Voted £000	Non Voted £000	Total £000	£000	£000
Departmental Expenditure Limit									
Resource	SoPS 1.1	35,669,220	-	35,669,220	35,422,775	-	35,422,775	246,445	35,252,526
Capital	SoPS 1.2	8,752,975	-	8,752,975	8,688,553	-	8,688,553	64,422	7,573,962
Annually Managed Expenditure									
Resource	SoPS 1.1	1,746,000	-	1,746,000	(210,694)	-	(210,694)	1,956,694	6,103,323
Capital	SoPS 1.2	-	-	-	-	-	-	-	29,130
Total Budget		46,168,195	-	46,168,195	43,900,634	-	43,900,634	2,267,561	48,958,941
Non-budget									
Resource		-	-	-	-	-	-	-	787,212
Total		46,168,195	-	46,168,195	43,900,634	-	43,900,634	2,267,561	49,746,153
Total Resource	SoPS 2	37,415,220	-	37,415,220	35,212,081	-	35,212,081	2,203,139	42,143,061
Total Capital		8,752,975	-	8,752,975	8,688,553	-	8,688,553	64,422	7,603,092
Total		46,168,195	-	46,168,195	43,900,634	-	43,900,634	2,267,561	49,746,153

Net Cash Requirement 2016-17

	Note	Estimate	Outturn	2016-17 Outturn compared to Estimate: Savings/ (Excess)	2015-16 Outturn
		£000	£000	£000	£000
Net Cash Requirement	SoPS 3	36,563,195	35,866,342	696,853	35,057,154

Administration Costs 2016-17

	Estimate £000	2016-17 Outturn £000	Outturn compared with Estimate £000	2015-16 Outturn £000
Administration Costs	1,503,499	1,497,004	6,495	1,505,325

SoPS Note 1 Net Outturn

SoPS Note 1.1 – Analysis of Net Resource Outturn

Spending in Departmental Expenditure Limits (DEL) Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Total Net Outturn Compared to Estimate £000	2016-17 Total Net Outturn Compared to Estimate Adjusted for Virements £000	2015-16 Total Net Resource Outturn* £000
A. Provision of Defence Capability - Service Personnel Costs	-	8,936,726	-	8,936,726	9,009,826	73,100	20,210	8,688,284
B. Provision of Defence Capability - Civilian Personnel Costs	-	1,317,797	-	1,317,797	1,349,238	31,441	-	1,282,598
C. Provision of Defence Capability - Infrastructure Costs	-	4,109,609	-	4,109,609	4,176,757	67,148	-	4,127,877
D. Provision of Defence Capability - Inventory Consumption	-	1,213,611	-	1,213,611	1,201,507	(12,104)	-	1,458,575
E. Provision of Defence Capability - Equipment Support Costs	-	6,440,168	-	6,440,168	6,523,938	83,770	-	6,308,897
F. Provision of Defence Capability - Other Costs and Services	-	1,224,402	-	1,224,402	1,148,214	(76,188)	-	1,712,903
G. Provision of Defence Capability - Receipts and Other Income	-	-	(1,001,626)	(1,001,626)	(1,082,130)	(80,504)	22,603	(990,842)
H. Provision of Defence Capability - Depreciation and Impairment Costs	-	8,773,560	-	8,773,560	8,840,059	66,499	66,499	7,690,147
I. Provision of Defence Capability - Cash Release of Provisions	-	253,552	-	253,552	265,000	11,448	11,448	238,288
N. Provision of Defence Capability - Research and Development Costs	-	164,191	-	164,191	190,000	25,809	25,809	892,689
Q. Operations - Service Personnel Staff Costs	-	27,617	-	27,617	24,930	(2,687)	-	12,864
R. Operations and Peacekeeping - Civilian Personnel Staff Costs	-	4,840	-	4,840	5,420	580	580	3,962
S. Operations - Infrastructure Costs	-	42,939	-	42,939	57,140	14,201	14,201	48,926

Spending in Departmental Expenditure Limits (DEL) Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Total Net Outturn Compared to Estimate £000	2016-17	2015-16
							Total Net Outturn Compared to Estimate £000	Total Net Resource Outturn* £000
T. Operations - Inventory Consumption	-	66,085	-	66,085	68,990	2,905	2,905	56,224
U. Operations - Equipment Support Costs	-	233,445	-	233,445	274,030	40,585	28,486	143,437
V. Operations - Other Costs and Services	-	41,510	-	41,510	39,440	(2,070)	-	18,607
W. Operations - Receipts and Other Income	-	-	(16,698)	(16,698)	(24,040)	(7,342)	-	(9,969)
X. Operations - Depreciation and Impairment Costs	-	45,272	-	45,272	60,000	14,728	14,728	21,029
Operations - Research and Development Costs	-	-	-	-	-	-	-	1,249
AA. Arm's Length Bodies Costs	-	153,063	-	153,063	181,292	28,229	28,229	164,842
AC. Defence Capability DE&S BTE	-	1,044,059	-	1,044,059	1,000,209	(43,850)	-	1,028,443
AD. War Pensions Benefits	-	764,817	-	764,817	767,500	2,683	2,683	794,774
AE. Conflict, Stability and Security Fund	-	86,832	-	86,832	88,401	1,569	1,569	53,397
Administration Costs*							-	
O. Administration Costs - Civilian Personnel Costs	430,741	-	-	430,741	400,000	(30,741)	-	403,342
P. Administration Costs - Other Costs and Services	395,656	-	-	395,656	495,699	100,043	398	465,947
AB. Administration Costs - Service Personnel Costs	658,904	-	-	658,904	590,000	(68,904)	-	617,879
AF. Administration Costs - Cash Release of Provisions	11,703	-	-	11,703	17,800	6,097	6,097	18,157
Total Spending in DEL	1,497,004	34,944,095	(1,018,324)	35,422,775	35,669,220	246,445	246,445	35,252,526

* The Department does not record any income as Administrative.

Spending in Annually Managed Expenditure (AME) Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Total Net Outturn Compared with Estimate £000	2016-17	2015-16
							Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Resource Outturn* £000
AG. Provision of Defence Capability - Depreciation and Impairment Costs	-	142,253	-	142,253	920,000	777,747	777,747	562,876
AH. Provision of Defence Capability - Provisions Costs	-	501,333	-	501,333	791,000	289,667	289,667	6,096,468
AI. Provision of Defence - Cash Release of Provisions Costs	-	-	(265,255)	(265,255)	(265,000)	255	255	(256,445)
AJ. Movement on the Fair Value of Financial Instruments	-	-	(589,025)	(589,025)	300,000	889,025	889,025	(299,576)
Total Spending in AME	-	643,586	(854,280)	(210,694)	1,746,000	1,956,694	1,956,694	6,103,323
Total Resource Outturn	1,497,004	35,587,681	(1,872,604)	35,212,081	37,415,220	2,203,139	2,203,139	41,355,849

SoPS Note 1.2 – Analysis of Net Capital Outturn

Capital Spending in Departmental Expenditure Limits (DEL) Capital - Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	Total Net Outturn Compared with Estimate £000	2016-17	2015-16
							Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Capital Outturn £000
J. Provision of Defence Capability - Capital - Single Use Military Equipment (SUME)	-	5,192,513	-	5,192,513	4,736,697	(455,816)	-	5,238,285
K. Provision of Defence Capability - Other Capital (Fiscal)	-	2,279,278	-	2,279,278	2,412,051	132,773	-	2,620,434
L. Provision of Defence Capability - Fiscal Assets / Estate Disposal	-	-	(36,560)	(36,560)	(193,000)	(156,440)	-	(423,365)
M. Provision of Defence Capability - New Loans and Loan Repayments	-	-	(63,292)	(63,292)	(4,100)	59,192	56,482	(3,220)
N. Provision of Defence Capability - Research and Development Costs	-	1,104,141	-	1,104,141	1,582,480	478,339	1,566	-
Y. Operations Capital Single Use Military Equipment (SUME)	-	111,350	-	111,350	117,950	6,600	5,034	-
Z. Operations Other Capital (Fiscal)	-	3,616	-	3,616	2,050	(1,566)	-	2,322
AA. Arm's Length Bodies	-	2,145	-	2,145	2,905	760	760	86,624
AC. Defence Capability DE&S BTE	-	94,941	-	94,941	95,342	401	401	51,862
AE. Conflict, Stability and Security Fund	-	421	-	421	600	179	179	1,020
Total Capital Spending in DEL	-	8,788,405	(99,852)	8,688,553	8,752,975	64,422	64,422	7,573,962

Capital Spending in Annually Managed Expenditure (AME) Capital - Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	Total Net Outturn Compared with Estimate £000	2016-17	2015-16
							Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Capital Outturn £000
AI. Provision of Defence Capability - Provisions Costs	-	-	-	-	-	-	-	29,130
Total Capital Spending in AME	-	-	-	-	-	-	-	29,130
Total Capital Outturn	-	8,788,405	(99,852)	8,688,553	8,752,975	64,422	64,422	7,603,092

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

	Note	2016-17 Outturn £000	2015-16 Outturn £000
Net Resource Outturn (Statement of Parliamentary Supply)	SoPS	35,212,081	41,355,849
Non Budget	SoPS	-	787,212
Adjustment for changes in discount rates not passing through net operating costs		(128,442)	2,728
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		4,405	75,297
Income in respect of donated assets treated as capital income		(1,182)	(203)
Loss / (gain) on foreign exchange contracts in respect of Capital purchases		(188,000)	22,200
Less movements on capitalised provisions included in resource outturn but not passing through net operating costs		17,298	-
Adjust for the net effect of capital grants included in operating costs but excluded from resource outturn and included in resource outturn but excluded from operating costs		71,430	2,322
Equity Withdrawal from investments in Trading Funds, and other receipts - recorded as income in Operating Costs and Capital in the SoPS		-	(262,111)
Prior Period Adjustments not passing through operating costs: capital expenditure and increase in prior period nuclear decommissioning provisions treated as non-budget in 2015-16 resource outturn		-	(787,212)
Add capitalised Research and Development Costs included in operating costs but excluded from resource outturn		655,037	-
Net Operating Cost		35,642,627	41,196,082

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

	Note	Estimate £000	Outturn £000	Net Total Outturn Compared with Estimate: Savings/ (Excess) £000
Net Resource Outturn	SoPS 1.1	37,415,220	35,212,081	2,203,139
Net Capital Outturn	SoPS 1.2	8,752,975	8,688,553	64,422
Adjustments for Arm's Length Bodies (ALBs):				
Remove voted outturn (Resource and Capital)		(184,197)	(155,208)	(28,989)
Add cash Grant in Aid and other Departmental expenditure on behalf of ALBs		174,256	173,021	1,235
Adjustments to remove non-cash items:				
Depreciation		(10,120,059)	(8,254,865)	(1,865,194)
New provisions and adjustments to previous provisions		(791,000)	(623,613)	(167,387)
Other non-cash items		-	161,531	(161,531)
Adjustment to reflect movement in working capital:				
Increase / (Decrease) in Inventory		150,000	200,960	(50,960)
Increase / (Decrease) in Receivables		200,000	570,198	(370,198)
(Increase) / Decrease in Payables		701,000	(370,455)	1,071,455
Use of provisions and unfunded pensions		265,000	264,139	861
Net Cash requirement		36,563,195	35,866,342	696,853

Parliamentary Accountability Disclosures

Fees and Charges

(This section has been subject to audit)

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.

Remote Contingent Liabilities and Financial Guarantees

(This section has been subject to audit)

The MOD has entered into the following contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. Details of restricted indemnities are not given due to reasons of commercial confidentiality and / or national security.

These liabilities are uncertain; they recognise the fact that further expenditure may arise if one or more uncertain future events occur that are not wholly within the control of the MOD. None of the liabilities are required to be disclosed as Contingent Liabilities under International Accounting Standard 37 (IAS 37) as the likelihood of a transfer of economic benefit in settlement is so remote. Managing Public Money does require these remote liabilities to be disclosed.

Quantifiable

	31 March 2016 £000	Increase / (Decrease) in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2017 £000
Indemnity for possible damage caused by contractors on Government property	-	280,000	-	-	280,000
Restricted. Not disclosed due to reasons of commercial confidentiality and / or national security	-	278,162	-	-	278,162
Remediation costs associated with the discovery of unknown environmental contamination at the Fleetlands site	17,000	-	-	-	17,000
Potential redundancy liability for employees at several sites due to USVF re-basing as part of US European Infrastructure Consolidation (EIC)	-	6,000	-	-	6,000
Government Pipeline and Storage System (GPSS) - compensation to landowners where GPSS is laid outside deviation limits or where the SofS' rights in respect of GPSS are lost	5,456	150	-	-	5,606
Liabilities arising from insurance risk of exhibits on loan to the museums of the Royal Navy, Army and Royal Air Force	2,349	1,041	-	(745)	2,645
Potential redundancy costs for employees at the Defence College of Technical Training	1,900	-	-	-	1,900
Civil Service Pensions - New Fair Deal	10	-	-	(10)	-
Risk to contractors at MOD sites	108,000	-	-	(108,000)	-
Government Pipeline and Storage System (GPSS) - compensation to landowners where GPSS is laid outside deviation limits (amalgamated with GPSS liability above)	150	(150)	-	-	-
Total	134,865	565,203	-	(108,755)	591,313

Following a review of Contingent Liabilities using the criteria described in IAS37, a number of serials have moved between the Accountability Report and the Annual Accounts sections or have expired during the Financial Year for example £108M relating to a risk to contractors at MOD sites has been combined with another Contingent Liability to form a new serial.

Unquantifiable

The liabilities below are unquantifiable. This could be due to a variety of reasons such as: the possibility of multiple (although remote) scenarios and permutations (often involving complex and changing technology); and the variety and the uncertainty surrounding the events that may lead to crystallisation of any remote obligation. Objective evidence to support valuations of these liabilities is not available and hence they cannot be measured with sufficient reliability. Although unlikely to occur, the liabilities will remain for the foreseeable future because they relate to possible obligations in respect of enduring companies, products, projects, equipment, technologies and property. The liabilities are:

- Indemnities to AWE Management Ltd for nuclear and non-nuclear risks.
- Indemnities to Rolls-Royce and BAE Systems for risks associated with the handling of fissile materials.
- 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 the Babcock Group at Devonport for ship repair insurance for claims in excess of the amount covered by the contractor's own insurance (clause 6 of the Devonport Enabling Agreement).
- Indemnity in respect of nuclear risk in support of framework contracts under Next Generation Estate Contracts.
- Standard shipbuilding indemnity in respect of Vanguard and Astute class submarines.
- 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 given in relation to the disposal of Gruinard Island in the event of claims arising from the outbreak of specific strains of anthrax on the Island.
- Indemnity 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 for contractors under standard contract terms for Joint Operational Fuel Systems and Cerberus Project.
- Indemnities under standard terms to contractors for contractors' personnel on Government premises for Sensors Support Optimisation Project and the Puma Mark 2 Helicopter Interim Support Arrangement and the operator of the Apache helicopter integrated operational support contract.
- Indemnity to BAE Systems for product liability in relation to Astute Boats 5 and 6.
- New Fair Deal Arrangements for staff pensions.

Financial Guarantees

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.
- 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.

Regularity of Expenditure

(This section has been subject to audit)

Losses, Special Payments and Gifts

Further information on losses and special payments is provided in HM Treasury's Managing Public Money and can be found on www.gov.uk

Losses

Summary of all closed cases:		2016-17	2015-16	
	Number of Cases	£000	Number of Cases	£000
Bookkeeping Adjustments	33	4,180	18	32,435
Cash and Overpayment Losses	118	749	846	330
Stores Losses	6,771	9,409	7,219	13,163
Fruitless Payments	1,496	36,481	3,179	44,382
Constructive Losses	14	151,748	11	452,407
Claims Waived or Abandoned	2,926	15,880	1,681	1,522
Total Losses	11,358	218,447	12,954	544,239

Details of closed cases over £300,000:	£000
Bookkeeping Adjustments	
Write off of unsupported balances. This loss consists of balances that could not be verified with the information available. The loss consists of 3 cases	2,805
Stores Losses	
Vehicle destroyed by fire during a training exercise	658
Physical loss of Typhoon/Tornado targeting and navigation pod - forward section	601
Accident involving a Puma helicopter in Afghanistan	543
Fruitless Payments	
Cost of equipment damaged in 2008 and the leased replacement capability	28,686
Penalty and interest payment due to HMRC on a VAT liability. This consists of four cases	2,714
The MOD's budget for 2017-18 has been reduced as a result of the Department's cash forecasting performance during 2016-17	2,525
Payments for accommodation and equipment hire not used following a collision involving HMS Ambush	453
Constructive Losses	
MOD has terminated three contracts due to non-compliance issues with the contract specifications	51,058
Project Soothsayer: terminated contract	50,552
Following a capability review a decision was made that the Shielder Anti-Tank mine canister and associated vehicles were no longer required	44,533
Mobile mine detection capability for Warrior vehicles that was deemed unsuitable	4,847
Deferred installation of a ship's bioreactor during a refit led to cancellation of the project	455
Claims waived or abandoned	
Claim against a contractor which was reduced in negotiating a settlement	12,681
Supplies and services provided on a reciprocal basis to Commonwealth and Foreign Navy vessels during visits to British ports at Clyde, Portsmouth, Devonport and Gibraltar	398
Total Closed Cases Over £300,000	203,509

ADVANCE NOTIFICATIONS: HM Treasury's Managing Public Money requires early notification to Parliament of significant losses. Details of open cases identified during the year that are over £300,000 can be found in the table below. The values are estimates and may change when the case is finally closed.	£000
Bookkeeping Adjustments	
Inventory record discrepancies following a major refit of HMS Triumph	965
Stores Losses	
Damage on landing to 2 remotely piloted aircraft	5,600
Repairs to HMS Ambush following a collision	2,990
Fruitless Payments	
Contractual payment for gas canisters belonging to a contractor which were lost while in MOD's custody	3,275
Penalty and interest payment due to HMRC on tax and NI liabilities	428
Disposal of expired ration packs following changes to operational deployment planning assumptions	363
Constructive Losses	
Disposal of Warthog Protected Military Vehicles	104,911
12 projects cancelled following a review of the Army Basing Programme	2,253
Cancelled building project in Afghanistan	581
Total Advance Notifications Over £300,000	121,366

Special Payments

	2016-17		2015-16	
	Number of Cases	£000	Number of Cases	£000
Total Special Payments - closed cases	406	44,266	195	3,524

Details of closed cases over £300,000:	£000
Compensation Payments	
Payments to personnel whose service under the 1975 Armed Forces Pension Scheme was not taken into account in calculating Early Departure Payments	4,281
Extra Contractual Payments	
Project Soothsayer: terminated contract - extra contractual element	37,400

ADVANCE NOTIFICATIONS: HM Treasury's Managing Public Money requires early notification to Parliament of significant Special Payments. Details of open cases identified during the year that are over £300,000 can be found in the table below. The values are estimates and may change when the case is finally closed.	£000
Ex Gratia Payments	
Ex gratia payments authorised by Treasury	400
Total Advance Notifications Over £300,000	400

Special Severance Payments

During the year five Special Severance Payments totalling £127,000 were made. Further details (to the nearest £1,000) are:	
Maximum Payment	£60,000
Median Payment	£20,000
Minimum Payment	£5,000

Gifts

Gifts with a total value of £6,955,000 (to the nearest £1,000) were made during the year, including the following individual gifts over £300,000:	£000
Surplus Service Family Accommodation to the Northern Ireland Executive.	3,500
Ammunition to the Kurdistan Regional Government of Iraq.	1,402
Non-lethal equipment to the Government of Ukraine.	1,358
Land Rovers to the Government of Bulgaria.	443
Antiques, works of art and other historic artefacts to various museums. Their transfer on an unvalued basis has been approved by the Chief Secretary to the Treasury.	-
	6,703

