

Ministry of Defence

Annual Report and Accounts

2005 - 2006



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Ministry of Defence Annual Report and Accounts

including the Annual Performance Report and
Consolidated Departmental Resource Accounts

2005-06

(For the year ended 31 March 2006)

Laid in accordance with the Government Resources and Accounts Act 2000

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Ministerial Responsibilities

Secretary of State for Defence Rt. Hon. Des Browne MP

The Right Honourable Des Browne MP was appointed Secretary of State for Defence on the 5th May 2006. The Secretary of State for Defence is the Cabinet Minister charged with making and executing Defence policy, and with providing the means by which it is executed, the Armed Forces. As Chairman of the Defence Council and of its three Service Boards, (the Admiralty Board, the Army Board and the Air Force Board) he is responsible for the command, administration and discipline of the Armed Forces on behalf of the Crown. Although responsible ultimately for all elements of Defence, the Secretary of State is supported by three subordinate Ministers: the Minister of State for the Armed Forces; the Under Secretary of State and Minister for Defence Procurement; and the Under Secretary of State and Minister for Veterans. The Secretary of State assigns responsibility to them for specific aspects of the Armed Forces and the Ministry of Defence's business, but retains specific responsibility for policy, including nuclear issues and European defence; operations; personnel; finance and efficiency; oversight of major acquisition decisions and Defence industrial issues; and media and communications.



Minister of State for the Armed Forces
Rt. Hon. Adam Ingram MP



Under Secretary of State and Minister
for Defence Procurement
Lord Drayson



Under Secretary of State for Defence
and Minister for Veterans
Tom Watson MP

Responsibilities

Defence policy and planning, including:

- Arms control and disarmament; export licensing
- International organisations
- US visiting forces
- Size and shape of the Armed Forces
- Intelligence and security, including counter terrorism

Operations, including:

- Overseas commitments and garrisons
- Northern Ireland
- Military Aid to the Civil Authorities
- Nuclear accident response
- Military assistance overseas

The Armed Forces (Regular and Reserves), including:

- Readiness
- Sustainability
- Equipment support
- Performance
- Collective training
- Reputation

Defence Logistics Organisation, including ABRO and DARA, and logistics transformation

Regional issues and the Devolved Administrations

Responsibilities

Acquisition, including:

- Policy
- The forward Equipment Programme
- Equipment and logistics support project approvals
- Equipment disposals
- Nuclear procurement and disposal (including the Atomic Weapons Establishment)
- Defence Procurement Agency
- Defence Logistics Organisation acquisition
- Defence industrial issues
- International collaboration

Defence science and technology, including:

- Policy
- International collaboration
- Defence Science and Technology Laboratories
- QinetiQ

Defence exports, including:

- Policy
- Defence Export Services Organisation
- Marketing campaigns

Defence issues in the House of Lords

Responsibilities

Veterans affairs, including:

- Legacy veterans' health issues
- POWs
- War Graves
- Medals and memorials
- Commemorative events

Defence estates, including:

- Defence estates acquisition and disposals
- Service housing
- Heritage and historic buildings

Service personnel issues, including:

- Recruitment, basic training, and education
- Pay and compensation
- Equal opportunities
- Defence medical services
- Cadets
- Claims casework
- Service families, and Service Children's Education
- Armed Forces Bill

Other issues, including:

- Civilian personnel policy and casework
- MoD Police
- Health and safety
- Hydrographic Office and Meteorological Office
- Non-Departmental Public Bodies
- Low flying
- Visits by Peers and MPs/ Armed Forces Parliamentary Scheme

Foreword

by the Secretary of State



Right Honourable Des Browne MP,
Secretary of State for Defence

It was a great privilege for me to be appointed Secretary of State for Defence in May. Like most people in this country I have long admired the men and women of all three Services – and the civilians who work with them. They do a vital job, defending the UK and its interests and strengthening international peace and stability. Having seen them at work in Iraq, Afghanistan and the UK, I have been hugely impressed by their attitude, skills and determination, even in the most difficult and demanding of circumstances. They are a real force for good at home and overseas.

This has been a challenging year for Defence. Over the last year alone, nearly one fifth of our servicemen and women have been deployed on operations around the world, helping to manage the consequences, or prevent the intensification, of conflict.

