



# MINISTRY OF DEFENCE

## The Government's Expenditure Plans 2002-03 to 2003-04

Presented to Parliament by  
the Secretary of State for Defence and  
the Chief Secretary to the Treasury  
By Command of Her Majesty

July 2002

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# INTRODUCTION

This report provides details of the Government's plans for defence expenditure for the two years 2002-03 to 2003-04. Together with the Ministry of Defence's Performance Report 2000/01 (Cm 5290, November 2001), it forms part of a series of Departmental Reports.

Other related sources of information on the strategy, goals and performance of the Department include:

- The Spending Review 2000 White Paper (Cm 4808, July 2000).
- UK Defence Statistics 2001
- The Departmental Investment Strategy for the Ministry of Defence (November 2000).
- The MOD website, at <http://www.mod.uk>

## THE STRUCTURE OF THE MOD

### A Brief History

The Ministry of Defence (MOD) as we know it today was created in 1964. From 1946 to 1964 there were five Departments of State involved in Defence: the Admiralty, the War Office, the Air Ministry, the Ministry of Aviation and the then smaller Ministry of Defence<sup>1</sup>. In 1964 the first three and the MOD were amalgamated, and the defence functions of the Ministry of Aviation Supply (as it had then become) were absorbed in 1971. The aims were to simplify the chain of command, eliminate duplication of effort across the three Services, encourage an integrated approach to operations (a philosophy known today as "jointery") and to improve the quality of 'Defence' advice (rather than Single Service advice) to politicians. Since 1964, the role of the MOD has been reviewed on several occasions culminating most recently in the Strategic Defence Review of 1998<sup>2</sup>.

### Political Control

The Secretary of State for Defence is responsible for the formulation and conduct of defence policy, and for providing the means by which it is conducted. Under current arrangements he is supported by a Minister of State for the Armed Forces, dealing with operational and policy issues; a Parliamentary Under-Secretary of State and Minister for Defence Procurement dealing with equipment development,

Notes:

- 1 The pre-1964 Ministry of Defence was established to continue co-ordination of defence activity after the war. Taking the central role in formulation of unified defence policy, its executive control over the single service ministries grew until formal unification became the next logical step in 1964.
- 2 The Strategic Defence Review White Paper (Cm 3999 HMSO).

acquisition and defence exports; and by a dual-roled Parliamentary Under-Secretary of State and Minister for Veterans' Affairs who takes responsibility for Service and civilian personnel policy, veterans, environmental and regulatory issues. The Secretary of State and his three Ministerial colleagues are accountable to Parliament – which votes public money to the MOD for defence purposes – for all defence matters. Parliament exercises its oversight through Parliamentary Questions<sup>3</sup>; debates in both Houses of Parliament on defence-related issues; the House of Commons Public Accounts Committee (PAC), which is responsible for investigating the Department's use of public funds; and the House of Commons Defence Committee (HCDC), which conducts inquiries on a wide range of defence issues.

## The Principal Advisers

Ministers are supported by the senior management of the MOD, headed jointly by the (military) Chief of the Defence Staff and the (civilian) Permanent Secretary. Neither of these is subordinate to the other. They share responsibility for much of the Department's business and their roles reflect the importance of both military and civilian advice on political, financial, administrative and operational matters.

The Chief of the Defence Staff (CDS) is the professional head of the Armed Forces and the principal military adviser to the Secretary of State and the Government. The chain of command for the planning and conduct of military operations flows from the Cabinet and the Secretary of State to CDS, and from him to operational commanders at various levels.

The Permanent Secretary is the Government's principal civilian adviser on Defence and has the primary responsibility for policy, finance and administration in the Department. He is the MOD's Accounting Officer, reflecting his responsibility to the Secretary of State for the overall organisation, management and staffing of the Department and for financial procedures and other matters. He is also personally accountable to Parliament for the expenditure of all public money voted for Defence purposes.

## The Defence Council

The formal legal basis for the conduct of defence in the UK rests on a range of powers vested by statute and Letters Patent in the Defence Council, chaired by the Secretary of State for Defence. Boards for each Service, (the Admiralty, Army and Air Force Boards) report to the Defence Council. These Service Boards exercise a wide range of formal and statutory powers relating to the administration of their Service and its personnel. The Defence Council currently comprises four Defence Ministers and ten senior officials:

Notes:

<sup>3</sup> Parliamentary questions can be submitted in oral or written form via the Lords or the Commons. Although different protocols apply depending on the origination and format of the question, in all cases, the Department must provide a draft answer that will allow the Minister to reply accurately, truthfully and concisely.

MINISTERS	SENIOR OFFICIALS
The Secretary of State for Defence	Chief of the Defence Staff (CDS)
The Minister of State for the Armed Forces	Permanent Secretary (PUS)
The Parliamentary Under Secretary of State and Minister for Defence Procurement	Chief of the Naval Staff (CNS)
The Parliamentary Under Secretary of State and Minister for Veterans' Affairs	Chief of the General Staff (CGS)
	Chief of the Air Staff (CAS)
	Chief of Defence Logistics (CDL)
	Chief of Defence Procurement (CDP)
	Chief Scientific Adviser (CSA)
	2nd Permanent Secretary (2nd PUS)
	Vice Chief of the Defence Staff (VCDS)