Long Term Expenditure Trend Table by Category

(This section has not been subject to audit)

Financial Performance	Resource (£'000)					Capital (£'000)						
	Estimate 2016-17	Outturn 2016-17	Outturn 2015-16	Outturn 2014-15	Outturn 2013-14	Outturn 2012-13	Estimate 2016-17	Outturn 2016-17	Outturn 2015-16	Outturn 2014-15	Outturn 2013-14	Outturn 2012-13
Total DEL - Core	35,074,909	34,890,933	34,902,800	34,104,427	34,610,735	33,603,707	8,632,375	8,573,167	7,521,080	7,776,792	7,446,265	7,337,733
Administration Service Personnel Costs	590,000	658,904	617,879	623,716								
Service Personnel Costs	9,009,826	8,936,726	8,688,284	7,878,834	9,046,632	9,400,516						
Administration Civilian Personnel Costs	400,000	430,741	403,342	371,688	2,112,064	2,134,313						
Civilian Personnel Costs	1,349,238	1,317,797	1,282,598	1,937,614	192,110	200,829						
Administration Other Costs & Service	495,699	395,656	465,947	463,849	17,139	44,548						
Other Costs & Service	1,148,214	1,224,402	1,712,903	1,804,274	1,790,894	1,500,622						
Infrastructure Costs	4,176,757	4,109,609	4,127,877	4,576,992	4,545,389	4,428,812						
Inventory Consumption	1,201,507	1,213,611	1,458,575	1,661,847	1,765,487	1,749,176						
Equipment Support Costs	6,523,938	6,440,168	6,308,897	6,343,245	6,065,557	5,161,399						
Research and Development	190,000	164,191	892,689	1,000,606	971,008	944,069						
Receipts and Other Income	-1,082,130	-1,001,626	-990,842	-1,091,806	-1,169,263	-1,248,867						
Administration Cash Release of Provisions	17,800	11,703	18,157	14,451								
Cash Release of Provisions	265,000	253,552	238,288	201,855	175,030	203,010						
Depreciation & Impairments Costs	8,840,059	8,773,560	7,690,147	8,187,241	8,911,222	8,958,447						
Depreciation & Impairments Costs Non Departmental Bodies	9,941		16,758									
DE&S BTE	1,000,209	1,044,059	1,028,443									
Non Departmental Public Bodies	171,351	153,063	148,084	130,021	187,466	126,833						
Capital Single Use Military Equipment							4,736,697	5,192,513	5,238,285	4,870,897	4,455,379	4,395,170
Capital - Fiscal							2,412,051	2,279,278	2,620,434	3,210,988	3,037,505	3,008,738
Fiscal Assets/Estate Disposal							-193,000	-36,560	-423,365	-250,881	-43,573	-63,685
Research and Development							1,582,480	1,104,142				
New Loans and Loan Repayment							-4,100	-63,292	-3,220	-56,626	-5,573	-5,519
Capital - Fiscal Non Departmental Public Bodies							2,905	2,145	2,322	2,414	2,527	3,029
DE&S BTE							95,342	94,941	86,624			
War Pensions Benefits	767,500	764,817	794,774									
Total DEL - Core	35,074,909	34,890,933	34,902,800	34,104,427	34,610,735	33,603,707	8,632,375	8,573,167	7,521,080	7,776,792	7,446,265	7,337,733

Long-Term Expenditure Trend Table – Equipment Plan 2014-15 to 2025-26

(This section has not been subject to audit)

		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
		£M												
Contingency	Total EP				180	200	267	600	510	823	850	900	850	5,180
JFC	Equipment Procurement Programme				795	1,310	1,699	1,700	1,586	1,001	917	896	840	10,744
	Equipment Support Programme				1,640	1,585	1,686	1,785	1,928	1,970	1,968	2,074	2,071	16,706
	Total EP	2,207	2,200	2,240	2,435	2,894	3,385	3,485	3,514	2,971	2,885	2,970	2,911	27,450
Air Command	Equipment Procurement Programme				1,514	1,230	1,207	1,329	1,402	1,233	856	726	690	10,186
	Equipment Support Programme				2,361	2,289	2,061	2,036	2,026	2,051	1,965	2,096	2,267	19,151
	Total EP	3,374	3,563	3,369	3,875	3,519	3,268	3,365	3,428	3,284	2,821	2,821	2,957	29,338
Army Command	Equipment Procurement Programme				766	1,115	1,420	1,994	2,289	2,218	2,191	1,863	1,833	15,690
	Equipment Support Programme				1,267	1,215	1,222	1,281	1,229	1,166	1,142	1,229	1,193	10,945
	Total EP	1,609	1,491	1,507	2,034	2,331	2,642	3,275	3,518	3,384	3,333	3,093	3,027	26,635
Navy Command	Equipment Procurement Programme				1,163	1,018	1,008	1,055	1,117	1,086	1,290	1,247	1,165	10,148
	Equipment Support Programme				1,850	1,899	2,011	2,066	2,041	2,173	2,243	2,322	2,334	18,938
	Total EP	3,373	3,284	3,095	3,013	2,917	3,019	3,121	3,159	3,259	3,533	3,568	3,498	29,087
DE&S	Equipment Procurement Programme				0	0	0	0	0	0	0	0	0	0
	Equipment Support Programme				56	45	1	-54	10	-45	19	16	6	54
	Total EP	42	180	208	56	45	1	-54	10	-45	19	16	6	54
Strat Progs	Equipment Procurement Programme				2,475	2,697	2,905	2,963	3,169	3,364	3,721	3,812	3,766	28,872
	Equipment Support Programme				1,834	1,908	1,855	1,795	1,812	1,846	1,898	1,820	1,889	16,657
	Total EP	3,865	3,949	4,248	4,309	4,605	4,760	4,758	4,981	5,210	5,618	5,631	5,656	45,529
Grand Total		14,470	14,667	14,667	15,901	16,511	17,341	18,550	19,119	18,888	19,059	19,000	18,905	207,077
<p>Note 1: 2017-18 to 2025-26 are figures from the 2016 Equipment Plan Note 2: Prior to 2014-15, the Equipment Plan was managed by Head Office Note 3: Departmental Headroom has been absorbed into Equipment Plan Projects and Programmes as part of SDSR15 Note 4: Contingency includes Nuclear Contingency as per the 2016 Equipment Plan Note 5: In 2014-15, the Equipment Plan Budget is delegated to the Front Line Commands and Strategic Programmes</p>														

Stephen Lovegrove
Accounting Officer

11 July 2017

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 2017 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2016. 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. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures within the Accountability Report that is described in those reports and disclosures 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 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 one respect:

- The Department does not hold records to enable it to comply with the Financial Reporting Framework and account for the expenditure, assets and liabilities arising from certain contracts in accordance with International Accounting Standard 17, Leases. Consequently, I have concluded that the Ministry of Defence has omitted a material value of leased assets and lease liabilities from its Statement of Financial Position as at 31 March 2015, 31 March 2016 and 31 March 2017. This has also led to a material misstatement of the Statement of Comprehensive Net Expenditure for 2015-16 and 2016-17 and Statement of Parliamentary Supply for 2015-16 and 2016-17. 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.

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 2017 and of the Department's net expenditure and Departmental Group's net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures within the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability 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 solely of the absence of accounting records held by the Department to support the proper application of IAS 17; described above:

- adequate accounting records have not been kept; and
- I have not received all of the information and explanations I require for my audit.

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

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

Opinion on Votes A

The Ministry of Defence's Votes A is presented annually to Parliament to seek statutory authority for the maximum numbers of personnel to be maintained for service with the armed forces. As reported in Annex A of the Annual Report, the maximum numbers maintained during 2016-17 for the Naval, Army and Air Force Services in all active and reserve categories were within the numbers voted by Parliament. I obtain evidence sufficient to give reasonable assurance as to whether the Votes A Statement as presented in Annex A properly presents the maximum numbers maintained against voted Parliamentary control totals and whether those totals have not been exceeded.

In my opinion the Votes A Statement properly presents the maximum numbers maintained against voted Parliamentary control totals for the year ended 31 March 2017 and that those totals have not been exceeded.

Sir Amyas C E Morse
Comptroller and Auditor General
17 July 2017

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

Report of the Comptroller and Auditor General on the 2016-17 Accounts of the Ministry of Defence

Introduction

1. The Ministry of Defence's (the Department) principal activity is to provide 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 2016-17 the Departmental Group incurred £35.6 billion of net operating costs and held assets of £140.3 billion and gross liabilities of £29.3 billion.
2. The Department is required to prepare its financial statements in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury. Under the FReM, the Department is required to apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

The purpose of my report

3. This report explains the basis for the qualification of my audit opinion on the Department's 2016-17 financial statements.

Accounting for lease type arrangements

Basis of my qualification

4. I have qualified my opinion for an eighth year because the Department is likely to have omitted a material value of leased assets and associated liabilities from its Statement of Financial Position. I cannot quantify the impact of these omissions on the accounts with certainty because the Department has not maintained the records, or obtained the information required to do so.

Accounting requirements

5. The FReM requires those preparing accounts to establish whether contracts contain lease-type arrangements and whether those are, in substance, either a finance or operating lease and to account for these leases under International Accounting Standard (IAS) 17 - Leases. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is any other type of lease. The classification made by those preparing accounts could have a significant impact on the financial statements.
6. If the contract is classified as a finance lease then the value of assets used to deliver the service would be recognised in the Statement of Financial Position at the lower of fair value and the present value of the minimum lease payments due under the contract. A corresponding liability of the same value would also be recognised. If it is classified as an operating lease, no assets would be recognised and the payments made under the lease would be reflected in the Statement of Comprehensive Net Expenditure as spend is incurred.
7. I regard the accounting requirements for lease type arrangements as particularly relevant to the Department. The Department must enter into strategic arrangements with certain contractors to procure specialist defence platforms on a non-competitive basis. These arrangements may provide for the exclusive, or near exclusive, use of industrial assets and capability that have only limited use for other customers. Consequently, the contractual terms, which are covered by Single Source Contract Regulations, may result in the Department controlling a significant majority of the outputs of a supplier's assets. An example is where shipyards are used exclusively on defence contracts and the pricing of the contract recognises this by allowing the contractor to recover fixed costs other than through market rate or unit cost pricing. These

arrangements may be considered to contain the characteristics of a finance lease as defined by IAS 17 - Leases and should therefore be recognised as finance leases in the Department's Statement of Financial Position.

Action by the Department

8. The Department believes there are a number of contracts that should be accounted for as leases, but it does not have accurate information to enable it to do so. In 2012-13, following a review of 25 contracts that demonstrate characteristics of a lease under IAS 17, the Department assessed eight of these as being finance leases. If recognised, the Department estimated these would lead to assets with an estimated initial net book value (for seven of the eight contracts) of some £860 million being recorded in the Department's Statement of Financial Position. The Department's analysis confirms the material impact of not recognising leases although the quality of evidence is still insufficient for the purposes of my opinion. Further management information and supplier engagement is needed to complete this review and confirm what values would need to be included in the accounts. The Department also recognises that there are significant completeness concerns over the scope of its review and that across the Department as a whole the scale of the omission is estimated to be in excess of £860 million.

9. The Department has concluded that compliance with IAS 17 for existing contracts would create significant challenges. It would need to change its business systems and processes as well as engage in wider interaction with its supplier base to obtain the necessary asset and liability information. As such, the Department has, in agreement with HM Treasury, decided not to obtain more detailed information on the grounds that doing so would not represent value for money.

10. The Department is now seeking to apply IAS 17 to new contracts on a single site with a single contract. To date, the Department has not identified any new contracts that fall under IAS 17 using this limited criteria. This application of IAS 17 is limited and will not consider any existing contracts. As such, there is still a material impact of non-compliance arising from legacy contracts.

11. The International Accounting Standards Board (the Board) is responsible for setting IFRS, of which IAS 17, is a part. In January 2016, the Board issued a new accounting Standard – IFRS 16- Leases which sees the accounting treatment of finance and operating leases aligned, so that all leases are recognised in the Statement of Financial Position and not just finance leases. IFRS 16 is currently deemed effective from 1 January 2019, although at this stage the timetable for its adoption in the public sector, along with the extent of any adaptation, has not yet been determined by HM Treasury. If this standard is adopted and/or adapted, then in the future the Department will have to adhere to these new requirements.

12. The Department is considering how it can use its knowledge from IAS 17 in preparing for the new standard and is assessing what impact this may have on the current qualification. It also needs to consider the wider implications of the new standard on the full range of its activities, including whether the impact of bringing contracts currently recorded as operating leases onto the SoFP would be material. Wider engagement with suppliers to obtain better contractual information supporting the utilisation of assets and the resultant liabilities is also likely to contribute to the more effective management of these arrangements.

Sir Amyas C E Morse

17 July 2017

Comptroller and Auditor General

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

Annual Accounts



Financial Statements

Consolidated Statements of Comprehensive Net Expenditure (SoCNE)

for the year ended 31 March 2017

	Note	2016-17		2015-16	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Income from provision of supplies and services (e.g. support to: MOD Trading Funds, Other Government Departments, NATO, UN, US Forces and other foreign Governments)	4	(554,929)	(554,929)	(542,074)	(542,074)
Other income	4	(705,341)	(814,026)	(503,921)	(617,312)
Total Income		(1,260,270)	(1,368,955)	(1,045,995)	(1,159,386)
Expenditure - non-cash					
Depreciation and amortisation	3	6,852,400	6,862,243	7,517,602	7,534,360
Movement on provisions, derivatives and discount on payables and receivables	3	(473,922)	(473,922)	6,081,134	6,081,134
Asset - impairments, inventory and project write on/off and surplus/deficit on disposal	3	2,566,155	2,566,155	736,416	736,416
Other non-cash expenditure	3	2,356	2,356	2,464	2,464
Sub total - non cash expenditure	3	8,946,989	8,956,832	14,337,616	14,354,374
Expenditure - cash					
Staff Costs	3	12,082,631	12,178,456	11,672,046	11,764,747
Equipment and equipment support	3	5,955,707	5,955,707	5,876,045	5,876,045
Property management and utilities	3	2,677,661	2,677,661	2,532,140	2,532,140
Inventory and fuel consumption	3	1,095,830	1,095,830	1,299,850	1,299,850
IT and telecommunications	3	1,443,028	1,443,028	1,599,423	1,599,423
Research and Development	3	824,765	824,765	919,512	919,512
Movements - including: personnel travelling, subsistence / relocation costs and movement of stores and equipment	3	640,682	640,682	625,855	625,855
War pensions / benefits	3	764,817	764,817	794,774	794,774
Professional fees	3	758,801	758,801	794,262	794,262
Other expenditure (including interest payable on PFI projects and finance leases)	3	1,124,874	1,107,933	1,115,905	1,104,746
Training, Safety and Welfare	3	607,070	607,070	689,740	689,740
Total Expenditure	3	36,922,855	37,011,582	42,257,168	42,355,468
Net Expenditure For The Year		35,662,585	35,642,627	41,211,173	41,196,082

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

Other Comprehensive Expenditure

	Note	2016-17		2015-16	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Net (gain) / loss on revaluation of property, plant and equipment	SoCiTE	(3,037,654)	(2,672,775)	(2,720,941)	(2,722,000)
Net (gain) / loss on revaluation of intangible assets	SoCiTE	(568,090)	(568,090)	(163,122)	(163,122)
Net (gain) / loss on revaluation of assets held for sale	SoCiTE	11,466	11,466	1,428	1,428
Net (gain) / loss on revaluation of inventories	SoCiTE	(287,404)	(287,404)	21,875	21,875
Net (gain) / loss on pensions	SoCiTE	126,690	126,655	(5,275)	(9,284)
Transfer between reserves and asset (write-on) / write-off	SoCiTE	(53,264)	(84,941)	(5,456)	(45,114)
Total Other Comprehensive Expenditure		(3,808,256)	(3,475,089)	(2,871,491)	(2,916,217)

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

Consolidated Statements of Financial Position (SoFP)

as at 31 March 2017

	Note	31 March 2017		31 March 2016	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Non-current assets					
Intangible assets	5	27,778,615	27,778,615	26,330,424	26,330,424
Property plant and equipment	6	101,735,069	102,316,122	99,666,934	100,545,493
Retirement benefit scheme assets**	16	-	15,918	-	-
Financial assets		13,267	13,267	73,339	73,339
Receivables due after more than one year	12	467,728	467,728	620,231	799,842
Total non-current assets		129,994,679	130,591,650	126,690,928	127,749,098
Current assets					
Financial assets held for sale		1	36,014	1	69,207
Non-current assets held for sale	10	25,570	25,570	32,870	32,870
Inventories	11	4,548,973	4,557,339	4,617,281	4,625,978
Receivables due within one year	12	2,797,026	2,815,093	2,107,016	2,122,621
Financial assets		607,812	607,812	332,389	332,389
Cash at bank and in hand	13	1,591,395	1,653,208	1,641,001	1,728,460
Total current assets		9,570,777	9,695,036	8,730,558	8,911,525
Total assets		139,565,456	140,286,686	135,421,486	136,660,623
Current liabilities					
Payables due within one year	14	(10,670,148)	(10,715,868)	(10,331,865)	(10,399,531)
Financial liabilities		(121,872)	(121,872)	(400,061)	(400,061)
Total current liabilities		(10,792,020)	(10,837,740)	(10,731,926)	(10,799,592)
Non-current assets plus net current assets		128,773,436	129,448,946	124,689,560	125,861,031
Non-current liabilities					
Provisions	15	(11,280,005)	(11,280,005)	(11,639,479)	(11,639,869)
Retirement benefit scheme liabilities**	16	(593,800)	(598,400)	-	-
Payables due after more than one year	14	(6,542,529)	(6,544,262)	(6,707,348)	(6,896,043)
Total non-current liabilities		(18,416,334)	(18,422,667)	(18,346,827)	(18,535,912)
Assets less liabilities*		110,357,102	111,026,279	106,342,733	107,325,119
Taxpayers' equity and other reserves					
General fund	SoCITE	84,634,771	84,634,771	81,923,416	81,923,416
Revaluation reserve	SoCITE	25,722,331	25,722,331	24,419,317	24,419,317
Taxpayers' Equity		110,357,102	110,357,102	106,342,733	106,342,733
Arm's Length Bodies' restricted reserves	SoCITE	-	123,962	-	93,739
Arm's Length Bodies' unrestricted reserves	SoCITE	-	545,215	-	888,647
Total Arm's Length Bodies' reserves		-	669,177	-	982,386
Total taxpayers' equity and other reserves		110,357,102	111,026,279	106,342,733	107,325,119

*The value of assets and liabilities accounted for under leases is understated because contracts, particularly strategic procurement arrangements with key contractors, have not been assessed under IFRIC 4. Further details of the Department's application of IFRIC 4 are set out in Note 1 to the accounts Accounting Policies; specifically notes 1.41 to 1.43.

**The value of assets and liabilities in respect of retirement benefit schemes has been separately disclosed as at 31 March 2017. Assets were previously included as receivables due after one year. The comparative net asset value for the prior year was £11.6M. Liabilities were previously included as either provisions or as payables due after more than one year. The comparative net liabilities for the prior year were: Core Department and Agencies £441.9M and Departmental Group £456.6M.