Our operational commitment in Iraq has continued. This is a difficult task but we remain committed to seeing it through. There has been encouraging progress in the past year. Iraqis have taken significant steps towards taking control of their long term future and the Iraqi security forces continue to increase in professionalism and strength. On a practical level, over 5,000 schools have been rehabilitated and millions of new textbooks distributed; sewage treatments plants are operating where none were under Saddam; there have been improvements in electricity and water supply, and of course democratic elections have taken place.

The UK is also playing a leading role in the UN-endorsed mission to Afghanistan, alongside many international allies. Our task is to support the democratically elected Government of Afghanistan to improve the lives of ordinary Afghans. British Armed Forces are defending the people of Afghanistan from the lawlessness and violence that have blighted their society for so long, and they are there to protect those who are rebuilding this devastated society. The UK is proud to be playing such a central role in a truly multinational operation; and with the support of the international community – NATO, the UN and EU among others – fully behind this mission, we cannot and will not fail.

Iraq and Afghanistan dominate the news, but we are extensively deployed on other important, but less heralded, operations. We have continued to contribute to safety and security in the Balkans, the Democratic Republic of Congo, Georgia, Sudan, Liberia, Sierra Leone, the Falkland Islands and elsewhere, while also helping with disaster relief in the aftermath of last year's earthquake in Kashmir. At home we have continued to support the civil authorities in Northern Ireland in addition to providing search and rescue, explosive ordnance disposal and other important assistance across the UK.

Looking beyond the challenges of today, we have made further 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. And we have delivered over £1 billion in efficiencies across Defence – freeing up more resources to support the front line.

We have achieved a great deal this year, but there is no room for complacency. We have huge challenges ahead. In Iraq, Afghanistan, the Balkans and elsewhere, we must build security for the longer term. At the same time, we have embarked on an important programme of modernisation and reform covering virtually all areas of Defence and an ambitious Defence Industrial Strategy transforming our relationship with industry. 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 tasks and building for the future. We demand a lot of our people, military and civilian. They are among the best in the world. I and my colleagues remain committed to ensuring they receive the support they need, and deserve.

A handwritten signature in black ink that reads "Des Browne". The signature is written in a cursive style and is positioned above a horizontal line that extends to the right.

Preface

Our purpose, as set out in the Defence Vision published in 2003, remains to defend the UK 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 tomorrow, and capable of building for the future. Our strategy is to match new threats and instabilities, maintain flexible force structures, seek to reach out to the wider world, and for this to be led by high performance headquarters, which consciously invests in their people.

This report sets out how we are doing against this Vision by: ensuring the operational success of the Armed Forces in Iraq, Afghanistan and wherever else they are deployed; taking forward a major programme of change and efficiency at home to produce more flexible and effective Armed Forces supported by a more efficient organisation; meeting our responsibilities to our own people and to society; and working towards the Government's wider social and economic goals.

At the top level, we continued to meet our Public Service Agreement targets, at home and overseas. In particular we delivered our military objectives in Iraq, Afghanistan and elsewhere, achieved the required level of military readiness and, for the first time, met all our targets for equipment acquisition. We are still validating the efficiencies achieved during the year. On the information available at time of publication we look likely to have met our overall 2002 Spending Review value for money target from 2002-03 to 2005-06 and to be on course against our more demanding 2004 Spending Review efficiency target.

We made progress in a number of areas:

- We took forward the force structure changes set out in our July 2004 White Paper on future capabilities. The formation of the first operational Typhoon squadron in the Royal Air Force was a significant milestone. As part of the process of normalisation in Northern Ireland we continued to reduce the size of the garrison. The last roulement infantry battalion left Northern Ireland on 16 January 2006, and we announced in March 2006 a fair and appropriate settlement package for the home service members of the Royal Irish Regiment being discharged;
- We continued to improve the sustainability and efficiency with which we conduct our business in order to minimise unnecessary overheads and ensure that we can produce the greatest Defence capability from the resources available. We achieved significant further improvements in the effectiveness and efficiency of our logistics support, and completed the roll-out of regional prime contracts to improve maintenance of the Defence estate. Our finances remained firmly under control, with unqualified accounts for the third year;
- We are moving in the right direction on acquisition, but there is much yet to do. The successful implementation of the Defence Industrial Strategy, announced in December 2005, is fundamental. We are serious about following through the implications of the Strategy for Departmental reform within the MoD, and announced on 3 July 2006 a range of measures that will help us to do so. We look to Defence industry to match our commitment;
- Our people are central to all we do, but we must keep investing in them. This has many dimensions. We implemented the Armed Forces Pay and Review Body recommendations in full. We have continued to improve the standard of single and family accommodation for Service personnel. We have continued to work to ensure that Service personnel receive the training they need to ensure they are ready for military operations, to improve the care available for sick or injured Service personnel including Reserves, and to ensure that Service veterans receive the support they have earned. We are taking forward further proposals to meet the recommendations to improve the care we provide to young recruits in their initial military training. We have also introduced the new Armed Forces Bill to Parliament to bring Service law up to date in a coherent manner;
- Internationally the year saw useful further development of NATO and European deployable military capability, and its practical demonstration on the ground. We have consistently worked towards this end. It is essential if the burdens of collective military operations are to be properly shared. It will also over time reduce the call on UK forces to sustain such operations. The NATO-led force in Afghanistan, currently under UK command, has significantly expanded its operations. The European Union's military mission in Bosnia, under UK command throughout 2005, continued to provide the security underpinning political progress and demonstrated the effectiveness of practical NATO/EU cooperation arrangements;
- We are taking forward an interrelated series of programmes to improve the way we work. This includes both the introduction of the Business Management System to ensure that we maintain and implement key processes coherently and consistently across Defence, and the introduction of new Service and Civilian personnel management systems making best use of information systems to minimise transactional activity. The progressive roll-out of the Defence Information Infrastructure over the next few years will enable us to embed these changes and go further.