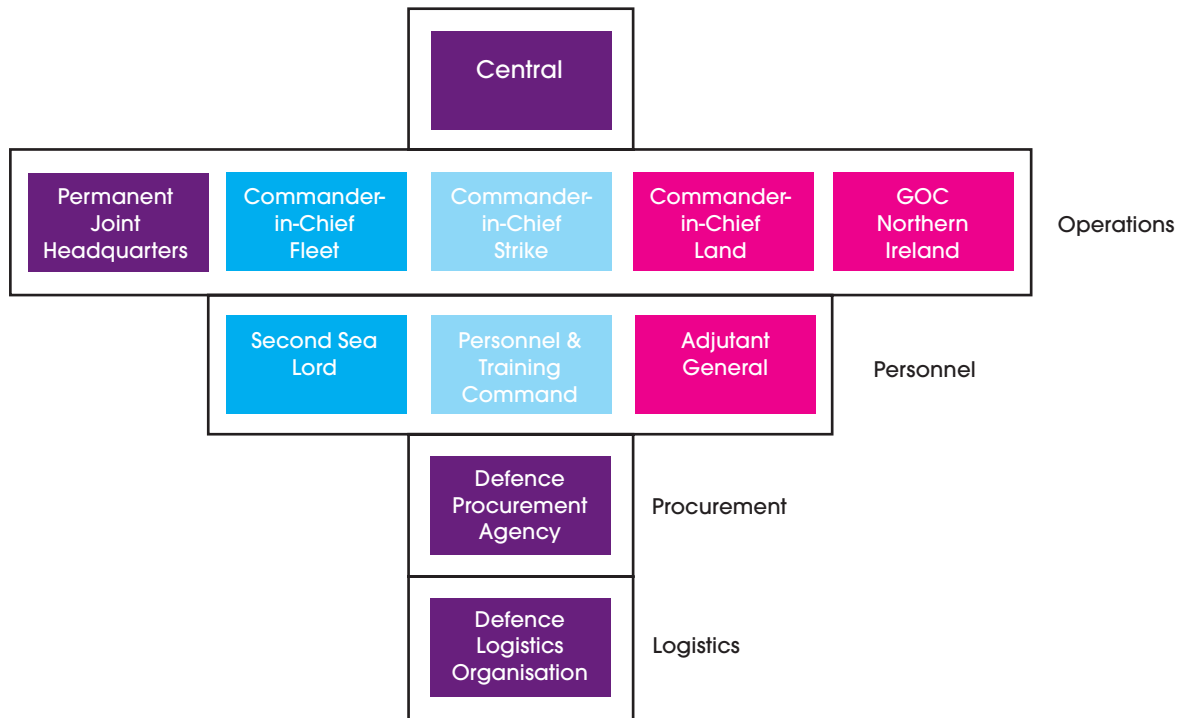
## The Defence Management Board

The ten non-Ministerial members of the Defence Council form the Defence Management Board (DMB), the executive board of the Defence Council. It is responsible for directing a number of key processes, in particular the annual Departmental planning and budgeting process.

## Top Level Budgets

Most defence activity takes place outside the MOD head office and is managed through eleven Top Level Budget (TLB) holders and five Trading Funds. The Permanent Secretary grants each TLB-holder extensive delegated powers over his/her resources of cash, personnel and land.

**Top Level Budget Structure of the MOD<sup>4</sup>**



**Top Level Budget Roles**

**Central TLB**

The Central TLB has responsibility for the MOD Head Office, covering Defence policy as well as Departmental policy on the equipment programme, resources, finance, personnel and security. However, some 25% of Central TLB involves non-Head Office functions. The Central TLB provides a diverse range of corporate services for the MOD as a whole. These include pay, estate management, bill payment, consultancy services, accountancy, some training, statistical analysis, central IT systems, public relations, defence exports and policing. The Central TLB's remit also encompasses the management of Service housing and the provision of medical services.

**Operational TLBS**

The following 5 TLBs are directly responsible for the planning and management of military operations and the delivery of frontline capability. They can be thought of as the operational TLBs.

**Chief of Joint Operations (CJO)**

With rare exceptions, CJO is responsible for running all military operations from his headquarters (the Permanent Joint Headquarters) in Northwood. The exceptions are in operations so large that a more senior officer is required, or those undertaken predominantly by one

Notes:

<sup>4</sup> Dark blue indicating predominantly Naval TLBs, red indicating predominantly Army TLBs, light blue representing predominantly RAF TLBs and purple representing Joint TLBs.

Service such that it makes sense for the operation to be commanded by the operational TLB led by that Service (CINCFLEET, Land Command, or Strike Command – see below). Military assets are assigned to CJO only for the duration of the operation. In addition to his operational responsibilities, CJO's organisation includes the Sovereign Base Areas in Cyprus and British forces in Gibraltar and the Falkland Islands.

#### **Commander-in-Chief Fleet (CINCFLEET)**

CINCFLEET is responsible for delivery of warships and trained crews to CJO at agreed readiness states. CINCFLEET maintains an operational command and control capability, in particular for the nuclear deterrent force.

#### **Land Command (LAND)**

LAND performs a similar role to CINCFLEET within the context of trained army formations and equipment.

#### **Strike Command (STC)**

Strike Command is the RAF's operational TLB, providing aircraft and trained aircrews to CJO.

#### **General Officer Commanding Northern Ireland (GOCNI)**

GOCNI is responsible for military aid to the civil power and counter terrorist operations in Northern Ireland. Although it is a joint-Service TLB, GOCNI is mainly staffed by the Army which provides the bulk of the Service personnel committed to Northern Ireland.

## Military Manpower TLBS

#### **2nd Sea Lord (2SL) / Commander-in-Chief Naval Home Command (CNH)**

2nd Sea Lord is responsible for providing the 'raw material' of trained naval officers, sailors and Royal Marines to CINCFLEET, to allow him to meet his commitment to CJO, and to other TLBs. 2SL deals with recruitment into the Navy and individual training. Bringing individuals together into coherent ships' crews remains the responsibility of CINCFLEET.

#### **Adjutant General (AG)**

AG performs the 2SL function for the Army and provides education services to children of all members of the Services on long-term foreign postings.

#### **Royal Air Force Personnel and Training Command (RAF PTC)**

PTC provides trained personnel to Strike Command and other TLBs.

# Equipment Procurement TLB

## Defence Procurement Agency (DPA)

Responsibility for the procurement of equipment to meet new requirements lies with the Defence Procurement Agency (DPA) which was launched on 1 April 1999. The DPA was formed from the old Procurement Executive (PE) and is located mainly at Abbey Wood, Bristol. It has been radically re-organised in accordance with the principles underlying the Strategic Defence Review and the Smart Acquisition programme.

# Logistics Support TLB

## Defence Logistics Organisation (DLO)

The Strategic Defence Review emphasised the increasing need for joint forces to meet the more varied challenges of the modern world. A key to achieving these better, joint capabilities is to modernise the logistic support to the front line to make it more flexible, more effective and more efficient. To achieve this, a new post of the Chief of Defence Logistics (CDL) was created with the task of bringing together the logistics support organisations in the Royal Navy, Army and Royal Air Force and Centre staff to form a new Defence Logistics Organisation. The DLO was formed on 1 April 1999. It includes a number of Defence Agencies.