Stephen Lovegrove

Accounting Officer

11 July 2017

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

Consolidated Statements of Cash Flows (SoCF)

for the year ended 31 March 2017

		2016-17		2015-16	
	Note	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Cash flows from operating activities					
Net operating cost	SoCNE	35,662,585	35,642,627	41,211,173	41,196,082
Adjustments for non-cash transactions		(8,850,394)	(8,853,298)	(14,166,197)	(14,197,483)
Increase / (Decrease) in trade and other receivables	SoFP	537,507	376,276	(250,630)	(266,242)
Adjustment for movements on receivables relating to items not passing through operating costs		32,692	212,833	36,745	47,587
Movement in net inventories and financial assets held for sale		200,960	167,436	(106,317)	(98,244)
(Increase) / Decrease in trade payables	SoFP	(173,464)	30,844	(611,843)	(612,117)
Adjustment for movements in payables relating to items not passing through operating costs		(154,952)	(327,461)	647,207	655,322
Dividends and Equity Repayments		68,400	68,400	62,197	62,197
Realised loss / (gain) on derivatives		(262,196)	(262,196)	277,436	277,436
Use of provisions and unfunded pension		264,139	264,139	229,546	229,546
Net cash outflow from operating activities		27,325,277	27,319,600	27,329,317	27,294,084
Cash flows from investing activities					
Purchase of property, plant and equipment	6	6,968,078	6,999,401	7,607,935	7,630,663
Purchase of intangible assets	5	2,196,228	2,196,228	2,100,920	2,100,920
Adjustment for non cash movements relating to PPE and intangibles		(718,947)	(718,947)	(1,677,054)	(1,657,187)
Proceeds on disposal of property, plant and equipment		(190,460)	(190,460)	(511,975)	(511,975)
Dividends and Equity Repayments	8.7	(68,400)	(68,400)	(62,197)	(62,197)
Repayments from other bodies	8.1	(12,880)	(12,880)	(3,220)	(3,220)
Net cash outflow from investing activities		8,173,619	8,204,942	7,454,409	7,497,004
Cash flows from financing					
Consolidated Fund (Supply) - current year	SoCiTE	(35,666,749)	(35,666,749)	(35,532,000)	(35,532,000)
Repayment of loans from the National Loans Fund		2,641	2,641	2,554	2,554
Capital element of payments in respect of finance leases and Service Concession Arrangements		364,805	364,805	270,873	270,873
Movement on collaborative projects		(149,987)	(149,987)	(24,079)	(24,079)
Net financing		(35,449,290)	(35,449,290)	(35,282,652)	(35,282,652)
Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(49,606)	(75,252)	498,926	491,564
Cash and cash equivalents at the beginning of the period	13	1,641,001	1,728,460	1,142,075	1,236,896
Cash and cash equivalents at the end of the period	13	1,591,395	1,653,208	1,641,001	1,728,460

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

Consolidated Statements of Changes in Taxpayers Equity (SoCiTE)

	Note	Core Department and Agencies			Arm's Length Bodies (ALBs)		Departmental Group	
		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 2015		86,255,881	23,366,916	109,622,797	154,523	768,046	922,569	110,545,366
Parliamentary Funding - drawn down in-year	SoCF	35,532,000	-	35,532,000	-	-	-	35,532,000
Parliamentary Funding - deemed funding		420,983	-	420,983	-	-	-	420,983
Parliamentary Funding - Supply payable	14	(895,829)	-	(895,829)	-	-	-	(895,829)
Non-cash charge - auditors remuneration		2,464	-	2,464	-	-	-	2,464
Net Expenditure For The Year	SoCNE	(41,211,173)	-	(41,211,173)	913	14,178	15,091	(41,196,082)
Other net comprehensive expenditure:								
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	-	2,720,941	2,720,941	-	1,059	1,059	2,722,000
Net (loss) / gain on revaluation of intangible assets	SoCNE	-	163,122	163,122	-	-	-	163,122
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	(1,428)	(1,428)	-	-	-	(1,428)
Net (loss) / gain on revaluation of inventories	SoCNE	-	(21,875)	(21,875)	-	-	-	(21,875)
Net (loss) / gain on pensions	SoCNE	5,275	-	5,275	-	4,009	4,009	9,284
Transfer between reserves and asset write-on / (write off)	SoCNE	1,813,815	(1,808,359)	5,456	(61,697)	101,355	39,658	45,114
Balance at 31 March 2016		81,923,416	24,419,317	106,342,733	93,739	888,647	982,386	107,325,119
Parliamentary Funding - drawn down in-year	SoCF	35,666,749	-	35,666,749	-	-	-	35,666,749
Parliamentary Funding - deemed funding		895,829	-	895,829	-	-	-	895,829
Parliamentary Funding - Supply Payable	14	(696,236)	-	(696,236)	-	-	-	(696,236)
Non-cash charge - auditors remuneration	3	2,356	-	2,356	-	-	-	2,356
Net Expenditure For The Year	SoCNE	(35,662,585)	-	(35,662,585)	-	19,958	19,958	(35,642,627)
Other net comprehensive expenditure:								
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	-	3,037,654	3,037,654	-	(364,879)	(364,879)	2,672,775
Net (loss) / gain on revaluation of intangible assets	SoCNE	-	568,090	568,090	-	-	-	568,090
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	(11,466)	(11,466)	-	-	-	(11,466)
Net (loss) / gain on revaluation of inventories	SoCNE	-	287,404	287,404	-	-	-	287,404
Net (loss) / gain on pensions	SoCNE	(126,690)	-	(126,690)	-	35	35	(126,655)
Transfer between reserves and asset write-on / (write off)	SoCNE	2,631,932	(2,578,668)	53,264	30,223	1,454	31,677	84,941
Balance at 31 March 2017		84,634,771	25,722,331	110,357,102	123,962	545,215	669,177	111,026,279

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

Notes to the Accounts

1. Statement of Accounting Policies

Introduction

1.1 These financial statements have been prepared in accordance with the 2016-17 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 the impact on the financial statements are provided in Notes 1.40 to 1.43 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 departure to enable the Department to reflect its own particular circumstances or the departure does not have a material impact on the financial statements. The departures are:

- the Department has not fully complied with the FReM regarding the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and similar schemes' 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 SoCNE. All other costs associated with the scheme, such as compliance checking, are also charged to the SoCNE;
- 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; and
- the Department currently departs from the FReM by accounting for its inventory under current cost. It has been agreed with HM Treasury this is an appropriate basis for valuation until Financial Year 2018-19 when the valuation will change to the lower of cost and Net Realisable Value. Further details can be found in Note 1.52.

Segmental Reporting

1.2 The Departmental Group's reporting segments are based on the information that the Defence Board uses to make decisions about operating matters and resource allocation. Further details are at Note 2.

Accounting Convention

1.3 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 the Department's Annual Accounts

1.4 These financial statements comprise the consolidation of the Department, its Advisory NDPBs and ALBs sponsored by the Department. The Advisory NDPBs and ALBs which are included in the accounting boundary of the Departmental Group are listed in Note 22. 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. Subsidiaries which are public corporations, or fall outside the central government classification for some other reason, have been excluded from the accounting boundary (unless they satisfy the criteria for consolidation

as an associate or joint venture) 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.

1.5 The ALBs use categories for their costs, including the distinction between capital and revenue expenditure, which do not always align with MOD categories. As they are not material, the operating costs of the Department's ALBs are split into three categories for the purpose of consolidation – 'staff costs', 'depreciation' and 'other'. ALBs operate a lower capitalisation threshold for Property Plant and Equipment than the Department. On the grounds of materiality, all ALB Non-Current Property, Plant and Equipment are consolidated into the accounts. The Department has two Trading Funds which 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.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

1.6 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

1.7 Intangible non-current assets and plant and equipment assets are expressed at their fair value through the application of indices produced by Defence Statistics; indices are also applied to property assets during periods between the quinquennial revaluations undertaken by internal and external valuers. There is also uncertainty in the valuation of land in scope of the Department's estate rationalisation programme – the Footprint Strategy – See Notes 9.2 and 9.3. Surplus assets (see Note 1.20) where there are no restrictions on sale and do not meet the IFRS 5 (Non-Current Assets Held For Sale and Discontinued Operations) or IAS 40 (Investment Property) criteria are held at fair value based on highest and best use – see Note 1.19.

1.8 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.

1.9 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 Annual Budget Cycle and in Strategic Defence and Security Reviews.

Inventories

1.10 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 11.

Accruals

1.11 Where expenditure has been incurred but not invoiced an estimate is made of the amount to be accrued, including in complicated contractual arrangements where it is necessary to present fairly the substance of the arrangement at year end. Accruals are listed in Note 14.

Nuclear Decommissioning

1.12 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.

1.13 In calculating the provisions, an estimate has been made of the cash flows required to settle the obligations. As there is uncertainty surrounding the cash flows required, key assumptions made in this estimate are the time period over which the provisions are estimated, the costs for the future storage and decommissioning of waste, the VAT rate and the discount rate used. While the discount rate applied to the future cash flows is subject to assumptions, the Department has used the discount rate mandated by HM Treasury. Details of how nuclear decommissioning provisions have been calculated are included in Note 15.

Changes During FY 2016-17 Which Have Affected the Preparation of These Annual Accounts

1.14 There were no significant changes in accounting policies during 2016-17.

Recent Changes to Regulations Affecting the Preparation of Future Annual Accounts

1.15 There are no significant changes to accounting policies in the 2017-18 FReM. There are three accounting standards which have been issued but have not yet been incorporated into the FReM as they will not become applicable until future accounting periods. The three accounting standards are IFRS 9 – Financial Instruments, IFRS 15 – Revenue from Contracts with Customers and IFRS 16 – Leases. While it is yet to be finally determined how the accounting standards will be applied to the public sector and the impact on the Department, the new leasing standard is likely to have a significant impact. This is because assets subject to leases that are currently accounted for as operating leases will become right-of-use assets included within Property, Plant and Equipment. There will also be recognition of the associated lease liability.

Net Operating Costs

1.16 Costs are charged to the SoCNE in the period in which they are incurred and matched to any related income. Costs of contracted-out services are included net of recoverable VAT. Surpluses and deficits on disposal of inventory are included in Note 3 - Expenditure. Proceeds from the sale of Property, Plant and Equipment and intangible assets are included in Note 4 – Income.

1.17 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

1.18 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). This is through valuation and/or the application of indices (see Note 1.19 for details of valuations). Prospective indices, which are produced by Defence Statistics, 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.

1.19 Property assets are also subject to a quinquennial revaluation by internal and external valuers in accordance with IAS 16 – Property, Plant and Equipment, as interpreted by the FRM. Assets which are held for their service potential and are in use are measured at current value in existing use. For non-specialised assets current value in existing use is interpreted as market value in existing use. For specialised assets current value in existing use is interpreted as the present value of the asset's remaining service potential, which is assumed to be at least equal to the cost of replacing that service potential. The valuation of land in scope of the Department's estate rationalisation programme – the Footprint Strategy is stated in Notes 9.2 and 9.3.

1.20 Assets which were most recently held for their service potential but are surplus are valued at current value in existing use, as above, if there are restrictions which prevent access to the market at the reporting date. Where there are no restrictions and the assets are surplus, the assets are valued at fair value using IFRS 13. The Department interprets surplus to mean that the assets are no longer required. This includes an assessment on whether there is a clear plan to bring the asset back into future use as an operational asset. Where there is a clear plan, the asset is not surplus.

1.21 Assets which are not held for their service potential are valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale. Where such assets are surplus and do not fall within the scope of IFRS 5 or IAS 40, they are valued at fair value applying IFRS 13. 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. Surplus assets where there are no restrictions on sale and do not meet the IFRS 5 or IAS 40 criteria are held at fair value, applying IFRS 13, based on highest and best use.

1.22 Non-Current Assets Under Construction are not subject to indexation where the contract payments capitalised during the period of construction are deemed to reflect fair value. 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 SoCNE in the period in which they are incurred.

1.24 Development costs are capitalised where: the development expenditure relating to the project is separately identifiable and can be measured reliably; adequate technical, financial and other resources are available to enable project completion and implementation of results; it is intended that the project will be completed and will result in an asset or service that will eventually

be brought into use to generate probable future economic benefits; and the project is technically feasible. Those costs not capitalised are charged to the SoCNE.

1.25 After initial recognition, intangible non-current assets are revalued to current value in existing use, using a market value where an active market exists. Where no market exists, indices are used to revalue the intangible asset to Depreciated Replacement Cost (DRC) or, if the asset is income generating, to value in use if lower than DRC. Intangible Non-Current Assets Under Construction are not subject to indexation where the contract payments capitalised during the period of construction are deemed to reflect fair value. Where development costs are indexed, different indices are applied to the different asset categories – for example, development costs for SUME Sea Systems.

1.26 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.

1.27 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

1.28 Property, Plant and Equipment assets are expressed at their fair value through the application of the MHCA. Property, Plant and Equipment assets are indexed other than during the period where contract payments capitalised are deemed to already reflect fair value. There are assets with similar capabilities which have different values, reflecting the nature of the construction process. Some First of Class Non-Current Assets include one-off production set up costs and more extensive trials costs than those incurred for later platforms in the same class. Future platforms can also benefit from learning curve efficiencies. Surplus assets where there are no restrictions on sale and do not meet the IFRS 5 or IAS 40 criteria are held at fair value based on highest and best use.

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

1.30 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. Where ALBs have used a lower capitalisation threshold, the assets have also been consolidated.

1.31 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.

1.32 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 held under agreement with The Federal Republic of Germany or as part of a finance lease.
	Buildings (dwellings and non-dwellings):	
	- permanent	40 – 50
	- temporary	5 – 20
	Leasehold	Shorter of expected life and lease period
Single Use Military Equipment (including GWMB)	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

Componentisation and Subsequent Expenditure

1.33 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 and to complex weapons that display similar characteristics to those assets in the Sea Environment are accounted for separately when their value is consumed by the Department over a different period from the life of the corresponding core asset.

Impairment

1.34 Impairment charges to the SoCNE 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 benefit or loss of 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 SoCNE. Any reversal of an impairment charge is recognised in the SoCNE to the extent that the original charge was previously recognised there. Any remaining amount is recognised in the Revaluation Reserve.

1.35 All impairment losses arising from a clear consumption of economic value or loss of service potential are written off to the net operating cost section of the SoCNE. Any balance on the Revaluation Reserve (up to the level of the impairment) is transferred to the General Fund.

1.36 Capitalised development costs that are directly linked to a class of asset are impaired if the whole class of the associated tangible non-current asset is impaired. The magnitude of the impairment applied is in the same proportion as that applied to the underlying asset class.

Disposal of Tangible Non-Current Assets

1.37 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.

1.38 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.

1.39 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

1.40 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 SoCNE. Expenditure under operating leases is charged to the SoCNE in the period to which the charge relates.

1.41 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, and accounted for in accordance with the accounting policies set out in Note 1.40.

1.42 The Department has conducted a review, with support from an external accountancy consultant, of its most significant contract arrangements where IFRIC 4 is likely to apply. This has confirmed that the Department has a number of significant lease type arrangements which are not currently recognised and cannot be accurately quantified. As a result of the complex, resource intensive and costly practical issues identified by the review, the Department, with HM Treasury support, has decided not to apply IFRIC 4 to existing contracts on the grounds that it does not represent value for money. The Department is applying IFRIC 4 to new contracts meeting specific criteria. As a result of the decision not to implement IFRIC 4 for legacy contracts MOD's accounts will continue to receive a qualified audit opinion for the foreseeable future.

1.43 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 SoFP. Commitments under operating leases and finance leases have also been omitted from Note 17.

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

1.44 Where PPP, including PFI arrangements fall within the definition of a Service Concession Arrangement (SCA) in IFRIC12 the infrastructure assets and liabilities are reported on the Department's SoFP. Unitary charges are apportioned between reduction in the capital obligation and charges to the SoCNE for service performance and finance costs.

1.45 Where PPP including PFI arrangements are outside the scope of IFRIC 12, 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

1.46 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.

1.47 The foreign currency forward purchase contracts are measured at fair value with movements in fair value being charged or credited to the SoCNE. 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 Bank of England. 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 SoFP. The forward contracts were purchased from the Bank of England. Details of existing contracts are at Notes 7.8 to 7.10 to the accounts.

1.48 The Department uses fixed price swap contracts to manage its risk of fuel price movements in respect of aviation turbine fuel, marine gas oil, unleaded ground fuel and diesel ground fuel. The contracts are measured at fair value with movements in fair value being charged or credited to the SoCNE. The fair value is measured as the difference between the market rate for the four commodities at the date of valuation and the PLATTS rate stipulated in the contracts, multiplied by the contracted volumes, in the contracted currency. The market rate is determined by the latest average PLATTS index for the month. These values are converted to sterling using the closing mid-market rate obtained from the Bank of England. 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 SoFP. Swap contracts are purchased by competitive tender using a panel of financial institutions (the latter chosen following a comprehensive assessment). Details of existing contracts are at Notes 7.11 and 7.12 to the accounts.

1.49 In accordance with the FReM Public Dividend Capital is not treated as a financial instrument in the Department's financial statements and is reported at historic cost less any impairment. The Department's investments in special or 'golden' shares are not recognised on the SoFP. The entities in which the Department holds special shares are listed at Note 8.3 and 8.4.

1.50 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. Provisions are only made for specific bad debts.

1.51 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.

Inventories

1.52 On transition from UK GAAP to IFRS, HMT confirmed that the introduction of IAS 2 (which requires Inventories to be held at the lower of cost or net realisable value) would not require any immediate changes in the MOD's accounting treatment of inventories. The Department and HM Treasury have discussed the continued appropriateness of valuing inventories at current cost and HM Treasury, as the Relevant Authority has confirmed an adaptation to the FReM – that the Department can continue with current replacement cost accounting for Inventories. It has also been agreed that the valuation basis for inventories will change to the lower of cost and net realisable value by Financial Year 2018-19. This is to allow time for changes to the financial systems to support an historic cost valuation in accordance with the FReM.

1.53 Inventories are recognised on the Department's SoFP from the point of acquisition to the point of issue for consumption, sale, write-off or disposal.

1.54 Inventory which is expected to be used is valued at the cost of replacing the materiel – i.e. at current cost based on purchase price or estimated through indexation. However, where there is no expectation of consumption or sale in the ordinary course of business, the value is impaired to reduce it to Net Realisable Value.

1.55 Some items of inventory, for example munitions, have a limited shelf life and depreciation (on a straight line basis) is applied throughout the life of these items. When an item is consumed, written off or disposed of the remaining carrying value is charged to the SoCNE.

Cash and Cash Equivalents

1.56 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. Cash in the Department's SoFP comprises balances held by the Government Banking Service, commercial banks and cash in hand.

Provisions for Liabilities and Charges

1.57 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.

1.58 On initial recognition, provisions are charged to the SoCNE unless the expenditure will provide access to current and future economic benefits, in which case a capitalised asset provision is created. The carrying amount of any capitalised asset provision is depreciated and charged to the SoCNE over the remaining estimated useful economic life of the underlying asset. Provisions are discounted at rates advised by HM Treasury and three different rates are used for provisions depending on the time boundary they fall into. The rates are given in Note 15.6. The pensions discount rate advised by HM Treasury is used for provisions relating to employee benefits. The discount is unwound over the remaining life of the provision and shown as an interest charge in the SoCNE.

Retirement Benefit Schemes

1.59 The Department has three unfunded defined benefit schemes and the Group Accounts also include two funded defined benefit schemes. The liabilities for the unfunded schemes are included as 'Retirement benefit scheme liabilities' as part of the non-current liabilities on the Department's SoFP. For the funded pension schemes, estimates of each scheme's net assets or net liabilities are included as part of the non-current assets and non-current liabilities on the Group SoFP. Further details are given in Note 16.

Reserves

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

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

Foreign Currency

1.62 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 SoCNE.