But there are continuing difficulties and challenges too. In recognising progress and success, we do not seek to underplay these. Sadly, 20 Service personnel lost their lives on operations during the year. For the fifth successive year we sustained a level of military operations higher than that we plan routinely to deliver. The proportion of the Armed Forces deployed on operations or other military tasks rose from 18% to 20% during the year, while readiness levels fell slightly at the end of 2005-06 after rising steadily for over a year. Both the Army and the Royal Air Force continued to breach harmony guidelines. We were also unable to conduct all the collective training we would have liked; and there continued to be some shortfalls in the provision of logistic support to the Front Line Commands. The reductions in the Armed Forces and the Defence Civil Service, and the relocation of Defence business from more to less ethnically and socially diverse parts of the country mean that, despite our good track record on diversity, meeting our already demanding targets in this area is becoming more rather than less difficult.

The targets we have set ourselves are not easy to meet. We are changing our organisations, systems and ways of working to create better Defence capability for the future at the same time as using them heavily to sustain current operations. We are encouraged that opinion surveys show that the Armed Forces continue to have the confidence and respect of the public. Our internal satisfaction surveys indicate that Service and civilian staff remain committed and motivated to what they do and we have noted the wide range of national awards and prizes they win, in such diverse areas as health and safety, conservation, communications, diversity and project management. We ask a lot of all our people, military and civilian. They are among the best and we are encouraged that, drawing on their deep rooted military traditions and lasting sense of public service, they continue to rise to the challenges we face.



Bill Jeffrey CB
Permanent Under Secretary of State



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

A handwritten signature in black ink that reads "Bill Jeffrey".

A handwritten signature in black ink that reads "Jock Stirrup".

Introduction

i. 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 2005 to March 2006. It has two main sections. The first comprises the Department's Annual Performance Report for 2005-06, including performance against our Public Service Agreement (PSA) targets. The second comprises the Departmental Resource Accounts for 2005-06. There are also a number of Annexes containing background information on the Department, its organisation and administration. Further information is published in parallel on the Department's website at www.mod.uk.

SECTION 1: ANNUAL PERFORMANCE REPORT

ii. Since 2000 the Defence Management Board has used a Balanced Scorecard to assist in the assessment, reporting and management of Defence performance. The scorecard for 2005-06 (figure 1 below) encapsulates the Government's key objectives as set out in our Public Service Agreement together with the Defence Management Board's wider supporting objectives and priorities, as set out in the *Departmental Plan 2005-2009*. A more detailed explanation of how the Defence Balanced Scorecard works can be found at Annex D. The Annual Performance Report is set out on the same basis as the Departmental Plan, and reports performance against the targets set out therein. As in previous years it is divided into four main sections (Purpose, Future Capabilities, Enabling Processes and Resources), matching the top level structure of the scorecard. Each section contains separate chapters on the individual high level scorecard objectives, supplemented by an essay providing additional background on some relevant aspect of Defence business during the year.

iii. The *Departmental Plan* and the Defence Balanced Scorecard are designed deliberately to evolve over time to reflect emerging top level priorities and changes in the way the Department is organised. Consequently although the overall four-part structure has remained consistent for several years, there is inevitably a certain amount of change from one year to the next in the top level supporting objectives and the way they are brigaded and presented. In particular, the *Departmental Plan 2005-2009* placed particular importance on implementation of the Department's change and efficiency programmes and the work to develop future military and supporting capability, and this is reflected by the placement of this section immediately following that covering operations and policy.