## Defence Agencies

The MOD has established numerous Defence Agencies (currently 37 in total), as part of the Government's Next Steps programme, to improve the effectiveness and efficiency of service delivery to customers. In this case, customers are often external (e.g. members of the general public, industry and commerce) as well as internal (other parts of the Department or Armed Forces). The majority of MOD civilian and military staff work within Defence Agencies.

There are 2 main types of Defence Agency:

"On Vote" Agencies – These fall within the organisation of their relevant TLB and receive their annual budget from the TLB's allocation from the Department.

"Trading Fund" Agencies – which operate off the vote system, earning their income by selling products and services to the Department and external customers. The MOD is likely to remain the largest single customer of the Trading Funds.

There are now five Defence Agencies that operate as Trading Funds; the Defence Aviation Repair Agency, the Defence Science and Technology Laboratory, the Meteorological Office, the UK Hydrographic Office and the Army Base Repair Organisation.

# THE ROLE OF THE MINISTRY OF DEFENCE AND THE ARMED FORCES

Defence serves the aims of foreign and security policy. It provides a range of tools to support the Government's vision of Britain's role as strong in defence; resolute in standing up for British interests and an advocate of human rights and democracy the world over; a reliable and powerful ally; and a leader in Europe and the international community.

The Strategic Defence Review (SDR) remodelled Britain's defence policy and Armed Forces to meet the challenges of the 21st Century. In doing so, it reflected assessments of the strategic context, now and into the future. The UK's national security and defence depend fundamentally on the security of Europe as a whole. Many of our most important economic and other wider international interests also depend on European stability. NATO is, and will continue to be, the primary means of ensuring British and European collective security and defence. Its vitality and effectiveness, and continuing US engagement in Europe, are therefore essential priorities for the British Government. The development of the European Union also plays a crucial complementary role to NATO in bringing security and stability, principally through political and economic processes. Although NATO remains Europe's principal guarantor of defence and security and, in particular, is responsible for collective defence (Article 5 of the North Atlantic Treaty), the development of a capacity for the European Union to undertake crisis management operations in support of the Common Foreign and Security Policy is a high priority.

Our Armed Forces also contribute to the peacetime security of the United Kingdom and to the security of the Overseas Territories. They do this within the UK by, for example, supporting the police in Northern Ireland in maintaining law and order and combating terrorism. They also provide assistance to other Government Departments in a number of ways, such as supporting counter-drugs activities, fishery protection and assisting communities in emergencies. They may also be called on to evacuate British citizens from countries where their safety might be at risk.

Defence policy puts a premium on prevention rather than cure. It is less difficult, dangerous and costly to prevent the occurrence or escalation of crises and conflicts than to have to tackle them once they are raging. The Armed Forces are therefore engaged in a range of stability-building and conflict prevention activities. Most obviously, our Armed Forces contribute alongside those of other nations to a range of peace support operations, notably in the Balkans, Sierra Leone and Afghanistan. Members of the Armed Forces and civilians in the Department are also involved in a number of initiatives, which the Department captures under the term "Defence Diplomacy", to help dispel hostility, build and maintain trust, and assist other states in the

development of democratically accountable armed forces. In addition, the Armed Forces can, at the request of the Foreign and Commonwealth Office or Department for International Development and subject to the availability of the necessary people and equipment, contribute to humanitarian and disaster relief operations, either on a national basis or as part of a co-ordinated international effort.

The SDR decided to reshape the Armed Forces to make them better able to meet the security requirements of the future. The plans set out in this report underpin the goal of establishing the force structures and capabilities agreed in the SDR. The benchmark for planning remains the capacity, in addition to meeting ongoing commitments such as Northern Ireland, to be able:

- To respond to a major international crisis which might require a military effort and combat operations of a similar scale and duration to the Gulf War; or
- To undertake a more extended overseas deployment on a lesser scale (as over the past few years in Bosnia) while retaining the ability to mount a second, substantial deployment which might involve a combat brigade and supporting naval and air forces if this were made necessary by a second crisis. We would not, however, expect both deployments to involve warfighting or to maintain them simultaneously for longer than six months.

The 'worst case' single military contingency for which we need to plan is the participation of British forces in high intensity warfighting operations in a regional conflict. This would require deployment of forces at a similar scale to those involved in the Gulf War. We must therefore continue to structure our forces so that they are capable, as part of a coalition, of being successful against all potential opponents in a large scale warfighting operation. But events have shown that there is a higher probability of the Armed Forces undertaking smaller, but frequent, often simultaneous and sometimes prolonged operations, which can be more demanding than preparing for a single worst-case conflict.

The terrorist attacks of 11 September 2001 and subsequent operations in the campaign against terrorism have had far-reaching effects on the global strategic context. The Ministry of Defence, along with other Government Departments, has therefore been conducting a great deal of work on what the Secretary of State for Defence described as the New Chapter to the SDR. The attacks on the United States have shown us that we must build on the success of the SDR and go further. We must ensure that our concepts, force structures and capabilities have the capacity and flexibility to address the threat from international terrorism. We envisage that we will be able to publish our conclusions in the Summer of 2002.

# PUBLIC SERVICE AGREEMENT

The Department's Public Service Agreement was published in the White Paper "Spending Review 2000: Public Service Agreements 2001-04" (Cm 4808, July 2000, available at <http://www.hm-treasury.gov.uk>). It sets out the objectives, key targets and resources for the Department for the period 2001-02 to 2003-04 to implement the Strategic Defence Review and policies outlined above. Progress against the Public Service Agreement will be published annually in the Department's Performance Report. Performance against the previous PSA was described in the Department's Performance Report 2000/01 (Cm 5290, Nov 2001).

## AIM

To ensure the security and defence of the United Kingdom and the Overseas Territories, including against terrorism, and to support the Government's foreign policy objectives, particularly in promoting international peace and security.

## OBJECTIVES AND PERFORMANCE TARGETS

**Objective 1:** Provide and direct Armed Forces able to undertake successfully a major operation on a similar scale and duration to the Gulf War, or two medium scale operations (of similar size to that in Kosovo), one involving warfighting, and sustain them simultaneously for up to six months, whilst meeting long standing commitments and being able to rebuild a bigger force should a major threat to Europe re-emerge.