Heritage Assets

1.63 Operational heritage assets are valued at fair value using the same methodology applied to other assets of the same general type. Non-operational heritage assets are valued at fair value if information can be obtained at a cost commensurate with the benefits to users of the accounts. Heritage assets are not separately disclosed in the SoFP as they are not considered material. Further information is available at: <https://www.gov.uk/government/publications/MOD-heritage-report>

Going Concern

1.64 The Defence Board, the senior corporate decision-making body in Defence, have a reasonable expectation that the Department will continue to operate for the foreseeable future. The future financing of the Department's liabilities is met by the funding from Parliament. This is through the receipt of Supply finance and future income which are both approved annually by Parliament by the passing of the Supply and Appropriation (Main Estimates) Act. The amount for 2017-18 is due to be voted on account when the 2017-18 Bill is put to Parliament. There is no reason to believe that future approvals will not be forthcoming. Hence, it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

2. Segmental Analysis

2.1 The Department's organisational structure is set out in *How Defence Works* available at: <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>. The structure is the key factor in determining the reporting segments disclosed below.

2.2 The Royal Navy, the Army, and the Royal Air Force are supported by: Joint Forces Command – which develops and prepares integrated joint forces for current and future operations; Defence Equipment and Support (Bespoke Trading Entity) – responsible for procurement and support of equipment; the DG Nuclear organisation which focuses on the procurement and in-service support of our nuclear submarines, the Defence Infrastructure Organisation – responsible for managing the Defence Estate and Head Office and Corporate Services – responsible for policy, strategy and corporate services such as payroll.

2.3 Forecasts of near cash expenditure against budgets (Resource and Capital) are regularly reviewed by the Defence Board when considering performance and resource allocation. The tables below set out the detail of this near cash net expenditure, by segment (where the Board consider the net expenditure at that level of detail), and analyse the net expenditure reviewed between Resource and Capital.

2.4 The Board also receives separate information on the total additional spend on Military Operations (Resource and Capital) – this information, in more detail than presented to the Board, is set out at SoPS Note 1 (each expenditure type is prefixed by 'Operations'). The Board also separately consider expenditure on War Pensions Benefits against the budget approved by Parliament (these details are set out at SoPS Note 1) and expenditure on the Equipment Plan. The Board review the Department's Net Cash Requirement – details of which are set out in the Statement of Parliamentary Supply and are not duplicated here.

2.5 The routine financial information considered by the Board does not include details of assets and liabilities and therefore does not form part of these disclosures. The Board do not receive information on the separate Administration Control Total and the figures presented to the Board do not include the full net expenditure of ALBs (they do include Grants in Aid and certain payments made on behalf of these bodies). Information on expenditure by geographical area or major customers is not routinely considered and is therefore not disclosed below.

2.6 Transactions between segments take two main forms:

- Costs such as payroll, equipment support, centralised contract costs, estate management, inventory consumption etc. are allocated to segments by the main accounting systems e.g. accounts payable, accounts receivable, civilian payroll, military payroll, inventory and Non-Current Asset registers.
- Costs incurred by one segment on behalf of another are subject to agreement and then transferred by a central accounts section to ensure the net effect on the Department's consolidated accounts remains correct.

2.7 The tables below set out the segmental information as considered by the Defence Board.

Net Resource DEL Outturn	2016-17	2015-16
	£000	£000
Outturn by Top Level Budget (reviewed as forecast against budget by the Board during the year)		
Royal Navy	2,559,431	2,494,839
Army	6,535,727	6,540,999
Royal Air Force	2,453,973	2,502,275
Joint Forces Command	1,931,340	1,940,256
Defence Equipment & Support (Bespoke Trading Entity)	1,044,069	1,028,443
Defence Infrastructure Organisation	2,433,677	2,452,684
Head Office & Corporate Services*	1,040,625	1,477,497
	17,998,842	18,436,993
Reconciliation to Operating Costs		
Net Resource Outturn for Cost of Operations (excluding depreciation, impairments and provisions) - reviewed by the Board as total forecast resource outturn against Estimate during the year	486,571	328,697
War Pensions Benefits - reviewed by the Board as total forecast outturn against Estimate during the year	764,817	794,774
Sub total of Net Resource Outturn reviewed by the Board during the financial year	19,250,230	19,560,464
Balance of Net Resource Outturn not reviewed by the Board (depreciation, impairment, provisions, Annually Managed Expenditure, Centrally Managed Expenditure and ALB income and expenditure)	8,714,198	14,199,471
Balance of the Net Resource Outturn. This expenditure is not separately reviewed by the Board; it forms part of the Equipment Plan expenditure which the Board reviews by Service Command and Strategic Programme (see table below)	7,247,653	7,595,914
Total Resource Outturn (See SoPS Note 1)	35,212,081	41,355,849
Adjustment for items included in Net Resource Outturn but not included in Net Operating Costs (see SoPS Note 2), ALB income and expenditure.	450,504	(144,676)
Total Departmental Operating Costs (see Statement of Comprehensive Net Expenditure)	35,662,585	41,211,173

* Includes the Operating Costs for DG Nuclear which were managed by HOCS TLB during 2016-17

Net Capital DEL Outturn	2016-17	2015-16
	£000	£000
Outturn by Top Level Budget (reviewed by the Board)		
Royal Navy	9,646	12,137
Army	20,339	12,189
Royal Air Force	5,969	7,014
Joint Forces Command	20,629	(43,094)
Defence Equipment & Support (Bespoke Trading Entity)	94,940	86,624
Defence Infrastructure Organisation	783,067	372,652
Head Office & Corporate Services	354,486	(81,369)
	1,289,076	366,153
Reconciliation to Capital Outturn		
Net Capital Outturn for Cost of Operations (excluding Annually Managed Expenditure) - reviewed by the Board as a total forecast figure against Estimate during the year	115,387	53,069
Sub total of Capital outturn reviewed by the Board	1,404,463	419,222
Balance of Capital outturn not reviewed by the Board (foreign exchange movements and ALB capital outturn)	(135,371)	112,931
Balance of the Net Capital Outturn. This expenditure is not separately reviewed by the Board; it forms part of the Equipment Plan expenditure which the Board reviews by Service Command and Strategic Programme (see table on next page)	7,419,461	7,070,939
Total Capital Outturn (See SoPS Note 1)	8,688,553	7,603,092

The Equipment Plan

2.8 The Equipment Plan sets out expenditure, by sector, on new equipment and data systems, and support to existing systems.

2.9 In addition to reviewing the information above, the Defence Board also receives information on expenditure on the Equipment Plan. This covers expenditure on equipment support and the procurement of Single Use Military Equipment and other equipment for Defence. The details are set out below and allow the Defence Board to make decisions about resource allocation to segments and to assess performance.

Equipment Plan	2016-17	2015-16
	£000	£000
Outturn by Budget Area (reviewed by the Board)		
Royal Navy	3,094,996	3,283,911
Army	1,507,046	1,491,074
Royal Air Force	3,368,615	3,562,651
Joint Forces Command	2,240,223	2,199,767
Strategic Programme	932,994	3,949,349
DG Nuclear	3,315,477	-
DE&S Corporate	207,763	180,101
Total	14,667,114	14,666,853

3. Expenditure

	2016-17		2015-16	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Expenditure - non-cash				
Depreciation and amortisation:				
- Property, plant and equipment (PPE) owned assets*	4,905,567	4,915,410	5,522,101	5,538,859
- Intangible assets	1,389,105	1,389,105	1,434,415	1,434,415
- PPE held under service concession arrangements	432,364	432,364	444,414	444,414
- PPE held under finance leases	125,364	125,364	116,672	116,672
Movement on provisions, derivatives and discount on payables and receivables:				
- Increase/(Decrease) in nuclear provisions	(8,799)	(8,799)	5,696,837	5,696,837
- Movement on Derivatives	(845,205)	(845,205)	(19,876)	(19,876)
- Increase/(Decrease) in other provisions	451,966	451,966	259,208	259,208
- Unwinding of discount on payables and receivables - net	(71,884)	(71,884)	144,965	144,965
Asset - impairments, inventory and project write on/off and surplus/deficit on disposal:				
- Asset impairment- Arising on Quinquennial valuation	206,300	206,300	581,100	581,100
- Asset impairment - arising on other items	1,196,165	1,196,165	195,076	195,076
- Provisions to reduce inventory to net realisable value	110,752	110,752	57,475	57,475
- Inventory write off / (on) - net	417,615	417,615	116,116	116,116
- non-cash cost of disposal of property, plant and equipment and intangible assets	142,007	142,007	(347,899)	(347,899)
- (Surplus) / deficit arising on disposal of inventory - net	(21,836)	(21,836)	(5,169)	(5,169)
- Intangible and property, plant and equipment assets write off / (write on) - net	302,216	302,216	23,304	23,304
- Capital project expenditure write off / (write on) - net	214,546	214,546	108,246	108,246
- Bad debts written off	1,958	1,958	1,757	1,757
- Increase/(Decrease) in bad debt provisions - net	(3,568)	(3,568)	6,410	6,410
Other non-cash expenditure:				
Auditors' remuneration - audit work only†	2,356	2,356	2,464	2,464
Sub total - expenditure - non-cash	8,946,989	8,956,832	14,337,616	14,354,374
Expenditure - cash				
Staff Costs (see Remuneration and Staff Costs Report for further details)				
Salaries and wages	8,019,225	8,094,208	7,841,613	7,916,213
Social security costs	765,057	778,511	576,365	586,470
Pension costs	3,285,816	3,293,204	3,209,935	3,217,931
Redundancy and severance payments	12,533	12,533	44,133	44,133
Sub total - staff costs	12,082,631	12,178,456	11,672,046	11,764,747
Equipment and Equipment Support:				
- equipment support - owned equipment	4,393,780	4,393,780	3,882,688	3,882,688
- contractor logistic and operational support contracts for equipment support	1,297,281	1,297,281	1,448,613	1,448,613
- equipment support - under Service Concession Arrangements	140,059	140,059	407,271	407,271
- equipment support - equipment under finance lease	55,837	55,837	56,904	56,904
- payments under operating leases - plant & equipment	13,210	13,210	19,511	19,511
- plant and equipment under Service Concession Arrangements	55,540	55,540	61,058	61,058
Property management and utilities:				
- property management	1,174,460	1,174,460	1,080,915	1,080,915
- property management under Service Concession Arrangements	591,137	591,137	506,970	506,970
- utilities	305,107	305,107	279,707	279,707
- accommodation charges	352,384	352,384	377,777	377,777
- payments under operating leases - other	176,982	176,982	213,158	213,158
- defence housing costs under Service Concession Arrangements	77,591	77,591	73,613	73,613

	2016-17		2015-16	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£000	£000	£000	£000
Inventory and fuel consumption:				
- inventory consumption	799,837	799,837	967,348	967,348
- fuel consumption	295,993	295,993	332,502	332,502
IT and telecommunications:				
- IT and telecommunications	1,109,757	1,109,757	1,208,734	1,208,734
- IT and telecommunications under Service Concession Arrangements	333,271	333,271	390,689	390,689
Research expenditure and expensed development expenditure	824,765	824,765	919,512	919,512
Movements:				
- travelling, subsistence and relocation costs and movement of stores and equipment	589,303	589,303	575,182	575,182
- transport under Service Concession Arrangements	51,379	51,379	50,673	50,673
War Pensions Benefits	764,817	764,817	794,774	794,774
Professional fees	758,801	758,801	794,262	794,262
Training, safety and welfare	607,070	607,070	689,740	689,740
Other Expenditure:				
Other expenditure*†	506,535	662,615	490,763	659,537
Cost of: PFI, finance lease and other interest payable	423,318	423,318	419,257	419,257
Grants-in-Aid	188,326	22,000	182,418	25,952
Other Grants to bodies within the accounting boundary	6,695	-	23,467	-
Sub total - expenditure - cash	27,975,866	28,054,750	27,919,552	28,001,094
Total Expenditure	36,922,855	37,011,582	42,257,168	42,355,468

* Expenditure by Arm's Length Bodies is classified as depreciation of PPE or other expenditure.

† In addition to the notional audit fee for the Department's audit (including the cost of the audit of the Armed Forces Pension Scheme accounts (2016-17: £145,000; 2015-16 £160,000); Defence Equipment and Support (BTE) accounts (2016-17: £300,000; 2015-16 £219,000) and DECA (2016-17: £30,500; 2015-16 £28,500), expenditure for the Departmental Group includes, as Other Expenditure, the cash cost of the NAO's audit of: the National Museum of the Royal Navy, the National Army Museum, the RAF Museum, the Royal Hospital Chelsea, and the Single Source Regulations Office: £142,000 in 2016-17 (2015-16: £150,000).

4. Income

	2016-17		2015-16	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£000	£000	£000	£000
Receipts – supplies and services	215,704	215,704	209,059	209,059
Receipts – NATO/UN/US Forces/Foreign Governments	254,998	254,998	234,095	234,095
Receipts from sale of fuel	15,978	15,978	41,442	41,442
Rental income – property	31,835	31,835	25,701	25,701
Reverse tasking *	36,414	36,414	31,777	31,777
Sub total - Income from provision of supplies and services	554,929	554,929	542,074	542,074
Income Other - receipts personnel	268,243	268,243	283,664	283,664
Income Other - proceeds from the sale of PPE and intangible assets†	223,629	223,629	-	-
Income Other - dividends and other income from investments**	68,400	68,400	62,197	62,197
Income Other - donated assets	1,182	1,182	203	203
Income Other - other income**	143,887	252,572	157,857	271,248
Total Income	1,260,270	1,368,955	1,045,995	1,159,386

* 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.

† The receipts from the sale of PPE and intangible assets has been separately identified for the first time in 2016-17.

5. 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	AUC £000	Others* £000	Total £000
Cost or Valuation†						
Balance at 1 April 2015		23,020,346	15,979	7,707,522	9,381,183	40,125,030
Additions	i	7,701	13,028	2,079,798	393	2,100,920
Disposals		(428,775)	-	-	(210,371)	(639,146)
Impairments	ii	(11,307)	-	-	(19,643)	(30,950)
Revaluations	iii	269,142	88	(628)	32,041	300,643
Reclassifications	iv	80,829	(12,480)	(192,114)	297,041	173,276
Balance at 31 March 2016		22,937,936	16,615	9,594,578	9,480,644	42,029,773
Additions	i	1,104	1,883	2,191,538	1,703	2,196,228
Disposals		(209,118)	-	-	(104,715)	(313,833)
Impairments	ii	(54,528)	(299)	(430)	19,505	(35,752)
Revaluations	iii	953,842	(229)	-	179,557	1,133,170
Reclassifications	iv	866,390	1,392	(741,709)	(58,656)	67,417
Balance at 31 March 2017		24,495,626	19,362	11,043,977	9,518,038	45,077,003
Amortisation						
Balance at 1 April 2015		(10,595,382)	(8,921)	-	(3,954,188)	(14,558,491)
Charged in Year		(990,655)	2,452	-	(446,212)	(1,434,415)
Disposals		303,786	-	-	167,536	471,322
Impairments	ii	(39,823)	-	-	(421)	(40,244)
Revaluations	iii	(120,674)	(180)	-	(16,667)	(137,521)
Reclassifications	iv	2,674	3,880	-	(6,554)	-
Balance at 31 March 2016		(11,440,074)	(2,769)	-	(4,256,506)	(15,699,349)
Charged in Year		(924,680)	(3,526)	-	(460,899)	(1,389,105)
Disposals		182,000	-	-	100,399	282,399
Impairments	ii	59,569	-	-	(4,479)	55,090
Revaluations	iii	(424,446)	17	-	(140,651)	(565,080)
Reclassifications	iv	17,193	134	-	330	17,657
Balance at 31 March 2017		(12,530,438)	(6,144)	-	(4,761,806)	(17,298,388)
Net Book Value						
Balance at 1 April 2015		12,424,964	7,058	7,707,522	5,426,995	25,566,539
Balance at 31 March 2016		11,497,862	13,846	9,594,578	5,224,138	26,330,424
Balance at 31 March 2017		11,965,188	13,218	11,043,977	4,756,232	27,778,615
Of the total net book value as at 31 March 2017						
Core Department		11,965,188	13,218	11,043,977	4,756,232	27,778,615
ALBs		-	-	-	-	-
Total		11,965,188	13,218	11,043,977	4,756,232	27,778,615

Notes

i. Additions include accruals of £626M (2015-16: £631M). Information on Frascati compliant R&D expenditure can be found on the website: <https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics>.

ii. Capitalised development costs directly linked to a class of asset are only impaired if the whole class of the associated non current asset is impaired e.g. when a whole class of asset is withdrawn from service.

iii. Revaluations include changes due to MHCA through indexation. Departmental reviews have concluded that where the price inflation embedded within contracts for construction of buildings and equipment provides for a reasonable estimate of fair value during development and construction, the additional annual application of indexation is not required.

iv. Reclassifications include assets classified to or from property, plant and equipment. In 2016-17 there has been a £416M reclassification from Intangible Other to Intangible SUME to correct an error in the previous year.

† 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.

* The category 'Others' includes £3.48bn of transport intangible assets; of this £1.78bn relates to Merlin helicopters and £0.7bn relates to A400M.

5.1 Movement in the revaluation reserve relating to intangible assets

	2016-17 £000	2015-16 £000
Balance - 1 April	2,561,469	2,679,522
Revaluation	568,090	163,122
Transfers / reclassifications	-	-
Realised reserve transferred to the General Fund	(217,381)	(281,175)
Balance - 31 March	2,912,178	2,561,469

5.2 Details of intangible assets with a net book value greater than £0.5Bn.

Description	Net Book Value 31 March 2017 £Bn	Remaining Useful Economic Life
Typhoon development costs	5.3	23 years
Merlin helicopter development costs	1.7	12 years
Type 45 destroyer development costs	1.3	21 years 11 months
Airbus A400M Atlas development costs	0.8	31 years 4 months
Astute class submarine development costs	0.7	32 years
Lynx Wildcat helicopter development costs	0.6	27 years 10 months

6. Consolidated Departmental Group – Property, Plant and Equipment

Note	Land		Land Other		Dwellings		Other		Single Use		IT and		Total
	Dwellings	Buildings	Buildings	Buildings	Dwellings	Buildings	Buildings	Buildings	Military	Equipment	Machinery	Communication	
	(SUME)	(SUME)	(SUME)	(SUME)	(SUME)	(SUME)	(SUME)	(SUME)	(SUME)	(SUME)	(SUME)	(SUME)	(SUME)
Cost or Valuation													
Balance at 1 April 2015	2,468,114	7,036,246	11,099,639	22,572,101	73,317,419	3,613,426	17,304,460	4,840,210	13,603,731	7,289,765	163,145,111		
Additions	16,716	40,812	44,625	371,226	1,015,829	14,075	497,854	201,569	3,358,285	2,119,138	7,680,129		
Disposals	(19,839)	(23,236)	(67,089)	(685,867)	(2,637,341)	(129,100)	(756,629)	(264,453)	(33,748)	(84,123)	(4,701,425)		
Impairments	(36,312)	(43,762)	(19,933)	(625,048)	150,361	(24,261)	(129,769)	(28,356)	(51,047)	-	(808,127)		
Reclassifications	218,496	(30,503)	184,940	1,112,552	2,482,580	181,866	1,437,874	10,688	(2,580,902)	(3,758,018)	(740,427)		
Revaluations	(25,548)	171,632	1,295,459	3,839,807	778,042	20,289	4,885	(17,162)	3,943	(243)	6,071,104		
Balance at 31 March 2016	2,621,627	7,151,189	12,537,641	26,584,771	75,106,890	3,676,295	18,358,675	4,742,496	14,300,262	5,566,519	170,646,365		
Additions	1,882	3,833	25,121	143,641	413,558	12,755	313,859	209,801	3,694,856	2,163,082	6,982,388		
Disposals	(10,170)	(1,036)	(69,799)	(277,776)	(2,190,389)	(216,096)	(923,405)	(122,629)	(135,131)	(4,083)	(3,950,514)		
Impairments	(40,574)	(178,043)	(298,675)	(653,748)	(217,176)	982	9,725	(5,951)	19,899	(415)	(1,363,976)		
Reclassifications	(267)	(56,938)	316,852	52,648	615,886	89,109	972,949	59,703	(1,621,115)	(1,726,574)	(1,297,747)		
Revaluations	(180,200)	252,372	805,846	1,712,928	2,043,110	68,683	603,649	51,307	-	(8)	5,357,687		
Balance at 31 March 2017	2,392,298	7,171,377	13,316,986	27,562,464	75,771,879	3,631,728	19,335,452	4,934,727	16,258,771	5,998,521	176,374,203		
Depreciation													
Balance at 1 April 2015	(83,277)	(33,312)	(2,757,845)	(10,600,268)	(39,552,509)	(1,772,830)	(7,758,029)	(2,394,947)	-	-	(64,953,017)		
Charged in Year	(11,861)	(14,029)	(284,608)	(881,425)	(3,404,332)	(170,232)	(953,573)	(379,885)	-	-	(6,099,945)		
Disposals	406	-	26,575	553,891	2,116,672	112,719	734,315	256,488	-	-	3,801,066		
Impairments	1,671	17,618	27,906	135,384	(122,725)	7,493	35,033	4,501	-	-	106,881		
Reclassifications	-	-	1,335	116,062	8,741	14,215	253,342	(448)	-	-	393,247		
Revaluations	748	-	(489,116)	(2,492,952)	(361,674)	(7,968)	7,816	(5,958)	-	-	(3,349,104)		
Balance at 31 March 2016	(92,313)	(29,723)	(3,475,753)	(13,169,308)	(41,315,827)	(1,816,603)	(7,681,096)	(2,520,249)	-	-	(70,100,872)		