Significant changes from the 2004-05 Defence Balanced Scorecard are:

- The Wider Government chapter under 'Purpose' has been expanded to reflect the importance of sustainability in Defence activity, in support of wider Government objectives;

- Chapters on Health and Safety and Business Management have been included under 'Enabling Processes', reflecting the priority the Defence Management Board attaches to effective health and safety management and efficient ways of working across Defence, and the previous chapters on Personnel Management and Training have been merged; and
- The 'Future Capabilities' section has been expanded to reflect the range and scale of the Department's investment, change and efficiency programmes. The chapter on equipment has been moved from the 'Enabling Processes' section and expanded to cover non-equipment investment, and change and development has been broken into separate chapters on Future Effects, which covers what we are doing to improve military capability directly, and Efficiency and Change, which covers what we are doing to make the organisations and processes that support the Armed Forces more flexible and efficient. This includes, but is not confined to, the work covered by the Department's efficiency commitment in the 2004 Spending Review.

Public Service Agreement Targets

iv. At the highest level the Ministry of Defence's objectives are set out in our Public Service Agreement. The Annual Performance Report therefore starts with a summary of performance as of 31 March 2006 against the targets for 2005-2008 set out in the 2004 Spending Review. It also includes a summary of performance against the outstanding 2002 Spending Review Value for Money PSA target, and the 2004 Spending Review Efficiency Target. Supporting detail is provided throughout the report. A full description of these targets and the way in which performance against them is measured, together with quarterly performance reports, can be found on the MoD website at www.mod.uk. We assess that we are on course or ahead in meeting our 2004 Spending Review PSA and efficiency targets. A final determination of whether we have met the 2002 Spending Review Value for Money Target will be made in the autumn on completion of validation work and reported in the Autumn Performance Report. On the evidence available at the time of publication of this report, we judge we are likely to have met it.

SECTION 2: DEPARTMENTAL RESOURCE ACCOUNTS 2005-06

v. 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 in which it has used them. The resource accounts are prepared on an accruals basis in accordance with Treasury guidelines. 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 Comptroller and Auditor General supported 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 2005-06 together with the Comptroller and Auditor General's certification comprise Section 2 of the Annual Report and Accounts.

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

Purpose

A Current Operations: To succeed in Operations and Military Tasks today.

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

C Policy: Work with allies, other governments and multilateral institutions to provide a security framework that matches new threats and instabilities.

D Wider Government: Contribute to the Government's wider domestic reform agenda, and achieve our PSA and PPA targets.

Are we using our resources to best effect?

Resources

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

F. Manpower: Ensure we have the people we need.

G. Estate: Maintain an estate of the right size and quality, managed in a sustainable manner 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 and invest in our people to give of their best.

J. Health and Safety: A safe environment for our staff, contractors and visitors.

K. Logistic support to the Armed Forces: Support and sustain our Armed Forces.

L. Business Management: Deliver improved ways of working.

Are we building for future success?

Future Capabilities

M. Future Force Effects: More flexible Armed Forces to deliver greater effect.

N. Efficiency and Change: More flexible and efficient organisations and processes to support the Armed Forces.

O. Future Capabilities and Infrastructure: Progress future equipment and capital infrastructure projects to time, quality and cost estimates.

P. Future Personnel Plans: Develop the skills and professional expertise we need for tomorrow.

Q. Science, Innovation and Technology: Exploit new technologies.

FURTHER INFORMATION

vi. The Annexes to the *Annual Report and Accounts* contain background information, mainly in regard to the administration of the Ministry of Defence. These include information on accounting to Parliament, the higher organisation of the Department, detailed conflict prevention assessments, a description of the Department's performance management system, summaries of the performance of Defence Agencies, Trading Funds and Non Departmental Public Bodies, performance against Government

standards for efficient administration, and a summary of the major Defence equipment projects and international collaborative activity. Further information, including the Department's first annual report against the Code of Good Practice on *Corporate Governance in Central Government Departments* and the annual report of the Defence Audit Committee are published in parallel on the MoD Website at www.mod.uk. Other sources of more detailed information on specific aspects of Defence performance and activity are identified throughout the report at the end of every chapter.