*1. To achieve the above, by 2005 ensure that a minimum of 90% of rapidly available military units are at required states of readiness.*

*2. Recruit, retain and motivate the personnel needed to meet the manning requirement of the Armed Forces, so that by 31st March 2004, the Royal Navy and RAF achieve full manning, and the Army meets 97% of its manning requirement.*

*3. Achieve the objectives established by Ministers for military operations that arise in which the United Kingdom's Armed Forces are involved.*

**Objective II:** In order to achieve the above, provide an effective defence policy, planning and management infrastructure.

*4. Working with NATO Allies, implement the decisions of the NATO Washington Summit, including the new Strategic Concept and the Defence Capabilities Initiative, and help to adapt NATO to the new strategic environment.*

*5. Work with partners so that the EU can, by 2003, deploy forces of up to Corps level (50-60,000 personnel) within 60 days, capable of undertaking the full range of Petersberg tasks (ranging from disaster relief to large scale peace-support operations) in and around Europe.*

*6. Improved effectiveness of the UK contribution to conflict prevention and management as demonstrated by a reduction in the number of people whose lives are affected by violent conflict and by a reduction in potential sources of future conflict, where the UK can make a significant contribution. (Joint target with the Department for International Development and the Foreign and Commonwealth Office.)*

**Objective III:** Provide fighting equipment for the Armed Forces using Smart Procurement principles, so that they maintain the military capability to conduct the operational tasks required of them.

*7. Develop and deliver battle-winning equipment to time, cost and capability requirement targets that will enable the Armed Forces to provide the military capability required of them now and in the future.*

#### **Value for money**

*8. Achieve value for money through delivering efficiency savings of 3% a year, benefits of the Smart Procurement Initiative of £750 million over the period 2001-02 to 2003-04, and continuing the drive for the optimum utilisation of the defence asset base, with disposals of over £600 million of assets by March 2004.*

## WHO IS RESPONSIBLE FOR DELIVERY?

The Secretary of State for Defence is responsible for delivery of this PSA. MOD and the Foreign and Commonwealth Office share responsibility for delivery of target 4 on NATO and target 5 on the European Defence Initiative, whilst MOD, the Foreign and Commonwealth Office and the Department for International Development share responsibility for target 6 on conflict prevention.

# SUMMARY OF MID-YEAR PERFORMANCE

The following table summarises the MOD's performance at the mid-year point, against the objectives and targets specified in the 2001/02 to 2003/04 Public Service Agreement (see above).

A complete account of Defence-related performance and activity for financial year 2001/02 will be published in the MOD Performance Report later this year.

PSA TARGET	ASSESSMENT AS AT 30 SEPTEMBER 2001
<b>Objective I – Operations and Readiness</b>	
By 2005, ensure that a minimum of 90% of rapidly available units are at required states of readiness.	<p>The overall readiness of military units continued to improve, although there were a number of capability areas where weaknesses still existed. Good progress was also being made on work to develop a more robust measure of military capability across the Services.</p> <p>The Joint Rapid Reaction Forces (JRRF) remained on course to achieve operational capability by late 2002/03, and elements of the JRRF operated successfully in Macedonia.</p> <p>The C-17 strategic lift aircraft entered service on 30th September, 3 months ahead of schedule.</p>
Recruit, retain and motivate the personnel needed to meet the manning requirement of the Armed Forces, so that by March 2004, the Royal Navy and RAF achieve full manning, and the Army meets 97% of its manning requirement. Full manning is defined as +1%/-2% of the requirement.	<p>Trained strength as a percentage of the requirement – Navy: 95.7%; Army: 92.6%; RAF: 98.1%. The RAF was therefore within the tolerance band for full manning.</p> <p>All three Services have major initiatives in place – guided by the Armed Forces Overarching Personnel Strategy – to address manpower shortfalls, focused in particular on those categories experiencing critical shortages. A new system of pay for the regular Armed Forces (Pay 2000) was successfully implemented, and the programme to improve the condition of core Service Family Accommodation was proceeding steadily.</p>
Achieve the objectives established by Ministers for military operations that arise in which the United Kingdom's Armed Forces are involved.	Operations in Bosnia, Kosovo, Sierra Leone, the Middle East and Macedonia were successful, as was Exercise Saif Sareea 2.
<b>Objective II – Defence Policy</b>	
Working with NATO Allies, implement the decisions of the NATO Washington Summit, including the new Strategic Concept and the Defence Capabilities Initiative, and help to adapt NATO to the new strategic environment.	Overall, solid progress on NATO enlargement, the Force Structure Review, and the Defence Capabilities Initiative (DCI). The final phase of the Force Structure Review is now underway. The UK remained well ahead of the Alliance average with regard to implementing the DCI-related Force Goals.

<p>Work with partners so that the European Union (EU) can, by 2003, deploy forces of up to Corps level (50-60,000 personnel) within 60 days, capable of undertaking the full range of Petersberg tasks (from disaster relief to large scale peace support operations) in and around Europe.</p>	<p>The first half of 2001/02 saw consolidation and further steps forward on improving capabilities and establishing the necessary EU decision-making bodies and structures.</p> <p>Work to define and address EU capability gaps continued, in the run up to the Capability Improvement Conference held in November. The EU Military Staff and Military Committee were declared permanent, an exercise policy with appropriate linkages to NATO was established, and principles for co-operation with international organisations on civilian aspects of crisis management were agreed.</p> <p>Development of links with NATO remained challenging, although efforts continued to secure agreement on assured EU access to NATO's operational planning capabilities.</p>
<p>Improved effectiveness of the UK contribution to conflict prevention and management as demonstrated by a reduction in the number of people whose lives are affected by violent conflict and by a reduction in potential sources of future conflict, where the UK can make a significant contribution.</p>	<p>Functional and regional priorities for conflict prevention have been jointly identified by the MOD, the Foreign and Commonwealth Office and the Department for International Development, and strategies to meet these priorities have been put in place. The MOD is focusing on the development of peacekeeping capacities and security sector reform in sub-Saharan Africa. Elsewhere, efforts will concentrate on a number of key regions such as the Balkans, on implementing the Brahimi Report's UN peacekeeping reforms, and on small arms and light weapons controls.</p>
<p><b>Objective III – Battle-Winning Equipment</b></p>	
<p>Develop and deliver battle-winning equipment to time, cost and capability requirement targets that will enable the Armed Forces to provide the military capability required of them now and in the future.</p>	<p>There was no reported slippage for 19 of the 20 Major Projects, and 99% of customers' key requirements were predicted to be achieved. A small but unavoidable cost growth was predicted across the Major Project Report population for 2001/02.</p>
<p><b>Value For Money</b></p>	
<p>Achieve value for money through delivering efficiency savings of 3% a year, benefits of the Smart Procurement Initiative of £750 million over the period 2001-02 to 2003-04, and continuing the drive for the optimum utilisation of the defence asset base, with disposals of over £600 million of assets by March 2004.</p>	<p>A new approach to efficiency is under development. The MOD remained on course to deliver the £750 million Smart Acquisition savings target. At the mid-year point over 200 Defence estate sites were in disposal and more than 50 had already been sold, realising £34 million. Other asset disposals totalled £18 million, largely from the sale of over 100 surplus aircraft and helicopters and a former Royal Navy minehunter.</p>