Note	Land		Land Other		Other		Single Use		IT and			Total
	Dwellings	Buildings	Dwellings	Buildings	Dwellings	Buildings	Military Equipment (SUME)	Plant and Machinery	Transport	Communication Equipment	AUC (SUME)	
Charged in Year	(11,360)	(9,603)	(285,148)	(754,065)	(2,888,554)	(174,306)	(958,622)	(391,480)	-	-	-	(5,473,138)
Disposals	9,558	1	27,901	263,448	1,563,142	198,680	916,329	107,334	-	-	-	3,086,393
Impairments	1,856	4,163	8,865	32,609	(112,011)	(981)	13,565	(1,516)	-	-	-	(53,450)
Reclassifications	-	(442)	514	76,557	1,053,352	2,701	31,399	3,817	-	-	-	1,167,898
Revaluations	248	-	(348,559)	(1,045,320)	(947,047)	(32,899)	(277,485)	(33,850)	-	-	-	(2,684,912)
Balance at 31 March 2017	(92,011)	(35,604)	(4,072,180)	(14,596,079)	(42,646,945)	(1,823,408)	(7,955,910)	(2,835,944)	-	-	-	(74,058,081)
Net Book Value												
Balance at 1 April 2015	2,384,837	7,002,934	8,341,794	11,971,833	33,764,910	1,840,596	9,546,431	2,445,263	13,603,731	7,289,765	-	98,192,094
Balance at 31 March 2016	2,529,314	7,121,466	9,061,888	13,415,463	33,791,063	1,859,692	10,677,579	2,222,247	14,300,262	5,566,519	-	100,545,493
Balance at 31 March 2017	2,300,287	7,135,773	9,244,806	12,966,385	33,124,934	1,808,320	11,379,542	2,098,783	16,258,771	5,998,521	-	102,316,122
Asset Financing												
Owned	322,969	6,683,594	3,608,813	11,557,494	33,117,511	1,444,249	9,372,604	1,252,865	16,258,771	5,982,199	-	89,601,069
Donated	99,547	291,806	40,017	75,522	7,423	16,720	-	859	-	-	-	531,894
Long Lease	5,741	48,179	16,757	39,468	-	-	-	-	-	-	-	110,145
Short Lease	56	13,866	299	23,653	-	-	-	-	-	-	-	37,874
Operating Lease (Lessor)	-	-	-	9,658	-	-	-	-	-	-	-	9,658
Finance Lease	1,783,263	-	4,675,504	-	-	-	62	-	-	-	-	6,458,829
Service Concession Arrangements	88,711	98,328	903,416	1,260,590	-	347,351	2,006,876	845,059	-	16,322	-	5,566,653
Balance at 31 March 2017	2,300,287	7,135,773	9,244,806	12,966,385	33,124,934	1,808,320	11,379,542	2,098,783	16,258,771	5,998,521	-	102,316,122
Of the total net book value as at 31 March 2017												
Core Department	2,271,194	7,091,424	9,177,657	12,735,113	33,124,934	1,613,544	11,369,804	2,096,840	16,258,771	5,995,788	-	101,735,069
Arm's Length Bodies	29,093	44,349	67,149	231,272	-	194,776	9,738	1,943	-	2,733	-	581,053
Total	2,300,287	7,135,773	9,244,806	12,966,385	33,124,934	1,808,320	11,379,542	2,098,783	16,258,771	5,998,521	-	102,316,122

Notes

i. Additions include accruals of £2.2Bn (2015-16: £2.3Bn).

ii. Assets are impaired for a variety of reasons e.g. loss, damage, obsolescence, abandonment of Assets Under Construction (AUC) and as part of the disposal process.

iii. Includes assets reclassified to intangible assets of £85M (2015-16: £173M) and assets reclassified to Held for Sale of £45M (2015-16: £33M).

iv. Revaluations include changes due to indexation, impairment and impairment reversals. Departmental reviews concluded that where the price inflation embedded within contracts for construction of buildings and equipment provides for a reasonable estimate of fair value during development and construction, the additional annual application of indexation is not required. To ensure accurate fair values for AUC, MOD conducts fair value reviews annually on its AUC and on their reclassification to assets in use.

v. Property, plant and equipment as at 31 March 2017 include capitalised provisions (gross cost) of £407M (2015-16: £424M).

6.1 Land and Buildings, with the exception of AUC, are subject to quinquennial revaluation (QQR), a rolling programme with approximately 25% of the estate re-valued in each of the first 4 years allowing any residual work to take place in year 5. 2016-17 represents the fourth year of the current QQR4 programme. Valuations for the UK estate were performed by the Valuation Office Agency and for the overseas estate in-house by Defence Infrastructure Organisation personnel and reviewed by GVA plc. 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.

6.2 Data from the 2016-17 QQR resulted in a £186.6M decrease in the value of Land and a £663.6M increase in the value of Buildings at Net Book Value. Valuations received during the year were dated 1 Nov 16 and were effective from 1 Apr 16; depreciation charged to the SoCNE includes the in-year catch-up depreciation from 1 Apr 16.

6.3 The net charge to the SoCNE in respect of impairments arising from the movement in values against Land and Buildings assets is £206.3M impairment write off. This is made up of: Land, £106.7M net impairment write off; Buildings, £99.6M net impairment write off. The figures include all Land and Building assets professionally valued during Financial Year 2016-17, including Donated, IFRIC 12 and IAS 17 leased assets.

6.4 In addition to the above, a number of outstanding valuations from prior financial years were applied during 2016-17 which resulted in a £15.2M decrease in the value of buildings at Net Book Value and a net charge to the SOCNE in respect of building impairments of £13.6M.

6.5 The figures for impairment include reductions in the value of: buildings £940M and land £144M, following announcements of plans to dispose of various sites as part of the Department's estate rationalisation programme – see Notes 6.6 and 6.7 below for the land valuation and also Note 9 - Impairments.

6.6 Following announcements of plans to dispose of various sites as part of the Department's estate rationalisation programme, the land valuations of the impacted sites were reviewed. The review used a slightly different approach to that, described at Note 9 – Impairments, adopted for the buildings.

6.7 The approach adopted for land was as follows. The sales receipts, at the time of the expected date of disposal, of impacted sites, were estimated and adjusted for a risk factor. These estimated sales receipts are based on appraisals for alternative use. The risk adjustment factor reduces this figure to reflect the planning risk in the estimated sales receipts. The risk adjusted estimated sales receipts were then discounted to take account of the time until the receipt of the payment. Where this valuation figure was above the current carrying value, a further adjustment is added to reflect the economic benefit of use of the land until the expected date of disposal. This addition is based on a percentage of the current carrying value for each year it is expected that the site will be used. The current carrying value of the land of these impacted sites has then been revised upwards to reflect this new valuation. The total increase in land valuation is £257M. For some of the impacted sites, the land has been impaired – see Note 9 Impairments.

7. Financial Instruments

7.1 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. The fair value of the of the Forward Purchase contracts and the Swap Contracts in Notes 7.9 and 7.12 respectively represent the category, 'Fair value through Net Operating Cost – Held for Trading' included in Financial Assets and Financial Liabilities in Note 7.5. The Public Dividend Capital in Note 8.1 is not included in Note 7.5 as it is not treated as a financial instrument.

7.2 The cash requirements of the Department are met mainly through the Supply funding 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.

7.3 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 from these instruments. 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. The Department has cash balances with commercial banks in the Eurozone and is therefore exposed to credit risk in respect of these holdings. The cash balances are relatively small and are being managed in order to minimise the risk; in addition, wider corporate services development will see much of the activity on these accounts transferred to the Government Banking Service.

7.4 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.

Categories of Financial Instruments

7.5 Details of the Financial Instruments, by category, are:

	Note	31 March 2017		31 March 2016	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Financial Assets					
Fair value through Net Operating Cost - Held for Trading	SoFP	607,812	607,812	332,389	332,389
Loans and receivables (including cash and cash equivalents)		3,195,401	3,268,772	2,794,871	2,893,442
Available for Sale		1	36,014	1	69,207
		3,803,214	3,912,598	3,127,261	3,295,038
Financial Liabilities					
Payables and accruals		(9,202,543)	(9,248,263)	(8,660,649)	(8,729,744)
Fair value through Net Operating Cost - Held for Trading	SoFP	(121,872)	(121,872)	(400,061)	(400,061)
		(9,324,415)	(9,370,135)	(9,060,710)	(9,129,805)

7.6 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 2017		31 March 2016	
	Net Operating Cost	Other Comprehensive Expenditure	Net Operating Cost	Other Comprehensive Expenditure
	£000	£000	£000	£000
Financial Assets				
Fair value through Net Operating Cost - Held for Trading	(845,205)	-	(19,876)	-
Loans and receivables	(1,067)	-	39,699	-
Financial Liabilities				
Payables and accruals	2,554	-	4,605	-
	(843,718)	-	24,428	-

Interest Rate Risk Management

7.7 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 Supply funding process.

Foreign Currency Risk

7.8 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 89% and 99% respectively of the in-year expenditure in US dollars and Euros.

7.9 The table below details the forward purchase currency contracts outstanding as at 31 March 2017:

	Average Contract Exchange Rates	Foreign Currency	Contract Value	Financial Asset / (Liability) Fair Value	Financial Asset / (Liability) Fair Value
		31 March 2017	31 March 2017	31 March 2017	31 March 2016
		US \$000	£000	£000	£000
Delivery 2016-17					
US Dollars (\$)	1.59	-	-	-	177,142
Euro (€)	1.19	-	-	-	(52,372)
Delivery 2017-18					
US Dollars (\$)	1.46	2,749,000	1,884,854	322,646	98,785
Euro (€)	1.23	946,000	768,553	47,034	4,060
Delivery 2018-19					
US Dollars (\$)	1.39	1,888,000	1,361,619	154,481	26,192
Euro (€)	1.20	566,000	469,748	18,225	5,155
Delivery 2019-20					
US Dollars (\$)	1.34	901,000	673,610	49,910	-
Euro (€)	1.15	192,000	166,716	(1,185)	-
Total			5,325,100	591,111	258,962

7.10 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 by the Bank of England.

Fuel Price Risk

7.11 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.

7.12 The table below details the Swap contracts outstanding as at 31 March 2017:

	Average Price US\$/Tonne	Volume Tonnes	Contract Value		Financial Asset/ (Liability)	Financial Asset / (Liability)
			31 March 2017	31 March 2017	Fair Value	Fair Value
			US\$000	£000	£000	£000
Delivery 2016-17						
Aviation Turbine Fuel	906	-	-	-	-	(111,160)
Marine Gas Oil	753	-	-	-	-	(64,216)
Unleaded Ground Fuel	840	-	-	-	-	(442)
Diesel Ground Fuel	808	-	-	-	-	(10,423)
Delivery 2017-18						
Aviation Turbine Fuel	670	353,504	237,003	190,318	(50,134)	(63,411)
Marine Gas Oil	544	340,215	185,232	148,745	(24,389)	(42,467)
Unleaded Ground Fuel	772	811	626	503	(165)	(201)
Diesel Ground Fuel	599	39,213	23,489	18,862	(4,113)	(5,648)
Delivery 2018-19						
Aviation Turbine Fuel	569	228,840	130,200	104,553	(13,806)	(17,088)
Marine Gas Oil	520	105,653	54,943	44,120	(5,502)	(13,304)
Unleaded Ground Fuel	526	3,687	1,938	1,556	(20)	(8)
Diesel Ground Fuel	543	16,329	8,865	7,118	(977)	(1,486)
Delivery 2019-20						
Aviation Turbine Fuel	552	91,796	50,690	40,705	(4,303)	-
Marine Gas Oil	494	50,808	25,093	20,150	(1,579)	-
Unleaded Ground Fuel	511	63	32	26	-	-
Diesel Ground Fuel	503	6,625	3,331	2,675	(183)	-
Total			721,442	579,331	(105,171)	(329,854)

*US \$ values have been converted to sterling using the mid market exchange rate as at 31 March.

7.13 Details of the financial instruments by valuation method are:

	31 March 2017		31 March 2016	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
	Financial Assets			
Fair value	607,813	643,826	332,390	401,596
Historic cost	2,892,056	2,965,427	2,468,976	2,567,547
Discounted cost	303,345	303,345	325,895	325,895
	3,803,214	3,912,598	3,127,261	3,295,038
Financial Liabilities				
Fair value	(121,872)	(121,872)	(400,061)	(400,061)
Historic cost	(9,101,240)	(9,146,960)	(8,590,168)	(8,659,263)
Discounted cost	(101,303)	(101,303)	(70,481)	(70,481)
	(9,324,415)	(9,370,135)	(9,060,710)	(9,129,805)

8. Investments

8.1 Departmental Group – Investments in Public and Non-Public Sector Bodies

	Non-Current Assets – Financial Assets		
	Public Dividend Capital (PDC)	Loans	Total
	£000	£000	£000
Balance at 31 March 2016	63,679	12,880	76,559
Repayments:			
Defence Science and Technology Laboratory	(50,412)	(12,880)	(63,292)
Balance at 31 March 2017	13,267	-	13,267

8.2 Public Dividend Capital (PDC) by Trading Fund

	Public Dividend Capital (PDC) 31 Mar 17 £000
Defence Science and Technology Laboratory	-
UK Hydrographic Office	13,267
Totals	13,267

Other Financial Assets

8.3 Special Shares confer on the Secretary of State for Defence rights regarding ownership, influence and control, including voting rights in certain circumstances, under the individual Articles of Association of the relevant companies in which the shares are held. Further detailed information can be obtained from the companies' annual reports and accounts.

As at 31 March 2017 The Department held a Preferential Special Share valued at £1 in each of the following companies:

Company	Registration Number
Devonport Royal Dockyard Limited	02077752
Rosyth Royal Dockyard Limited	SC101959
AWE plc	02763902
AWE Pension Trustees Limited	02784144
QinetiQ Group plc	04586941
QinetiQ Holdings Limited	04154556
QinetiQ Limited	03796233
BAE Systems Marine (Holdings) Limited	01957765
CLH Pipeline System (CLH-PS) Ltd	09497223

8.4 7.5% non-cumulative irredeemable preference shares at £1 each were held in the following companies as at 31 March 2017:

Company	Registration Number	Number of shares
The Chamber of Shipping Ltd	02107383	688
The British Shipping Federation Limited	02107375	55,040

The shares are valued at 1p each reflecting the value at which they would be recovered by the two companies should membership by the Department be ceded, as laid down in the Articles of Association of the respective companies.

8.5 The Department has a 100% interest in the non-preferential shares of International Military Services Limited (registration number 00924462), a company registered in England. International Military Services Limited ceased trading on 31 July 1991. Following settlement of outstanding contracts, the company will be liquidated and any remaining value distributed in accordance with the company's constitution. The Department has written down the value of the investment to nil.

8.6 The Department has established a joint arrangement during the financial year. The company, Sealand Support Solutions Limited (SSSL), was incorporated with equal shareholdings between the Department and two private sector companies. SSSL has been established to deliver a global repair hub providing maintenance, repair, overhaul and upgrade services for avionics and other components on the F-35 aircraft. The company has not yet begun trading.

Departmental Group – Dividends from Investments

8.7 The following dividends are shown as income in Note 4.

	2016-17 £000	2015-16 £000
Defence Science Technology Laboratory	58,000	13,200
UK Hydrographic Office*	10,400	48,997
Total	68,400	62,197

* The figures for UKHO include an equity withdrawal of £42M for 2015-16.

9. Departmental Group – Impairments

9.1 Details of impairments and impairment reversals through Net Operating Costs:

	Net Operating Cost Impairment £000	2016-17 Net Operating Cost Impairment Reversal £000	Net Operating Cost Impairment £000	2015-16 Net Operating Cost Impairment Reversal £000
Intangibles	47,399	(66,735)	81,014	(9,820)
Land	369,606	(157,009)	200,991	(140,206)
Property	1,075,039	(164,091)	722,430	(240,739)
Single Use Military Equipment (SUME)	566,702	(237,513)	427,830	(455,465)
Plant & machinery	362	(363)	16,768	-
Transport	11,606	(34,896)	95,064	(328)
IT	10,952	(3,485)	32,538	(8,683)
Assets under construction	2,824	(22,308)	92,707	(41,660)
Assets held for sale	4,375	-	3,735	-
	2,088,865	(686,400)	1,673,077	(896,901)

9.2 The figures for impairment include reductions in the value of: buildings £940M and land £144M, following announcements of plans to dispose of various sites as part of the Department's estate rationalisation programme – the Footprint Strategy. The land and buildings impairment has been charged to the SoCNE (Net Operating Costs). Any balances on the revaluation reserve (up to the value of the impairment for the relevant assets) has been transferred to the General Fund.

9.3 Buildings were impaired by accelerating the depreciation from the current out of service date to the estimated vacation date. This determines the impairment amount. For land, the impairment amount was established by comparing the carrying amount to the recoverable amount. Estimates of sales proceeds was considered when reviewing these values. As the sales proceeds are estimates, there is uncertainty around these amounts.

10. Departmental Group – Property Plant and Equipment Assets Held For Sale

The Department has the following non-current assets held for sale:

	Property £000	Plant and Equipment £000	Total £000
Balance at 1 April 2015	89,538	89,762	179,300
Additions (transfers in)	69,082	6,111	75,193
Disposals	(81,100)	(84,942)	(166,042)
Transfers out*	(52,532)	(3,049)	(55,581)
Balance at 31 March 2016	24,988	7,882	32,870
Additions (transfers in)	39,715	5,060	44,775
Disposals	(30,225)	(8,392)	(38,617)
Transfers out*	(12,840)	(618)	(13,458)
Balance at 31 March 2017	21,638	3,932	25,570

*Transfers out includes an element of revaluation where the anticipated sale did not take place in the current year.

10.1 When assets are classified as held for sale, they are reclassified 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. Disposal of plant and equipment is managed through the Disposal Services Authority. Disposal of 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. Asset disposals include property assets overseas handed back to host nations for which receipts are expected in future periods. Costs of impairing the assets to the net realisable value were charged to the SoCNE.

11. Departmental Group – Inventories

11.1 To conduct its activities across the world, on operations and standing commitments, the armed forces require a wide range of supplies and spares for immediate and potential use. A large part of these supplies and spares are recorded on the inventory accounting systems and comprise over 660,000 different types and over 800 million items. The type and range of items accounted for include: Guided Weapons, Missiles and Bombs (GWMB) and significant equipment spares (e.g. engines) some of which are reported in the accounts at Note 6 – PPE (as part of the Single Use Military Equipment figures); as well as Raw Materials and Consumables (RMC) which are reported in the table below.

