



Ministry of Defence Annual Report and Accounts



2004 - 2005



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

Ministry of Defence Annual Report and Accounts

including the Annual Performance Report and
Consolidated Departmental Resource Accounts

2004-05

(For the year ended 31 March 2005)

Laid in accordance with the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed
28 October 2005

Contents

Foreword	5
Preface	7
Introduction	9

SECTION 1: ANNUAL Performance Report

Summary of Progress against Spending Review 2002
Public Service Agreement Objectives and Targets. 12

PURPOSE

Current Operations	18
Future Operations	28
Policy	34
Wider Government	44

RESOURCES

Finance	52
Manpower	59
Estate	71
Reputation	78

ENABLING PROCESSES

Personnel	84
Training	89
Logistics	95
Equipment	100

FUTURE CAPABILITIES

Change and Development	108
Future Manpower	115
Future Equipment Plans	120

SECTION 2: Departmental Resource Accounts

Annual Report	125
Operating and Financial Review	131
Statement of Accounting Officer's Responsibilities	133
Statement on Internal Control	134
The Certificate of the Comptroller and Auditor General to the House of Commons	137
The Accounting Schedules	
1 Summary of Resource Outturn	139
2 Operating Cost Statement, and Statement of Recognised Gains and Losses	142
3 Balance Sheet	143
4 Cash Flow Statement	144
5 Resources by Departmental Aim and Objectives	146
Notes to the Accounts	147

ANNEXES

A:	2004 Spending Review Targets	200
B:	Accountability to Parliament	201
C:	Organisation and Management of Defence	205
D:	Performance Management Systems	208
E:	Defence Agency Performance	210
F:	Government Standards	218
G:	Defence Equipment Programme and Collaborative Procurement	225
H:	Glossary of Terms and Abbreviations	229
	Index	246

Foreword

by the Secretary of State



Right Honourable John Reid MP
Secretary of State for Defence

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

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

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

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

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

Preface

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

Fit for the challenges of today

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

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

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

Ready for the tasks of tomorrow

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

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

Building for the future

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

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

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

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

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



Sir Kevin Tebbit KCB CMG
Permanent Under Secretary of State



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

Kevin Tebbit

Michael Walker

Introduction

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

SECTION 1: ANNUAL PERFORMANCE REPORT

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

Figure 1: The 2004-05 Defence Balanced Scorecard

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

Purpose

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

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

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

D Wider Government: Reach out into the wider community.

Are we making best use of our resources?

Resources

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

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

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

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

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

Are we a high performing organisation?

Enabling Processes

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

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

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

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

Are we building for the future?

Future Capabilities

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

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

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

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

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

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

Public Service Agreement Targets

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

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

SECTION 2: DEPARTMENTAL RESOURCE ACCOUNTS 2004-05

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

FURTHER INFORMATION

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