# SPENDING PLANS

The agreed spending plans for the Department set out in this report for the financial years 2002-03 to 2003-04 are based upon the Government's Spending Review 2000, which set budgets from 2001-02 to 2003-04. They also take account of subsequent developments, including costs arising from operations (which are borne by the cross-Departmental Conflict Prevention funds or by the Government's central Reserve), transfers of resources into and out of the Department and movements of resources from one financial year to another.

The Department's spending plans seek to continue the modernisation of the Armed Forces launched by the SDR, to enable them to meet the challenges they face today and in the future. As noted above, we have been reviewing the implications of the terrorist attacks of 11 September and envisage publishing conclusions in the Summer. It is too early at this stage to assess what implications this work may have for our spending plans, but this will be considered in the course of this year's Spending Review.

Our existing spending plans reflect the priority we attach to the successful accomplishment of the operations and other military tasks that the Armed Forces undertake, and the consequent imperative of ensuring that our Forces have the people and capabilities they need in order to be properly prepared for the tasks that may arise in both the near future and the longer term. We therefore invest heavily in the recruitment, training, motivation and retention of Service personnel, in the infrastructure within which they live and work and in the acquisition and support of the fighting equipment they need to do their job.

## The Data

This year's report has been produced and published under a new framework. The Main Estimates, and detailed Supplementary Budgetary Information, have been published separately this year (2002-03 Main Supply Estimates (HC795) and Supplementary Budgetary Information (Cm5510) May 2002) enabling this document to provide a more streamlined presentation of spending plans.

The Department currently manages its resources within the framework of Stage One of Resource Accounting and Budgeting (RAB), under which the major non-cash items – depreciation and impairments, cost of capital charges and provisions – are treated as Annually Managed Expenditure (AME), outside the Departmental Expenditure Limits (DELs) by which resources are controlled. Under Stage Two of RAB, from April 2003 this non-cash AME will move into the Resource DEL. In the tables in this report, non-cash AME is shown separately from the DELs, and is also distinguished from cash expenditure in AME (War Pensions and Allowances and Armed Forces Retired Pay and Pensions).

Because RAB data is at present available only from 1999-00, the scope of the main tables is limited to the period from 1999-00 to 2003-04, the last year covered by Spending Review 2000.

As in previous years, tables are included showing key information on costs and staff numbers.

# DEFENCE INVESTMENT STRATEGY

The Department's plans for capital investment for the period covered by this document are described in greater detail in the Defence Investment Strategy (published in November 2000, and available at <http://www.mod.uk>). It describes the range of capital assets owned and operated by the Department, existing plans for additions to and disposals from the asset base, the contribution of Public-Private Partnerships, and the Department's strategies in key areas such as equipment acquisition, logistic support, estate management and e-government.

<b>EXISTING CAPITAL BASE (as at 31 March 2001)</b>	<b>£M</b>
Land and Buildings	14,377
Fighting Equipment	27,496
Assets in the course of construction	11,257
Capital Spares	8,193
Plant, machinery and vehicles	4,636
Information Technology and Communications Equipment	874
Intangible assets	19,901
Investments	391
<b>Total</b>	<b>87,125</b>

The Defence Investment Strategy also sets out the systems and procedures used to scrutinise proposals for capital investment, and to manage and evaluate programmes. These are now being developed further with the creation in April 2002 of an Investment Approvals Board of senior officials, to ensure coherent scrutiny and control of investment activity across the Department.

## Asset disposals

The Department is committed to ensuring that it does not hold assets which are no longer required to meet operational needs. In Spending Review 2000 the Department agreed a challenging target of disposing of over £600 million of assets between April 2001 and March 2004. The move in April 2003 to Stage Two of RAB will reinforce incentives to dispose of surplus assets, in order to save the associated depreciation and cost of capital charges and thus release resources for other priorities.

## The Wider Markets Initiative

The Wider Markets Initiative encourages Departments to exploit irreducible spare capacity on a commercial basis. The Department is committed to taking a proactive approach to exploiting opportunities. Examples include the marketing of spare training capacity and spare physical capacity on MOD sites to external organisations, the provision of maintenance and repair services to private sector customers, and the exploitation of irreducible spare physical capacity on MOD communications towers for commercial telecommunications use.

## PUBLIC SPENDING

This table sets out, in resource terms, a summary of expenditure from 1999-00 to 2003-04. This is split into consumption of resources, including both cash and non-cash AME, and capital spending. As noted above, from April 2003 the Resource DEL will include the non-cash AME.