11.2 The total, approximate, gross value of all these different ‘categories’ is £27.3Bn, £21Bn is included in Note 6 and £6.3Bn in the table below (as at 31 Mar 2016 these figures were £27.8Bn, £21.5Bn in Note 6 and £6.3Bn in the table below).

11.3 The net book value – i.e. after deducting depreciation and other costs (to reflect net realisable value for example for when items become surplus, unserviceable, defective or obsolescent) – of all the ‘categories’ is £10.1Bn, of which £5.5Bn is included in Note 6 and £4.6Bn in the table below, (as at 31 Mar 2016 these figures were £10.5Bn, £5.9Bn in Note 6 and £4.6Bn in the table below).

11.4 Further analysis of the net £4.6Bn figure for Raw Materials and Consumable is below:

	31 March 2017	31 March 2016
	£000	£000
Munitions	1,192,007	1,256,556
Clothing & textiles	285,788	291,448
Engineering & technical	2,657,224	2,697,374
General	185,397	161,067
Medical, dental & veterinary	48,548	47,092
Oil, fuel & lubricants	180,009	163,744
Total Core Department and Agencies	4,548,973	4,617,281
Inventory held by ALBs	8,366	8,697
Total Departmental Group	4,557,339	4,625,978

11.5 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.

12. Trade Receivables and Other Assets

	31 March 2017		31 March 2016	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
	Amounts falling due within one year:			
Trade receivables	296,169	301,720	208,211	211,805
Deposits and advances	43,712	43,712	58,896	58,896
Value Added Tax	439,495	441,610	465,242	467,513
Other receivables	686,058	692,065	297,394	302,085
Staff loans and advances	77,310	77,310	66,244	66,244
Prepayments and accrued income	1,219,273	1,223,667	984,324	989,373
Current part of Service Concession Arrangement prepayment	35,009	35,009	26,705	26,705
	2,797,026	2,815,093	2,107,016	2,122,621
Amounts falling due after one year:				
Trade receivables	25,167	25,167	28,069	28,069
Other receivables	144,923	144,923	196,007	196,007
Staff loans and advances	131,138	131,138	110,420	110,420
Prepayments and accrued income	166,500	166,500	285,735	285,735
ALB Pension Assets*	-	-	-	179,611
	467,728	467,728	620,231	799,842
Total Receivables	3,264,754	3,282,821	2,727,247	2,922,463

*The assets and liabilities of each ALB's pension scheme are, from 31 March 2017 onwards, disclosed as separate net balances on the SoFP - as Retirement benefit scheme assets (or liabilities) depending on the net value of the scheme. Further details are at Note 16 - Retirement Benefit Schemes.

The Department holds cash in accounts with foreign governments due to contractual requirements to trade with defence contractors through foreign military sales. These have been recognised as prepayments.

13. Cash and Cash Equivalents

	Core Department & Agencies £000	Departmental Group £000
Balance at 31 March 2016	1,641,001	1,728,460
Net change in cash and cash equivalents	(49,606)	(75,252)
Balance at 31 March 2017	1,591,395	1,653,208

	31 March 2017 £000	31 March 2016 £000
The following balances were held at:		
Government Banking Service	538,695	760,130
Commercial Banks and Cash in Hand	1,114,513	968,330
Totals	1,653,208	1,728,460

The commercial banks and cash in hand figure as at 31 March 2017 includes £895M (31 March 2016: £745M) 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.

14. Trade Payables and Other Liabilities

	31 March 2017		31 March 2016	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
	Amounts falling due within one year:			
VAT	78,075	78,075	77,829	77,829
Other taxation and social security	209,919	210,024	193,203	193,464
Trade payables	470,108	475,781	542,415	554,892
Other payables*	2,268,646	2,277,838	2,112,944	2,115,642
Payments received on account	15,548	15,548	3,347	3,427
Accruals and deferred income	6,635,603	6,666,353	6,217,618	6,269,768
Current part of finance leases	8,709	8,709	8,973	8,973
Current part of imputed finance lease element of Service Concession Arrangement contracts	284,784	284,784	277,066	277,066
Current part of NLF loans**	2,520	2,520	2,641	2,641
Supply Payable***	696,236	696,236	895,829	895,829
	10,670,148	10,715,868	10,331,865	10,399,531
Amounts falling due after one year:				
Other payables	45,650	47,383	48,534	54,528
Accruals and deferred income	55,653	55,653	29,433	29,433
Finance leases	1,765,382	1,765,382	1,774,091	1,774,091
Imputed finance lease element of Service Concession Arrangement contracts	4,653,125	4,653,125	4,830,051	4,830,051
NLF loans**	22,719	22,719	25,239	25,239
ALB pension schemes' liabilities****	-	-	-	182,701
	6,542,529	6,544,262	6,707,348	6,896,043
Total Payables	17,212,677	17,260,130	17,039,213	17,295,574

* Other payables includes: amounts advanced by foreign governments in respect of various collaborative projects where the United Kingdom is the host nation of £895M; and a further £452M due to the International Court of Justice.

** 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.

*** Amounts received from the Consolidated Fund for Supply but not spent as at 31 March 2017.

****The assets and liabilities of each ALB's pension scheme are, from 31 March 2017 onwards, disclosed as separate net balances on the SoFP - as Retirement benefit scheme assets (or liabilities) depending on the net value of the scheme. Further details are at Note 16 - Retirement Benefit Schemes.

15. Provisions for Liabilities and Charges

15.1 Departmental Group – Provisions for Liabilities and Charges

	Other Provisions					
	Nuclear Decommissioning*	Other Decommissioning and Restoration Costs	Early Retirement Commitments	Legal	Other	Total
Balance at 1 April 2015	4,688,801	66,991	117,623	430,264	477,921	5,781,600
Increase in provisions in-year	327,731	55	20,155	177,817	161,067	686,825
Provisions written back and reclassifications	(122,926)	(19,067)	(14,069)	(27,931)	(27,474)	(211,467)
Provisions utilised in year	(107,535)	(2,813)	(19,537)	(102,128)	(24,432)	(256,445)
Unwinding of discount	5,581,483	(52)	354	(2,005)	10,149	5,589,929
Provisions capitalised	49,427	-	-	-	-	49,427
Balance at 31 March 2016	10,416,981	45,114	104,526	476,017	597,231	11,639,869
Increase in provisions in-year	361,002	600	10,863	247,497	239,338	859,300
Provisions written back and reclassifications**	(475,406)	-	(16,622)	(18,518)	(465,378)	(975,924)
Provisions utilised in year	(102,510)	-	(13,851)	(109,460)	(25,265)	(251,086)
Unwinding of discount	27,945	594	5,106	(9,295)	794	25,144
Provisions capitalised	(17,298)	-	-	-	-	(17,298)
Balance at 31 March 2017	10,210,714	46,308	90,022	586,241	346,720	11,280,005

*Provisions are discounted using HM Treasury's annually issued rates. In 2015-16 these rates included a significant change to the long term (over 10 year) rate; this resulted in a large increase in the value of the Nuclear Decommissioning provision for 2015-16.

**The reclassification in the Other column of Other Provisions includes the reclassification of £593,800,000 now separately disclosed as Retirement Benefit.

15.2 Analysis of expected timing of discounted cash flows

	Other Provisions				
	Nuclear Decommissioning	Other Decommissioning and Restoration Costs	Early Retirement Commitments	Other Provisions	Total
Due within 1 year	504,875	17,183	7,780	143,978	673,816
Due over 1 year and less than 5 years	749,749	28,988	25,134	533,855	1,337,726
Due over 5 years	8,956,090	137	57,108	255,128	9,268,463
Balance at 31 March 2017	10,210,714	46,308	90,022	932,961	11,280,005

Nuclear Decommissioning

Critical accounting judgements and key sources of estimation uncertainty

15.3 Provisions have been made for the cost of decommissioning facilities and for the treatment, storage and disposal of nuclear waste arising from operations at a number of sites including Rosyth and Devonport dockyards and at Atomic Weapons Establishment sites. The provision also includes the future cost of decommissioning 30 out of service and operational nuclear submarines.

15.4 The totality of nuclear provisions addresses a programme of work which is currently expected to extend over the next 120 years. In estimating the value of the provision required to settle the Department's obligations, there remains a significant degree of inherent uncertainty in the future cost estimates and the assumptions that underpin them. Should outcomes differ from assumptions in any of the following areas this may require material adjustments to the value of the nuclear decommissioning provisions and related assets and liabilities:

- the time over which the work will be delivered with the programme of work not scheduled to conclude until well into the next century;
- interdependencies between programmes of work. For example, the Geological Disposal Facility (GDF) is assumed to be the end point for MOD's nuclear waste materials. If the assumptions underpinning the GDF were to change, this would have a direct impact on the provisions held by the Department;
- uncertainty over future Government policy positions and potential regulatory changes, especially in relation to the Nuclear Decommissioning Authority (NDA) which is tasked with ensuring the safe and efficient clean-up of the UK's entire nuclear legacy as a whole;
- possible technological advances which could impact the work to be undertaken to decommission and clean up the sites.

General assumptions

15.5 A key assumption that impacts the value of the nuclear decommissioning provisions is HM Treasury's general discount rate (which is applied to forecasted cashflows at constant 2016-17 prices). While the undiscounted provision based on constant 2016-17 prices is £7.5Bn, the application of discounting increases the provision to £10.2Bn. From 2012-13 HM Treasury introduced different rates for short, medium and long term cash flows. The impact on the value of the nuclear decommissioning provisions of recent rate changes can be seen below:

	Short Term Rate (0-5 years)	Medium Term Rate (5-10 years)	Long Term Rate (>10 years)	Impact of change (£m) Increase/(decrease)
2004-05 to 2011-12	2.20%	2.20%	2.20%	-
2012-13	-1.80%	-1.00%	2.20%	324
2013-14	-1.90%	-0.65%	2.20%	(17)
2014-15	-1.50%	-1.05%	2.20%	15
2015-16	-1.55%	-1.00%	-0.80%	5,463
2016-17	-2.70%	-1.95%	-0.80%	106

15.6 The most significant impact has been the introduction of negative discount rates and especially the change to the long term rate for 2015-16, which is intended to represent the real term cost of government borrowing. To illustrate further the sensitivity of provision values to changes in the discount rates, a reduction of 0.5% (-3.2% short term, -2.45% medium term and -1.3% long term) would result in a £2.2Bn increase in the nuclear decommissioning provision. Conversely, an increase of 0.5% in the three rates would result in a £1.6Bn decrease in the value

15.7 The other general assumption that impacts the value of the provision is the inflation rate used in calculations. Wherever supportable by evidence, inflation rates specific to each provision are used to inflate cashflows stated at prior year prices to current year prices. Where specific inflation rates are not apparent or supportable by evidence, a general rate of 2.5% is applied which is in line with Departmental accounting policy. A variation in this generic inflation rate of +/-0.5% would result in the value of inflation charge in the provision changing by +/-£32M.

Individual Material Provisions

Nuclear Fuel Management (£2.4Bn - 23% of the value of the provision)

15.8 Since 1968, irradiated fuel from the defueling of submarines has been stored at the NDA's Sellafield Site. The current policy is to consolidate all the Department's irradiated fuel at Sellafield in the Wet Inlet Facility (WIF). The value of this element of the provision assumes that the costs of storage will continue at a broadly constant level, with a reduction when all material is consolidated in the WIF. It has been estimated that a variation of 2% in storage costs (increase or decrease) would lead to a c.£24M change in the value of the provision.

15.9 The long-term disposal strategy for irradiated fuel is to use the GDF. Planning for this involves the building of a facility that will condition irradiated fuel taken from the WIF to meet GDF entry requirements. The cost of this facility is included in the provision based on estimates previously provided by the NDA.

Submarine 'Afloat' provisions (£2Bn - 20% of the value of the provision)

15.10 The MOD incurs costs for the maintenance and safe storage of out of service nuclear submarines prior to dismantling. This element of the provision (covering all nuclear submarines up to and including the Astute Class) is calculated from projections of these costs which include removal of fuels and an allocation of overhead costs incurred as part of the Maritime Support Delivery Framework (MSDF) contract. The majority of such costs form part of the fixed cost element of the current MSDF contract. As the provision is primarily driven by fixed costs, the overall length of the programme is the key variable component. The provision is therefore routinely updated to reflect the impact of any changes to the submarine programme (specifically in respect to vessel out of service dates and the knock on impact these have on the timing of platforms entering the dismantling phase). The MSDF contract is scheduled to end during 2019-20 and cash flow estimates assume similar cost profiles beyond this date. For every 1% change in costs after this point, the liability would change by £11M.

Atomic Weapons Establishment (£1.6Bn - 15% of the value of the provision)

15.11 The Atomic Weapons Establishment (AWE) is responsible for the design, manufacture and support of warheads for the United Kingdom's strategic nuclear deterrent. The Department holds provisions for the decommissioning of facilities, decontamination and storage of materials relating to the warhead programme; the largest of which is for the decommissioning of AWE's sites at Aldermaston and Burghfield.

15.12 The AWE provision is based upon the cost of decommissioning current and redundant facilities, and waste management activities - it does not take into account any facilities that have yet to be built. The provision assumes decommissioning timeframes as set out in the AWE annual liabilities report as agreed by the Office of Nuclear Regulation. AWE provide cost information at 10/50/90% confidence levels which takes into account programme risk and timescale uncertainty. The department ordinarily uses 50% confidence levels as the basis for investment decisions as it reflects the risk adjusted most likely estimate of programme costs. This rationale has also been applied in the costing of provisions as it reflects the best estimate available on the cost of decommissioning activities. To place this in some context, the difference between the 50% estimate for AWE (undiscounted and excluding management fees) and the 10% estimate is c.£150M and between the 50% and 90% estimate is c.£300M.

Submarine Dismantling Project (£1.4Bn - 13.5% of the value of the provision)

15.13 The Submarine Dismantling Project (SDP) aims to deliver safe, environmentally responsible and cost effective dismantling of 27 of the UK's defueled nuclear-powered submarines. The Department has yet to fully dismantle any of its nuclear powered submarines and, as such, the estimates of the cost of dismantling are inherently uncertain. The SDP commenced in December 2016 with a submarine that will define and refine the process.

15.14 To illustrate the sensitivity of the provision to changes in the dismantling time, the following changes would lead to an increase of c£900M in the value of this element of the provision:

- for submarines that are due to undergo dismantling in two stages, the duration for the removal of Intermediate Level Waste is extended from 12 to 18 months; and
- for the remaining submarines, the time taken for the initial dismantling of each submarine is extended from 18 to 24 months.

15.15 Availability of a GDF as an end point is important to the SDP with any delays resulting in additional costs for the interim storage of waste.

Geological Disposal Facility (£1.4Bn – 13.3% of the value of the provision)

15.16 One of the key assumptions that underpin a number of the individual provisions is the availability of the GDF as an end point for MOD's nuclear waste materials. The construction of the GDF is managed by the NDA and the value of the Department's nuclear decommissioning provision currently includes a share of the forecast project costs provided by the NDA. MOD's share of GDF costs is currently expected to be 6%, however, conclusion of the separate NDA review of 'Nuclear Liabilities' may result in an adjustment to agreed proportions. It is assumed that the GDF will be available from around 2040 - any delay in construction will significantly impact the value of this element of the provision as well as other elements e.g. those for submarine dismantling and waste material disposal and storage.

15.17 The cost of constructing and operating the GDF is highly sensitive to the chosen location. NDA costs assume that the underground repository will be built in a 'high strength' rock area. However, if the facility is built in an area of softer rock then additional structural work will be required which will increase costs. Specifically, in line with the current working assumptions, there will be a 33% increase in costs for a solution that uses evaporite rock and a 50% increase in a solution in soft strength rock. This would represent an increase in the discounted cash flow of £443M and £672M respectively.

Other Decommissioning and Restoration

15.18 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 rates listed at paragraph 15.6

Early Retirement

15.19 Prior to December 2010, for those employees covered by the Civil Service Compensation Scheme who retired early, the Department met the additional costs of benefits beyond the normal civil service pension scheme benefits by paying the required amounts annually to the pension schemes over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate applicable to such provisions: 0.24% with effect from 31 March 2017 (1.37% from 31 March 2016). 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 2016-17 increases of £11M were made to existing schemes and early retirement / redundancy costs charged during the period amounted to £15M.

Legal

15.20 Legal liabilities include amounts payable under guarantees, litigation and contractual arrangements; some legal liabilities (where the probability of settlement against the Department is low) have been apportioned to contingent liabilities.

Other

15.21 Other provisions include provisions for costs on disposal of non-current assets and redundancy and relocation costs associated with restructuring.

16. Retirement Benefit Schemes

16.1 The transactions and balances of the Armed Forces Pension Scheme (AFPS) (including the Gurkha Pension Scheme, the Non-Regular Permanent Staff Pension Scheme, the Reserve Forces Pension Scheme and other minor pension schemes covering locally employed personnel) and the Armed Forces Compensation Scheme are not consolidated in the financial statements. The funding for these schemes is voted separately by Parliament although the cost of administering the schemes falls to the MOD and is included in the accounts. Separate accounts are prepared for the schemes and can be found at: <https://www.gov.uk/government/publications/armed-forces-pension-scheme-annual-accounts-2015-to-2016>

16.2 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>

16.3 Other employees are members of smaller pension schemes e.g. schemes for Locally Employed Civilians overseas. To improve the visibility of these schemes in the accounts, from 2016-17 onwards, the Department has reclassified the assets and liabilities as follows: the liabilities for the unfunded schemes are included as 'Retirement benefit scheme liabilities' as part of the non-current liabilities on the Department's SoFP (they were previously shown as provisions for liabilities and charges). For the funded pension schemes within the accounting boundary i.e. the Commonwealth War Graves Commission Superannuation Scheme and the Reserve Forces and Cadets Associations Pension Scheme; estimates of the 'Retirement benefit scheme assets and liabilities' are included as part of the non-current assets and non-current liabilities on the Group SoFP (they were previously shown as non-current receivables and payables respectively). Further details of all these smaller schemes are set out below.

16.4 The Department's three unfunded, defined benefit pension schemes are:

- the British Forces Cyprus pension scheme – a pension scheme for locally engaged fire fighters, employed by the MOD in Cyprus.
- the Sovereign Bases Administration Areas pension scheme – a pension scheme for locally engaged police and civilian grades in Cyprus; and
- the United Kingdom Departments Gibraltar pension scheme – for locally employed staff in Gibraltar.

Details of the liabilities of these three schemes are shown in the table below:

				2016-17
	British Forces Cyprus (BFC)	Sovereign Bases Administration Areas (SBAA)	United Kingdom Departments Gibraltar (UKDG)	Total
	£000	£000	£000	£000
Opening Balance	-	-	-	-
Reclassification from provisions	49,200	104,500	288,200	441,900
Current Service Cost	1,900	4,000	6,000	11,900
Interest Charges	1,800	3,800	10,300	15,900
Changes in Assumptions	14,700	32,900	75,300	122,900
Benefits Paid	(900)	(1,900)	(10,500)	(13,300)
Exchange Rate (gain)/loss	4,300	9,200	-	13,500
Experience (gain)/loss	200	300	500	1,000
Closing Balance	71,200	152,800	369,800	593,800

16.5 The numbers of members in these three schemes are:

	Active	Pensioners	Deferred Pensioners
	£000	£000	£000
British Forces Cyprus (BFC)	117	47	1
Sovereign Bases Administration Areas (SBAA)	340	106	1
United Kingdom Departments Gibraltar (UKDG)	570	1161	305

16.6 The schemes have been subject to actuarial valuation, by the Government's Actuary's Department, as at 31 March 2017. The results of any actuarial calculation are inherently uncertain because of the financial, demographic and exchange rate assumptions which must be made. The following table shows the indicative effects, on the total liability of the 3 schemes of changes to these assumptions:

	Approximate effect on total liability	
	% change	£'000
Financial assumptions		
(i) discount rate (1/2% increase per year)*	-9.5%	(56,000)
(ii) (long term) earnings increase (1/2% increase per year)*	+4.0%	21,300
(iii) pension increase (1/2% increase per year)*	+8.0%	51,500
Demographic assumptions		
(iv) additional 1 year increase in life expectancy at retirement	+1.5%	17,800
Exchange rate		
(v) appreciation of the Euro against the pound sterling by 10%	+10%	22,400

*Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

16.7 The Group Accounts also include two funded, defined benefit schemes:

- the Commonwealth War Graves Commission Superannuation Scheme; and
- the Reserve Forces and Cadets Associations Pension Scheme.

Details of the assets, liabilities and number of members are set out in the following tables:

	Reserve Forces and Cadets Association Pension Scheme £000	2016-17 Commonwealth War Graves Commission Superannuation Scheme £000	Total £000
Scheme Assets			
Opening Asset Balances	97,700	81,911	179,611
Experience (gain) / loss	15,936	404	16,340
Closing Asset Balances	113,636	82,315	195,951
Scheme Liabilities			
Opening Liability Balances	(86,100)	(96,601)	(182,701)
Experience (gain) / loss	(11,618)	9,686	(1,932)
Closing Liability Balances	(97,718)	(86,915)	(184,633)
Net Scheme Asset / (Liabilities)	15,918	(4,600)	11,318

The numbers of members in the schemes are

Scheme Members:	Active	Pensioners	Deferred Pensioners
Reserve Forces and Cadets Association Pension Scheme	855	1126	305
Commonwealth War Graves Commission Superannuation Scheme	202	405	169

17. Departmental Group – Capital Commitments

The following capital commitments are not accounted for in the financial statements:

	31 March 2017 £000	31 March 2016 £000
Intangible assets	3,361,953	3,152,823
Property, plant and equipment	17,704,731	15,916,774
	21,066,684	19,069,597

18. 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:

18.1 Operating leases:

Significant commitments for leased land, as at 31 March 2017 are: The Royal Armoured Corps Gunnery School (£18M) and Okehampton Training Camp (£11M).

The most significant operating leases for buildings, as at 31 March 2017, are for: Service Families Accommodation (£45M), Aldershot Health Centre (£27M) and Walker House, Liverpool (£14M).

Other operating lease commitments includes leased vehicles (including operational support vehicles) of £269M and helicopters of £12M. Remaining lease commitments are less than £10M.

Obligations under operating leases comprise:	31 March 2017 £000	31 March 2016 £000
Land		
Not later than one year	7,340	5,184
Later than one year and not later than five years	14,489	16,298
Later than five years	50,304	76,005
	72,133	97,487
Buildings		
Not later than one year	53,722	43,275
Later than one year and not later than five years	114,465	115,445
Later than five years	78,554	93,027
	246,741	251,747
Other		
Not later than one year	114,817	104,212
Later than one year and not later than five years	210,057	187,916
Later than five years	57,967	40,385
	382,841	332,513

18.2 Finance leases:

Obligations under finance leases comprise:	31 March 2017 £000	31 March 2016 £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	8,551,477	8,599,520
	8,791,687	8,839,730
Less interest element	(7,942,983)	(7,991,023)
	848,704	848,707
Buildings		
Not later than one year	47,848	47,848
Later than one year and not later than five years	191,392	191,392
Later than five years	8,516,953	8,564,801
	8,756,193	8,804,041
Less interest element	(7,910,917)	(7,958,763)
	845,276	845,278
Other		
Not later than one year	14,110	22,435
Later than one year and not later than five years	53,374	73,613
Later than five years	36,695	50,840
	104,179	146,888
Less interest element	(24,069)	(30,123)
	80,110	116,765

The most significant finance lease is the land and buildings lease with Annington Homes Ltd for homes for service personnel and their families.

19. Departmental Group – Commitments Under Service Concession Arrangements

19.1 All PPP / PFI arrangements have been assessed in accordance with IFRIC 12 – Service Concession Arrangements as adopted by HM Treasury. 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
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-18
Medium Support Helicopter Aircrew Training Facility: Provision of 6 flight simulator training facilities, covering three different types of helicopter, at RAF Benson.	Oct-97	Oct-37
Veolia PFI (formerly Thames Water and Tidworth Water and Sewage): Pathfinder project providing water, sewerage and surface water drainage at Tidworth.	Feb-98	Aug-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
Family Quarters Yeovilton: Provision of married quarters accommodation for 88 Service families at RNAS Yeovilton.	Jul-98	Jul-28
RAF Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities, to meet regulatory standards at RAF Lyneham.	Aug-98	Aug-23
RAF Fylingdales: Provision of guaranteed power supply.	Dec-98	Mar-24
RAF Cosford/RAF Shawbury Family Quarters: Provision of married quarters accommodation for 145 Service families at RAF Cosford and RAF Shawbury.	Mar-99	Jun-25
Fire Fighting Training Units: Provision of fire fighting training for the Royal Navy.	Apr-99	Jan-21
Tornado GR4 Synthetic Training Service: Provision of aircraft training service at RAF Marham and RAF Lossiemouth.	Jun-99	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	Sep-30
Main Building Refurbishment: Redevelopment and management services for MOD Main Building.	May-00	May-30
E3D Sentry Aircrew Training Service: E3D Sentry simulators instructors and maintainers at RAF Waddington.	Jul-00	Dec-30
Lynx MK 7 and 9 Aircrew Training Service: Provision for simulator training facility for Lynx MK 7 and 9 helicopter aircrew.	Jul-00	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
Family quarters at Bristol/Bath/Portsmouth: Provision of accommodation for 317 Service families.	Nov-01	Sep-28
Heavy Equipment Transporters: Provision of vehicles to replace existing fleet and meet future requirements.	Dec-01	Jul-24
Field Electrical Power Supplies: Provision of generator sets to support operational electrical requirements in the field.	Jun-02	Jun-22
Flight Simulation and Synthetic Trainers: Provision of a Flight Simulation and Synthetic Trainers Integrated Aircrew Synthetic Training Service.	Oct-02	Mar-35
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 Sixth Form College: Development of a sixth form college to help meet the future recruitment requirements in the Armed Forces and MOD Civil Service.	Jun-03	Aug-33
Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites.	Oct-03	Aug-22
Colchester Garrison: Redevelopment, rebuilding and refurbishment to provide accommodation and associated services (messing, education, storage, workshops).	Feb-04	Feb-39
Devonport Armada Single Living Accommodation: Provision of Support Services and Fleet Accommodation Centre services at Devonport Naval Base.	Jul-04	Mar-29
Aquatrine Project B: Provision of water and waste water services.	Sep-04	Mar-30
Aquatrine Project C: Provision of water and waste water services.	Oct-04	Mar-30
C Vehicles: Provision of Earthmoving and Specialist Plant, Engineer Construction Plant and Material Handling Equipment and support services.	Jun-05	May-21

Project Description	Contract Start*	Contract End
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
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	Nov-22
Future Strategic Tanker Aircraft (FSTA): FSTA is an innovative PFI programme that will provide modern air-to-air refuelling and passenger air transport capabilities.	Mar-08	Mar-35
UK Military Flying Training System: Advanced Jet Trainer, Ground Based Training Equipment Element: Management and provision of Fast Jet Phase IV training and Fixed Wing Training.	May-08	May-33
Corsham Development Project: Rebuild, refurbishment, management and operation of facilities at the Basil Hill site.	Aug-08	Jul-33

*Date when contract signed.

19.2 The substance of an arrangement accounted for under IFRIC 12 is that the Department has a finance lease with the provider with payments comprising an imputed finance lease charge, a repayment of capital and a service charge. Payments are accounted for within the SoCNE – Service Concession Arrangements (SCA) and charges for 2016-17 were £1.7Bn (2015-16: £1.42Bn). Total obligations under SCA (consisting of the minimum lease payments, interest and any minimum service charges) analysed by time periods are shown in the tables below:

	31 March 2017	31 March 2016
Details of the imputed finance lease charges	£000	£000
Not later than one year	588,175	591,775
Later than one year and not later than five years	2,272,701	2,250,110
Later than five years	4,996,322	5,464,574
	7,857,198	8,306,459
Less interest element	(2,919,290)	(3,199,343)
Present value of obligations	4,937,908	5,107,116

	31 March 2017	31 March 2016
Details of the minimum service charge	£000	£000
Not later than one year	1,106,768	397,151
Later than one year and not later than five years	3,584,025	2,033,954
Later than five years	7,142,249	8,976,668
	11,833,042	11,407,773

The most significant Service Concession Arrangements are:

- Future Strategic Tanker Aircraft (FSTA) – providing air to air refuelling and passenger air transport capabilities.
- Defence Fixed Telecommunications System – the integration of fixed telecommunications networks.
- Project Allenby Connaught – a project for the rebuild, refurbishment, management and operation of facilities for Service accommodation at: Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down.
- Skynet 5 – satellite services.

20. Departmental Group – Contingent Liabilities and Contingent Assets Disclosed Under IAS 37

Contingent Liabilities

The following liabilities are either: possible obligations arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Department's control; or present obligations where it is not probable that an outflow of economic resources will be required to settle the obligation. Details of restricted liabilities are not given due to reasons of commercial confidentiality and / or national security.

20.1 The following quantifiable contingent liabilities have been identified:

Description	31 March 2016 £000	Increase / (Decrease) in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2017 £000	Amount Reported to Parliament by Departmental Minute £000
Indemnity to contractors for third party risks	282,000	140,000	-	-	422,000	-
Liability for redundancy following contractorisation	37,620	211,245	-	(400)	248,465	-
Indemnity for possible damage caused by contractors on Government property	172,000	386,000	-	(172,000)	386,000	-
Indemnity to contractors for risks associated with the handling of fissile materials	140,000	-	-	-	140,000	-
Statutory liability for International Military Sales	100,000	-	-	-	100,000	-
Legal claims (personal)	48,762	9,649	-	-	58,411	-
MOD exposure when providing an overall cap on contractor liability	-	57,000	-	-	57,000	-
Environmental clean up costs	38,802	(500)	-	-	38,302	-
Restricted - not disclosed due to reasons of commercial confidentiality and / or national security	651,797	(211,245)	(270,500)	(138,052)	32,000	-
Indemnity for utilities and services following the sale of Service housing	17,031	-	-	-	17,031	-
Indemnity to contractors for loss or damage to issued property	-	10,000	-	-	10,000	-
Compensation for loss of revenue and costs incurred following non-award of contract	-	1,350	-	-	1,350	-
Indemnity related to work to relocate cables, in support of the dredging necessary for the QE Class Carriers	1,080	-	-	-	1,080	-
New Fair Deal arrangements for staff pensions: staff transferred from Central Government	-	684	-	-	684	-
Contractor claims relating to project deferment or termination	500	-	-	-	500	-
Indemnity to contractors for service failure as a result of loss of transacting ability i.e. bankruptcy	-	392	-	-	392	-
Early termination of leases relating to property in Germany	10,000	-	(10,000)	-	-	-
Indemnity for US Government owned equipment and guided weapons trials	20,000	-	-	(20,000)	-	-
Capital works on the Government of Gibraltar electricity network	3,858	-	(3,858)	-	-	-
Indemnity to BAE Systems (formerly GEC Marconi and Vickers Shipbuilding and Engineering Ltd for third party risks at Barrow	140,000	(140,000)	-	-	-	-
Total quantifiable contingent liabilities	1,663,450	464,575	(284,358)	(330,452)	1,513,215	-

Following a review of Contingent Liabilities using the criteria described in IAS37, a number of serials have moved between the Accountability Report and the Annual Accounts sections or have expired this Financial Year for example £172M relating to an indemnity for possible damage caused by contractors on Government property.

20.2 The Department has the following unquantifiable liabilities in accordance with IAS 37. Details of restricted liabilities are not given due to reasons of commercial confidentiality and / or national security. The liabilities below are unquantifiable. This could be due to a variety of reasons such as: the possibility of multiple scenarios and permutations (often involving complex and changing technology); and the variety and the uncertainty surrounding the events that may lead to crystallisation of any obligation. Objective evidence to support valuations of these liabilities is not available and hence they cannot be measured with sufficient reliability. The liabilities will remain for the foreseeable future because they relate to possible obligations in respect of enduring companies, products, projects, equipment, technologies and property. The liabilities are:

- Indemnity to contractors for potential third party risks arising from construction of the Queen Elizabeth carriers.
- Strategic Weapons System Activities Future Delivery Project – outsourced contract includes an indemnity for non-nuclear events and unintended detonation of explosives.
- Indemnity to Rolls Royce for redundancy costs in the event of the termination of the nuclear submarine construction programme.
- Indemnity to SERCO under the Marine Services PFI contract for losses and costs incurred due to the unintended detonation of explosives while being handled in performance of the contract.
- Indemnity to the contractor appointed to assist MOD with the sale of electromagnetic spectrum; covers potential damages awarded in respect of successful complaints following the sale.
- Guarantee to NAAFI that the Department will reimburse 90% of their additional costs arising from any changes in MOD's service requirements.
- Indemnity to third parties for damage caused by live firing of missiles at overseas ranges.
- The Department has a number of sites where it may be necessary to carry out decontamination work. It is not practicable or cost effective to identify all contamination at these sites, any possible liability is not therefore not quantified and possible site remediation exposure is recognised as an unquantifiable contingent liability.
- Military personnel are entitled, after specified periods of service, to claim a training allowance. The claim can be made while serving in the Armed Forces or up to 10 years after leaving.
- Service Life Insurance is a life insurance scheme for Service personnel which aims to guarantee access to life insurance cover throughout their Service. The insurer undertakes to cover the risk for all deaths regardless of cause within a contracted mortality rate of 75 deaths per 100,000 members. Above this mortality rate MOD would be liable. Details of the scheme and key features can be found at www.sli365.com.
- Indemnity for early termination of the Forces Broadcasting Service contract.
- Potential claims under UK employment legislation following a Court of Appeal decision that Dependent Locally Employed Civilians are covered by the legislation.

21. Related Party Transactions

21.1 The Department is the parent of the agencies (DE&S BTE and DECA) and other bodies, and sponsor of the non-departmental public bodies shown in in Note 22 – Entities Within the Departmental Boundary. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

21.2 The Department owned two Trading Funds during the year; The Defence Science and Technology Laboratory (Dstl) and the UK Hydrographic Office (UKHO); Dstl ceased to be a Trading Fund from 1 April 2017 when it became part of the Department, as an on-vote Agency, i.e. within the Departmental accounting boundary. The Oil and Pipelines Agency (OPA) and the Navy Army Air Force Institutes (NAAFI) are Public Corporations. The Trading Funds, the NAAFI and the OPA 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 these and other related parties are set out below.

Trading Funds

21.3 The UKHO provides charts of the world's oceans with the primary aim of saving and protecting lives at sea. During the year there were £3.5M (2015-16: £14.7M) of receipts from UKHO; payments to UKHO were £13M (2015-16: £12.5M).

21.4 Dstl delivers cutting edge science and technology for the benefit of national defence and security. During the year there were £46.9M (2015-16: £20.2M) of receipts from dstl; payments to dstl were £550.8M (2015-16: £572M).

Oil and Pipelines Agency (Public Corporation)

21.5 During the year MOD paid fees of: £15.8M comprising agency fees of £7.3M and other fees of £8.5M (2015-16: £14.8M comprising agency fees of £6.6M and other fees of £8.2M) The Department is represented on the OPA Board – further details are at: <https://www.gov.uk/government/organisations/oil-and-pipelines-agency>

Navy Army Air Force Institutes (NAAFI)

21.6 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. Further details of the activities of the NAAFI including membership of The Council can be found at <http://www.naafi.co.uk>. During 2016-17 there were no receipts from NAAFI (2015-16: £Nil); payments to NAAFI were £16M (2015-16: £21M). 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)

21.7 The following are Executive NDPBs of the MOD. They are designated NDPBs under the National Heritage Act 1983 and produce their own annual accounts. 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:

- The National Museum of the Royal Navy <http://www.nmrn.org.uk>
- National Army Museum www.national-army-museum.ac.uk
- Royal Air Force Museum www.rafmuseum.org.uk

During the year Grants-in-Aid (GiA) were made to: The National Museum of the Royal Navy £3.4M; the National Army Museum £6M and the Royal Air Force Museum £8.8M. The MOD also provided a loan of £0.56M to the RAF Museum; this loan was funded by the Department for Culture Media and Sport.

21.8 The Single Source Regulations Office (SSRO) is an Executive NDPB of the Department established under the Defence Reform Act 2014 with the aim of ensuring value for money is obtained for the UK taxpayer in MOD expenditure on qualifying defence contracts, and that single source suppliers are paid a fair and reasonable price under those contracts. During the year the SSRO was paid GiA of £5.8M. Further information on the organisation is at: <https://www.gov.uk/government/organisations/single-source-regulations-office>

Other

21.9 The Department also pays a number of grants and grants-in-aid to other bodies included in the Departmental Group e.g. the Reserve Forces and Cadets Associations (£87M), the Commonwealth War Graves Commission (£50M) and the Royal Hospital Chelsea (£12M), as well as grants-in-aid to bodies outside the accounting boundary e.g. the Marine Society & Sea Cadets (£11M) and the Gurkha Welfare Scheme (£2M).

21.10 The Chief of the Defence Staff is a trustee of the Lincolnshire Bomber Command Memorial Trust; MOD paid £1.5M to the Trust during the year. The Vice Chief of the Defence Staff is a Champion of the Defence Medical Welfare Service (DMWS); the Department paid £0.9M to DMWS during the year.

21.11 The MOD has also had a number of transactions with other government departments and central government bodies. These are undertaken under normal trading circumstances, at arms length, and are included in MOD's net resource outturn.

21.12 Details of individuals who served as Ministers and Board Member during the year are listed in the Remuneration Report. No Minister or Board Member or other related party has undertaken any material transactions with the Department during the year.

22. Entities Within the Departmental Boundary

The entities within the boundary during 2016-17 were as follows:

On-Vote Defence Agency*

Defence Equipment and Support - Bespoke Trading Entity

Defence Electronics and Components Agency

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

Non-Departmental Public Bodies

National Museum of the Royal Navy

National Army Museum

Royal Air Force Museum

Single Source Regulations Office

Other Bodies

Commonwealth War Graves Commission

Independent Monitoring Board for the Military Corrective Training Centre, Colchester

Royal Hospital, Chelsea

Territorial, auxiliary and volunteer reserve associations established under section 110 of the Reserve Forces Act 1996

*dstl was established as an on-vote Agency on 1 April 2017 and will be included in the 2017-18 Annual Report and Accounts.

23. Events After the Reporting Date

23.1 These accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG's Audit Certificate.

Annexes

Annex A

Statement of Approved Maximum Armed Forces Numbers

A.1 Votes A provide the formal mechanism by which Parliament sets limits for and monitors the maximum numbers of personnel retained for service in the Armed Forces. They are presented to the House shortly before the start of each financial year (mid-February), and form part of the Parliamentary Supply process.

A.2 Votes A numbers represent uppermost limits for Service manpower; they neither predict actual strengths nor act as a control over numbers in the Services. Votes A includes a contingency margin to cover unforeseen circumstances. Manpower levels are monitored routinely, and if it is anticipated that the numbers could be breached, then a Supplementary Estimate may be required to increase the limit.