<b>TABLE 1: PUBLIC SPENDING – MOD</b>		£'000				
	<b>99-00 outturn</b>	<b>00-01 outturn</b>	<b>01-02 estimated outturn</b>	<b>02-03 plans</b>	<b>03-04 plans</b>	
<b>Consumption of Resources</b>						
MOD						
– Provision of Defence Capability	29,124,771	32,949,615	31,189,445	31,329,001	32,193,347	
– War Pensions & Allowances	1,255,523	1,411,782	1,240,692	1,186,720	1,147,826	
– Armed Forces Retired Pay & Pensions	1,208,063	1,231,598	1,426,001	1,401,131	1,462,065	
– Unprogrammed Operations/Conflict Prevention Costs	379,102	302,614	443,300	341,141	0 <sup>1</sup>	
<b>Total MOD Resource Budget</b>	<b>31,967,459</b>	<b>35,895,609</b>	<b>34,299,438</b>	<b>34,257,993</b>	<b>34,803,238</b>	
Of which						
– MOD Departmental Expenditure Limit (DEL) <sup>2</sup>	18,151,813	19,239,007	18,904,557	18,865,444	18,929,270	
– Non cash items in Annually Managed Expenditure (AME)	11,352,657	14,014,078	12,737,988	12,827,698	13,308,077	
– Other items in AME	2,462,989	2,642,524	2,656,893	2,564,851	2,565,891	
<b>Capital spending:</b>						
MOD						
– Provision of Defence Capability	5,888,041	5,660,498	5,628,251	5,692,025	5,990,713	
– Unprogrammed Operations/Conflict Prevention Costs	88,324	79,425	51,000	106,500	0 <sup>1</sup>	
<b>Total Capital Budget</b>	<b>5,976,365</b>	<b>5,739,923</b>	<b>5,679,251</b>	<b>5,798,525</b>	<b>5,990,713</b>	
of which						
– MOD Departmental Expenditure Limit (DEL) <sup>2</sup>	5,976,365	5,739,923	5,640,451	5,731,525	5,949,713	
<b>Total public spending on defence</b>						
Total MOD Resource Budget	31,967,459	35,895,609	34,299,438	34,257,993	34,803,238	
Total MOD Capital Budget	5,976,365	5,739,923	5,679,251	5,798,525	5,990,713	
– less Depreciation and impairments	5,897,740	7,319,415	7,048,658	7,175,097	7,578,923	
<b>Total public spending on defence</b>	<b>32,046,084</b>	<b>34,316,117</b>	<b>32,930,031</b>	<b>32,881,421</b>	<b>33,215,028</b>	
– less War Pensions & Allowances	1,255,523	1,411,782	1,240,692	1,186,720	1,147,826	
– less Armed Forces Retired Pay & Pensions	1,208,063	1,231,598	1,426,001	1,401,131	1,462,065	
<b>Total spending excluding pensions</b>	<b>29,582,498</b>	<b>31,672,737</b>	<b>30,263,338</b>	<b>30,293,570</b>	<b>30,605,137</b>	

Notes:

1 Operational and conflict prevention costs are only estimated one year in advance.

2 DELs in 99-00 and 00-01 are illustrative, as Departments were controlled in cash terms in those years.

# CONSUMPTION OF RESOURCES BY ACTIVITY

Table 2 gives a functional breakdown of the Department's resource spending plans from 1999-00 to 2003-04. Non-cash expenditure in AME is shown by category – depreciation and impairments, cost of capital charge, and changes in provisions and other charges.

<b>TABLE 2:</b>		<b>MOD RESOURCE BUDGET</b>				£'000
	<b>99-00 outturn</b>	<b>00-01 outturn</b>	<b>01-02 estimated outturn</b>	<b>02-03 plans</b>	<b>03-04 plans</b>	
<b>Consumption of resources by activity</b>						
<b>Provision of Defence Capability</b>	<b>29,124,771</b>	<b>32,949,615</b>	<b>31,189,445</b>	<b>31,329,001</b>	<b>32,193,347</b>	
<i>of which:</i>						
<b>Operations</b>						
Commander-in-Chief Fleet	3,751,039	3,806,026	3,739,025	3,798,488	3,966,659	
General Officer Commanding Northern Ireland	647,906	625,720	609,725	631,535	651,427	
Land Command	4,239,606	4,794,951	4,947,834	5,125,511	5,377,743	
RAF Strike Command	3,903,619	3,631,243	3,854,595	4,125,368	4,385,567	
Chief of Joint Operations	415,660	467,903	471,225	485,201	505,151	
<b>Personnel</b>						
2nd Sea Lord/Commander-in-Chief Naval						
Home Command	640,701	663,647	677,136	668,870	682,195	
Adjutant General	1,478,496	1,572,234	1,660,754	1,630,777	1,665,386	
RAF Personnel and Training Command	758,738	891,493	930,553	934,648	947,517	
<b>Logistics</b>						
Chief of Defence Logistics	7,252,131	10,885,697	8,713,174	8,701,104	8,852,295	
<b>Procurement</b>						
Defence Procurement Agency	2,854,786	2,328,576	2,678,301	2,457,031	2,394,038	
Major Customer Research Budgets	443,377	400,875	414,137	409,198	417,162	
<b>Central</b>						
Central	2,738,712	2,881,250	2,492,986	2,361,270	2,348,207	
<b>War Pensions and Allowances</b>	<b>1,255,523</b>	<b>1,411,782</b>	<b>1,240,692</b>	<b>1,186,720</b>	<b>1,147,826</b>	
<b>Armed Forces Retired Pay and Pensions</b>	<b>1,208,063</b>	<b>1,231,598</b>	<b>1,426,001</b>	<b>1,401,131</b>	<b>1,462,065</b>	
<b>Unprogrammed Operations/Conflict Prevention</b>						
<b>Costs</b>	<b>379,102</b>	<b>302,614</b>	<b>443,300</b>	<b>341,141</b>	<b>0<sup>1</sup></b>	
<b>Total MOD Resource Budget</b>	<b>31,967,459</b>	<b>35,895,609</b>	<b>34,299,438</b>	<b>34,257,993</b>	<b>34,803,238</b>	
<i>of which</i>						
- MOD Departmental Expenditure Limit (DEL) <sup>2</sup>	18,151,813	19,239,007	18,904,557	18,865,444	18,929,270	
- Non cash items in AME	11,352,657	14,014,078	12,737,988	12,827,698	13,308,077	
<i>of which</i>						
- Depreciation and impairments	5,897,740	7,319,415	7,048,658	7,175,097	7,578,923	
- Cost of Capital charges	5,175,953	5,236,963	5,331,272	5,208,538	5,238,062	
- Changes in provisions and other charges	278,964	1,457,700	358,058	444,063	491,092	
- Other items in AME	2,462,989	2,642,524	2,656,893	2,564,851	2,565,891	

Notes:

- Operational and conflict prevention costs are only estimated one year in advance.
- DELs in 99-00 and 00-01 are illustrative, as Departments were controlled in cash terms in those years.

# CAPITAL EXPENDITURE BY ACTIVITY

Table 3 gives a functional breakdown of the MOD's investment or capital spending plans from 1999-00 to 2003-04.

<b>TABLE 3:</b>	<b>MOD CAPITAL BUDGET</b>					£'000
<b>Capital spending by activity</b>	<b>99-00 outturn</b>	<b>00-01 outturn</b>	<b>01-02 estimated outturn<sup>1</sup></b>	<b>02-03 plans</b>	<b>03-04 plans</b>	
<b>Provision of Defence Capability</b>	<b>5,888,041</b>	<b>5,660,498</b>	<b>5,628,251</b>	<b>5,692,025</b>	<b>5,990,713</b>	
<i>of which:</i>						
<b>Operations</b>						
Commander-in-Chief Fleet	35,083	26,916	14,393	19,164	20,599	
General Officer Commanding Northern Ireland	14,688	35,703	23,638	32,700	35,149	
Land Command	18,968	86,666	53,380	90,035	96,779	
RAF Strike Command	31,882	60,439	69,714	56,229	60,441	
Chief of Joint Operations	37,392	14,167	25,518	28,070	30,173	
<b>Personnel</b>						
2nd Sea Lord/Commander-in-Chief Naval						
Home Command	13,130	6,339	8,552	10,600	11,394	
Adjutant General	53,825	41,941	31,853	49,800	53,530	
RAF Personnel and Training Command	28,661	11,306	22,800	11,585	12,453	
<b>Logistics</b>						
Chief of Defence Logistics	950,487	1,050,110	1,120,926	877,332	843,686	
<b>Procurement</b>						
Defence Procurement Agency	4,669,872	4,448,333	4,326,436	4,493,236	4,854,529	
Major Customer Research Budgets	0	6,663	0	0	0	
<b>Central</b>						
Central <sup>2</sup>	34,053	-128,085	-68,959	23,274	-28,020	
<b>Unprogrammed Operations/Conflict Prevention Costs</b>	<b>88,324</b>	<b>79,425</b>	<b>51,000</b>	<b>106,500</b>	<b>0<sup>3</sup></b>	
<b>Total MOD Capital Budget</b>	<b>5,976,365</b>	<b>5,739,923</b>	<b>5,679,251</b>	<b>5,798,525</b>	<b>5,990,713</b>	
<i>of which</i>						
- MOD Departmental Expenditure Limit (DEL) <sup>(4)</sup>	5,976,365	5,739,923	5,640,451	5,731,525	5,949,713	

Notes:

- 1 Estimated outturn figures shown here update those published in Supplementary Budgetary Information (Cm5510, May 2002).
- 2 Central TLB shows negative figures in some years because it includes receipts from disposals of land and buildings.
- 3 Operational and conflict prevention costs are only estimated one year in advance.
- 4 DELs in 99-00 and 00-01 are illustrative, as Departments were controlled in cash terms in those years.

## MOD CAPITAL EMPLOYED

Table 4 sets out Total Capital Employed by the department.

<b>TABLE 4:</b>	<b>MOD CAPITAL EMPLOYED</b>					£M
<b>Assets on balance sheet</b>	<b>99-00 outturn</b>	<b>00-01 outturn</b>	<b>01-02 estimated outturn</b>	<b>02-03 plans</b>	<b>03-04 plans</b>	
<b>Fixed Assets</b>	<b>86,721</b>	<b>87,125</b>	<b>87,321</b>	<b>87,429</b>	<b>89,039</b>	
<i>Of which:</i>						
Land and Buildings	13,963	14,377	14,328	14,066	14,287	
Fighting Equipment	28,026	27,496	27,286	27,654	28,716	
Plant, Machinery and Vehicles	4,776	4,636	4,322	4,054	3,775	
IT and Communications Equipment	1,118	874	771	802	821	
Assets in the Course of Construction	10,335	11,257	12,882	10,898	11,410	
Capital Spares	8,554	8,193	7,227	8,356	7,659	
Intangible Assets	19,539	19,901	19,830	21,214	21,988	
Investments	410	391	675	385	383	
<b>Current Assets</b>	<b>8,190</b>	<b>6,615</b>	<b>6,530</b>	<b>6,426</b>	<b>5,971</b>	
<b>Creditors (&lt;1 year)</b>	<b>-3,828</b>	<b>-4,210</b>	<b>-3,267</b>	<b>-3,418</b>	<b>-3,472</b>	
<b>Creditors (&gt;1 year)</b>	<b>-375</b>	<b>-397</b>	<b>-540</b>	<b>-226</b>	<b>-287</b>	
<b>Provisions</b>	<b>-4,405</b>	<b>-4,337</b>	<b>-3,999</b>	<b>-4,019</b>	<b>-4,069</b>	
<b>Capital employed within Main Department</b>	<b>86,303</b>	<b>84,796</b>	<b>86,045</b>	<b>86,192</b>	<b>87,182</b>	
<b>Public Corporation net assets</b>	<b>879</b>	<b>903</b>	<b>665</b>	<b>1,066</b>	<b>1,067</b>	
<b>TOTAL CAPITAL EMPLOYED IN DEPARTMENTAL GROUP</b>	<b>87,182</b>	<b>85,699</b>	<b>86,710</b>	<b>87,258</b>	<b>88,249</b>	

# STAFF NUMBERS

Table 5 sets out the number of staff employed within the Department.