A.3 The tables included below compare, for each service, the numbers voted by the House of Commons with the maximum numbers maintained and the date at which this peak occurred. The aggregate maximum numbers maintained may not equal the sum of Officers plus Men and Women as these categories peak at different times of the year. The "Men and Women" categories represent the Services' Ratings and Other Ranks

Maximum numbers of personnel to be maintained for service with the Armed Forces:

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
Naval Service				
Royal Navy	Officers	6,380	6,020	Feb-17
	Men and Women	20,490	19,190	Dec-16
	Aggregate	26,870	25,200	Feb-17
Royal Marines	Officers	890	820	Oct-16
	Men and Women	7,200	6,710	Apr-16
	Aggregate	8,090	7,530	Apr-16
Army Service				
Army (Other than Services below)	Officers	14,280	12,850	Mar-17
	Men and Women	95,350	75,320	Apr-16
	Aggregate	109,630	87,910	Apr-16
Commonwealth, Colonial, &c., troops abroad and Gurkhas	Officers	150	130	Aug-16
	Men and Women	3,120	3,070	Mar-17
	Aggregate	3,270	3,190	Mar-17
Air Force Service				
Royal Air Force	Officers	8,000	7,540	Nov-16
	Men and Women	27,500	26,000	Apr-16
	Aggregate	35,500	33,460	Apr-16

Maximum numbers of personnel to be maintained for service with the Reserve Armed Forces:

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
Reserve Naval and Marine Forces				
Royal Fleet Reserve (Naval Officers and Ratings)	Officers	4,960	3,080	Apr-16
	Men and Women	9,000	2,700	May-16
	Aggregate	13,960	5,780	Apr-16
Royal Fleet Reserve (Marine Officers and Marines)	Officers	470	250	May-16
	Men and Women	2,610	840	May-16
	Aggregate	3,080	1,090	May-16
Royal Naval Reserve	Officers	1,350	1,030	Feb-17
	Men and Women	2,300	1,630	May-16
	Aggregate	3,650	2,640	Feb-17
Royal Marines Reserve	Officers	100	80	Feb-17
	Men and Women	1,200	870	Apr-16
	Aggregate	1,300	950	Apr-16
Royal Naval Reserve (List 7)	Officers	1,100	1,010	Dec-16
Reserve Land Forces				
Army Regular Reserve	Officers	11,300	8,940	Apr-16
	Men and Women	26,770	21,000	Jul-16 & Mar-17
	Aggregate	38,070	29,900	Jun-16
Army Reserve	Officers	9,110	5,170	Mar-17
	Men and Women	46,150	29,400	Jan-17
	Aggregate	55,260	34,540	Mar-17
Reserve Air Forces				
Royal Air Force Reserve	Officers	5,200	3,850	May-16
	Men and Women	10,500	7,860	Mar-17
	Aggregate	15,700	11,540	May-16
Royal Auxiliary Air Force	Officers	550	420	Mar-17
	Men and Women	3,020	2,310	Mar-17
	Aggregate	3,570	2,720	Mar-17

Maximum numbers of personnel to be maintained for service as special members of the Reserve Forces:

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
Special Members of The Reserve Naval Forces				
Royal Naval Reserve	Officers	850	710	Jul-16
	Men and Women	1,620	1,120	Apr-16
	Aggregate	2,470	1,810	May-16
Special Members of The Reserve Land Forces				
Army Regular Reserve	Officers	20	0	*
	Men and Women	30	0	*
	Aggregate	50	0	*
Army Reserve	Officers	30	0	*
	Men and Women	480	60	Feb-17 & Mar-17
	Aggregate	510	60	Feb-17 & Mar-17
Special Members of The Reserve Air Forces				
Royal Air Force Reserve	Officers	100	60	Jan-17
	Men and Women	210	130	Mar-17
	Aggregate	310	190	Jan-17 & Mar-17

Figures for Maximum Numbers Maintained have been rounded to the nearest 10, with numbers ending in 5 being rounded to the nearest multiple of 20 to prevent systematic bias.

Totals and sub-totals have been rounded separately and so may not equal the sum of their rounded parts.

*Strength has been zero for the whole time period.

Annex B

Correspondence

Freedom of Information Performance – 2016-17

B.1 Freedom of Information (Fol) statistics are published quarterly on the gov.uk website (<https://www.gov.uk/government/collections/government-foi-statistics>).

Complaints to the Parliamentary and Health Service Ombudsman

B.2 The Parliamentary and Health Service Ombudsman (PHSO) investigate complaints from individuals who feel they have been treated unfairly, improperly or have received a poor service from Government Departments or their agencies.

During 2015-16, the most recent period for which information is available, 11 complaints were submitted to the PHSO of which 3 were accepted for investigation. Two of these were not upheld after investigation and one is on-going.

Performance in responding to the Public

Accountability to Parliament

B.3 Ministers have accounted to Parliament during the financial year 2016-17 on all aspects of the Ministry of Defence's business. Defence Ministers participated in 14 debates on Defence issues in the House of Commons and 11 in the House of Lords and responded to 9 debates in Westminster Hall. Ministers made 4 oral statements to the House of Commons and 3 to the House of Lords – details are published in Hansard³⁵. A total of 2,711 oral and written Parliamentary Questions were answered. Ministers also made 48 Written Ministerial Statements to the House of Commons and the House of Lords – details are published on the Parliamentary written questions and answers system at the following link – <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statements/>

Ministerial Correspondence

B.4 From 1 April 2016 to 31 March 2017, Defence Ministers received 3,080 items of correspondence from Members of Parliament, Peers and some members of the public to which a Ministerial response was deemed appropriate. Of these 3,006 (98%) were answered within the target of 20 working days.

Evidence to the Defence Select Committee

B.5 Since 1 April 2016, the Ministry of Defence has given evidence to the Defence Select Committee on a number of occasions covering a wide range of issues, and the Government has responded to a number of the Committee's reports. All Committee publications, including published evidence given to the Committee, are available at: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/defence-committee/publications/>

Government responses submitted by the Ministry of Defence to Committee reports published during this reporting period are listed below.

³⁵ <https://hansard.parliament.uk/>

Table B.1 – Parliamentary Session 2016-17: MOD responses to reports published in the previous Parliamentary session.

Report	Title	Publication Date
HC 465	Shifting the goalposts? Defence expenditure and the 2% pledge: Government response to the Committee's Second Report of Session 2015-16	30 June 2016
HC 525	Beyond endurance? Military exercises and the duty of care: Government response to the Committee's Third Report of Session 2015-16	10 July 2016
HL paper 49 HC 747	The Government's policy on the use of drones for targeted killing: Government response to the Committee's Second Report of Session 2015-16 (Joint Committee on Human Rights)	19 October 2016

Table B.2 – Financial Year 2016-17: Defence Select Committee Reports (Government Responses, if published, are listed in brackets after the report to which they relate).

Report	Title	Publication Date
HC 567 (HC 648)	An acceptable risk? The use of Lariam for military personnel	24 May 2016
HC 107 (HC 668)	Russia: Implications for UK defence and security	5 July 2016
HC 106 (HC 1065)	UK military operations in Syria and Iraq	21 September 2016
HC 221 (HC 973)	Restoring the Fleet: Naval procurement and the National Shipbuilding Strategy	21 November 2016
HC 658 (HC 1000)	Exposing Walter Mitty: The Awards for Valour (Protection) Bill	22 November 2016
HC 109 (HC1149)	Who guards the guardians? MOD support for former and serving personnel	10 February 2017
HC 1064	Investigations into fatalities in Northern Ireland involving British military personnel	26 April 2017 ³⁶
HC 108	Strategic Defence and Security Review (SDSR) 2015 and the Army	29 April 2017 ³⁶
HC 492	Armed Forces Covenant Annual Report 2016	1 May 2017 ³⁶

³⁶ Although these reports were published outside the reporting period, they have been included for completeness as they were the last reports published by these Committees during the 2016-17 parliamentary session.

B.6 The Defence Committee also visited the Armed Forces in the UK and overseas as part of its inquiries, as shown in Table B.3.

Table B.3 – Visits by the Defence Committee to UK Armed Forces

Date of Visit	Establishment	Related Inquiry
9 June 2016	77 Brigade, Denison Barracks	SDSR 2015 and the Army
20 October 2016	Land Combat Power VIP Day, Salisbury Plain	SDSR 2015 and the Army
23-24 November 2016	Northern Ireland	SDSR 2015 and the Army
21-23 February 2017	Norway	Defence in the Arctic

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

B.7 Since 1 April 2016, 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:

Table B.4 – Parliamentary Session 2016-17: Reports/evidence

Select Committee	Subject	Publication Date
Committee on Arms Export Controls (CAEC) HC 679 (Business, Innovation and Skills, and Foreign Affairs Committees) HC 688 (Foreign Affairs Committee)	The use of UK-manufactured arms in Yemen	15 September 2016
House of Commons Science and Technology Committee HC 163	Science in Emergencies: chemical, biological, radiological or nuclear incidents inquiry	5 April 2017 ³⁷
Public Administration and Constitutional Affairs Committee HC 253	The work of the Civil Service: key themes and preliminary findings	2 May 2017 ³⁷
House of Lords International Relations Committee HL Paper 159	The Middle East: Time for New Realism	2 May 2017 ³⁷
Joint Committee on Human Rights	The Government's proposed derogation from the ECHR	No report published

All Committee publications, including published evidence given to the Committees, are available at: <http://www.parliament.uk/business/committees/committees-a-z/#E>

³⁷ Although these reports were published outside the reporting period, they have been included for completeness as they were the last reports published by these Committees during the 2016-17 parliamentary session.

Annex C

Sponsorship Agreements over £5,000

Activity	Name of Sponsor	Sponsor Contribution £ excl VAT
Battle of Britain Memorial Flight		
	Rolls Royce plc	10,000
	Jaguar Land Rover	11,116
	BAE Systems	30,000
Trans-Americas Expedition 2017		
	Belstaff International Ltd	10,250
	Jumpteck Ltd (T/A CCM Motorcycles)	25,750
Defence Information Symposium 2016		
	MarkLogic UK	5,000
	Cisco	9,000
	Splunk - FireEye	10,000
	Splunk – Amazon Web Services	10,000
	Splunk	10,000
	PA Consulting Group	10,000
	Airbus	15,000
	IBM	15,000
	Fujitsu	15,000
	Boeing	15,000
	Northrop Grumman	15,000
	Computer Sciences Corporation (CSC)	15,000
	KPMG	17,000
	Raytheon	20,000
	UKCloud Ltd	20,000
	General Dynamics	30,000
	McKinsey & Company	30,000
	Hewlett Packard Enterprise (HPE)	30,000
	Microsoft	32,000
	BAE Systems	35,000
	Leidos	35,000
	BT	36,000
	Atos	50,000

Activity	Name of Sponsor	Sponsor Contribution £ excl VAT
King Air Display Team		
	Beechcraft Service Company UK Ltd	10,000
RAF Falcons Parachute Display Team		
	Rosker Ltd	5,000
	Sonic Communications (Int) Ltd	7,000
	Marshall Military Sales	24,580
RNAS Yeovilton Air Day 2016		
	Thales Group	6,000
	Lockheed Martin	20,000
RAF Red Arrows		
	Leeds Commercial Ltd	6,500
	Brompton Bicycle Ltd	10,000
	Alexandre (BMB Clothing Ltd)	10,000
	Breitling UK Ltd	12,000
	Sunseeker	12,000
	Oxford Vaughan Ltd	12,445
	WL Gore and Associates	13,000
	Willis Towers Watson	22,000
	Jaguar Land Rover	39,000
	Aston Martin Lagonda	46,000
	Standard Chartered Bank	50,000
	BAE Systems	75,000
RAF Typhoon Display Team		
	Selex ES	20,000
	WL Gore and Associates	21,240

Annex D

Core Tables

Total departmental spending 2012-13 to 2020-21

£'000	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Plans	2018-19 Plans	2019-20 Plans	2020-21 Plans
Resource DEL									
Provision of Defence Capability Service Personnel Costs	9,400,516	9,046,632	7,878,834	8,688,284	8,936,726	9,468,345	10,036,074	10,509,682	10,903,168
Provision of Defence Capability Civilian Personnel Costs	200,829	192,110	1,937,614	1,282,598	1,317,796	1,777,562	2,358,380	2,420,450	2,500,342
Provision of Defence Capability Infrastructure costs	4,428,812	4,545,389	4,576,992	4,127,877	4,109,609	4,252,819	4,506,203	4,608,809	4,598,507
Provision of Defence Capability Inventory Consumption	1,749,176	1,765,487	1,661,847	1,458,575	1,213,611	1,663,322	1,789,875	1,765,266	1,822,594
Provision of Defence Capability Equipment Support Costs	5,161,399	6,065,557	6,343,245	6,308,897	6,440,168	6,421,694	6,670,299	6,973,608	7,298,231
Provision of Defence Capability Other Costs and Services	1,557,266	1,849,154	1,854,880	1,777,086	1,224,403	916,421	1,663,467	1,488,701	1,527,654
Provision of Defence Capability Receipts and other Income	-1,248,867	-1,169,263	-1,091,806	-990,842	-1,023,859	-1,023,859	-1,174,000	-1,185,000	-1,142,000
Provision of Defence Capability Depreciation and Impairments Costs	8,958,447	8,911,222	8,187,241	7,690,147	8,773,560	8,494,000	8,500,000	8,500,000	8,500,000
Provision of Defence Capability Cash Release of Provisions Costs	203,010	175,030	201,855	238,288	253,552	259,750	-	-	-
Provision of Defence Capability Research and Development Costs	-	-	-	-	164,191	64,682	168,014	157,390	158,670
Provision of Defence Capability Administration Civilian Personnel Costs	2,134,313	2,112,064	371,688	1,198,116	430,740	395,000	395,000	390,000	399,000
Provision of Defence Capability Administration Other Costs and Services	44,548	17,139	463,849	465,947	395,656	556,000	488,000	545,000	513,000
Operations Service Personnel Staff Cost	197,449	108,909	85,480	12,864	27,617	14,200	-	-	-
Operations and Peacekeeping Civilian Personnel Staff Costs	22,421	13,777	6,036	3,962	4,840	1,200	-	-	-
Operations Infrastructure Costs	164,921	162,069	86,516	48,926	42,939	22,800	-	-	-
Operations Inventory Consumption	562,911	395,649	160,055	56,224	66,085	29,200	-	-	-
Operations Equipment Support Costs	427,032	345,016	184,400	143,437	233,445	154,200	-	-	-
Operations Other Costs and Services	378,161	236,067	138,302	19,856	41,510	29,900	-	-	-
Operations Receipts and other Income	-27,686	-26,764	-40,914	-9,969	-16,698	-1,500	-	-	-
Operations Depreciation and Impairment Costs	499,275	550,366	322,349	21,029	45,272	-	-	-	-
Operations Cash Release of Provisions Costs	1,976	2,980	2,869	-	-	-	-	-	-
Conflict Pools Resource Costs	44,009	49,648	55,518	-	-	-	-	-	-
Non Departmental Public Bodies Costs	126,833	187,466	130,021	164,842	153,063	172,908	-	-	-
Defence Capability Admin Service Pers Costs	-	-	623,716	617,879	658,904	590,000	590,000	590,000	590,000
Defence Capability DE&S DEL Costs	-	-	-	1,028,443	1,044,059	979,008	-	-	-
War Pension Benefits Programme Costs	-	-	-	-	764,818	733,000	710,000	688,000	668,000
Conflict, Stability and Security Fund	-	-	-	53,397	86,832	64,573	-	-	-
Cash Release of Provisions Admin Costs	-	-	14,451	18,157	11,703	-	-	-	-
Total Resource DEL	34,986,751	35,535,704	34,155,038	34,424,020	35,422,775	36,035,225	36,701,312	37,451,906	38,337,166
Resource AME									
Provision of Defence Capability Depreciation and Impairment Costs	1,062,365	-208,143	450,416	562,876	142,253	1,064,700	-	-	-
Provision of Defence Capability Provisions Costs	307,375	141,371	679,896	6,096,468	501,333	277,600	-	-	-
Provision of Defence Cash Release of Provisions Costs	-237,141	-200,392	-216,306	-256,445	-265,255	-259,750	-	-	-
Movement On Fair Value of Financial Instruments	-182,527	368,147	42,768	-299,576	-589,025	300,000	-	-	-
Operations Depreciation and Impairment Costs	-	-	10,757	-	-	-	-	-	-
Operations Provisions	10,884	6,152	61,995	-	-	-	-	-	-
Operations Cash Release of Provisions Costs	-1,976	-2,980	-2,869	-	-	-	-	-	-
War Pensions Benefits Programme costs	907,817	858,964	837,649	-	-	-	-	-	-
Total Resource AME	1,866,797	963,119	1,864,306	6,103,323	-210,694	1,382,550	-	-	-
Total Resource Budget	36,853,548	36,498,823	36,019,344	40,527,343	35,212,081	37,417,775	36,701,312	37,451,906	38,337,166
Capital DEL									
Provision of Defence Capability Capital Single Use Military Equipment	3,939,798	3,855,046	3,970,897	4,255,772	5,192,513	3,971,144	4,333,133	4,829,667	5,807,655
Provision of Defence Capability Other Capital (Fiscal)	2,884,715	2,877,247	3,110,988	2,509,470	2,279,278	2,712,777	2,836,625	2,593,610	2,182,567
Provision of Defence Capability Fiscal Assets / Estate Disposal	-63,685	-43,573	-250,881	-423,365	-36,560	-251,000	-213,000	-187,000	-202,000
Provision of Defence Capability New Loans and Loan Repayment	-5,519	-5,573	-56,626	-3,220	-63,292	15,823	15,742	-3,277	-1,222
Provision of Defence Capability Research and Development Costs ¹	1,466,820	1,673,339	1,950,000	1,921,983	1,104,141	1,921,000	1,772,000	1,761,000	1,848,000
Operations Capital Single Use Military Equipment	372,970	72,533	17,908	51,862	111,350	80,000	-	-	-
Operations Other Capital (Fiscal)	132,636	53,070	-8,978	1,020	3,616	-	-	-	-
Non Departmental Public Bodies Costs	3,029	2,527	2,414	2,322	2,145	8,345	-	-	-
Defence Capability DE&S DEL Costs	-	-	-	86,624	94,941	71,603	-	-	-
Conflict, Stability and Security Fund	-	-	-	-	421	-	-	-	-
Total Capital DEL	8,730,764	8,484,616	8,735,722	8,402,468	8,688,553	8,529,692	8,744,500	8,994,000	9,635,000
Capital AME									
Provision of Defence Capability Provisions Costs	-35,352	-128,612	50,559	29,130	-	-	-	-	-
Total Capital AME	-35,352	-128,612	50,559	29,130	-	-	-	-	-
Total Capital Budget	8,695,412	8,356,004	8,786,281	8,431,598	8,688,553	8,529,692	8,744,500	8,994,000	9,635,000
Total departmental spending²	35,210,412	35,214,346	35,778,780	40,967,707	35,516,368	36,082,767	36,945,812	37,945,906	39,472,166

¹ The R&D costs have been restated to comply with European System of Accounts (ESA 10) as per HMT directive.

² Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

Administration budget, 2012-13 to 2020-21

	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Plans	2017-18 Plans	2018-19 Plans	2019-20 Plans	2020-21 Plans
Resource DEL									
Provision of Defence Capability Administration Civilian Personnel Costs	2,134,313	2,112,064	371,688	403,342	430,741	395,000	395,000	390,000	399,000
Provision of Defence Capability Administration Other Costs and Services	44,548	17,139	463,849	465,947	395,656	556,000	488,000	545,000	513,000
Defence Capability Admin Service Pers Costs	-	-	623,716	617,879	658,904	590,000	590,000	590,000	590,000
Cash Release of Provisions Admin Costs	-	-	14,451	18,157	11,703	-	-	-	-
Total administration budget	2,178,861	2,129,203	1,473,704	1,505,325	1,497,004	1,541,000	1,473,000	1,525,000	1,502,000

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