<b>TABLE 5:</b>		<b>STAFF NUMBERS</b>					
	<b>97-98 outturn</b>	<b>98-99 outturn</b>	<b>99-00 outturn</b>	<b>00-01 outturn</b>	<b>01-02 estimated outturn</b>	<b>02-03 plans</b>	<b>03-04 plans</b>
<b>Service Personnel<sup>1</sup></b>	<b>218,700</b>	<b>217,500</b>	<b>217,600</b>	<b>216,000</b>	<b>214,800</b>	<b>215,800</b>	<b>217,300</b>
UK Based Civilians (UKBCs)	106,400	102,700	101,400	99,400	93,400	90,500	89,900
Locally Engaged Civilians (LECs)	15,400	14,900	13,900	14,000	13,800	13,700	13,000
<b>Total Civilians<sup>2</sup></b>	<b>121,800</b>	<b>117,600</b>	<b>115,300</b>	<b>113,400</b>	<b>107,200</b>	<b>104,200</b>	<b>102,900</b>
<b>Total MOD Manpower</b>	<b>340,500</b>	<b>335,100</b>	<b>332,900</b>	<b>329,400</b>	<b>322,000</b>	<b>320,000</b>	<b>320,200</b>
Within Trading Funds <sup>3</sup> (civilians also included in UKBC total numbers)							
DERA/DSTL <sup>4</sup>	11,500	11,200	11,100	11,100	5,100	3,000	3,000
Meteorological Office	2,100	2,000	2,200	2,100	2,100	1,900	1,700
Hydrographic Office	900	900	900	900	900	900	900
DARA <sup>5</sup>	-	-	-	-	5,000	4,600	4,200
UKBC Casuals	2,200	2,000	1,600	1,500	1,500	1,500	1,500
Volunteer Reserves & Auxiliary Forces	62,500	62,400	54,900	48,500	48,700	48,400	48,300

Notes:

- 1 Service manpower totals exclude volunteer reserves and auxiliaries, but include officer cadets and locally engaged personnel such as Gurkhas. The figures also include full- and part-time personnel in the Home Service battalions of the Royal Irish Regiment.
- 2 Civilian manpower totals exclude casuals, staff on loan and personnel working for the United States Air Force, but include personnel employed by the Department's Trading Funds. Figures reflect the contractorisation of the Atomic Weapons Establishment.
- 3 Data has been categorised according to the organisational structure in place at the time.
- 4 From 1 April 1995, DERA assumed responsibility for the Defence research Agency (DRA), the Defence Test and Evaluation Organisation (DTEO), the Centre for Defence Analysis (CDA) and the Chemical and Biological defence Establishment (CBDE). From 1 July 2001, the figures shown reflect the manpower numbers of the Defence Scientific and Technology Laboratory (DSTL), and do not include the staff who transferred to QinetiQ.
- 5 The Defence Aviation Repair Agency (DARA) became a Trading Fund on 1 April 2001.

## TRENDS IN DEFENCE SPENDING

<b>TABLE 6: TRENDS IN DEFENCE SPENDING</b>								£M
	<b>97-98 outturn</b>	<b>98-99 outturn</b>	<b>99-00 outturn</b>	<b>00-01 outturn</b>	<b>01-02 estimated outturn<sup>1</sup></b>	<b>02-03 plans</b>	<b>03-04 plans</b>	
Cash Provision <sup>2</sup>	20,748	22,321	22,105	23,170	-	-	-	
Resource & Capital DELs <sup>3</sup>	-	-	-	-	24,070	24,197	24,879	
As a %age of GDP:								
Cash:	2.6	2.6	2.4	2.4	-	-	-	
Resource & Capital DELs:	-	-	-	-	2.4	-	-	
Provision in real terms at 2002-2003 prices:								
Cash:	23,420	24,510	23,708	24,402	-	-	-	
Resource & Capital DELs:	-	-	-	-	24,672	24,197	24,272	
Year-on-year %age change in real terms <sup>4</sup> :								
Cash:	-	+4.7	-3.3	+2.9	-	-	-	
Resource & Capital DELs	-	-	-	-	-	-1.9	+0.3	
Cost of unprogrammed operations/conflict prevention at outturn prices <sup>5</sup> :								
Cash:	197	161	467	382	-	-	-	
Resource & Capital DELs	-	-	-	-	475	400	-	

## Notes:

- 1 The estimated outturn for 2001-02 is higher than the plans agreed in Spending Review 2000, reflecting a number of one-off additions to the Defence budget, notably the bringing forward of some £97M from 2003-04 to fund the Defence Logistics Organisation's Business Change Programme, and an addition of some £306M in partial anticipation of proceeds from the sale of QinetiQ (this figure is neither dependent on the timing of the transaction nor indicative of its potential value).
- 2 Changes since last year's report reflect the inclusion in the 1997-98 figures of receipts from the sale of the Married Quarters Estate and a number of minor accounting changes in each year from 1997-98 to 2000-01.
- 3 From 1997-98 to 2000-01 the Department was controlled in cash, not DELs.
- 4 No figure is shown for 2001-02 because meaningful year-on-year comparison is not possible in the light of the transition from cash to Resource Accounting and Budgeting in that year.
- 5 These are additional to the figures for Cash provision/DELs in previous rows. Conflict Prevention expenditure falling outside DEL (£19.3M and £47.186M in Resource Annually Managed Expenditure in 01-02 and 02-03 respectively) has been excluded from this table.

# CONTINGENT LIABILITIES

A contingent liability occurs where there is a risk of incurring a financial obligation to pay another party or parties in the future, depending on whether a particular set of circumstances arises. Those above £100,000 are shown in table 7.

<b>TABLE 7</b>		
<b>CONTINGENT LIABILITIES IN EXCESS OF £100,000</b>		
<b>Statutory Liabilities</b>	<b>RfR</b>	<b>Value</b>
Statutory liabilities in relation to the operation of International Military Services Ltd.	RfR1	Up to £50M, or £100M with Commons approval
<b>Non-Statutory Liabilities</b>	<b>RfR</b>	<b>Value</b>
Residual liability for the remediation of unidentified contamination in parts of the former Rosyth Naval Base which has been sold to Rosyth 2000 plc.	RfR1	Up to £1.0M
Liability to the Saudi Government to destroy UK supplied JP233s and provide 100 ex-RAF Paveway 3s following the signature and ratification by HMG of the Ottawa Convention on landmines.	RfR1	Up to £10.1M
Termination liabilities arising out of MOD's association with the Research Council under the Joint Grants Scheme.	RfR1	Up to £10.0M
Indemnity given to the Federal Republic of Germany in respect of additional costs which might be incurred by Daimler Chrysler Aerospace in the event of delays in the development of the European Collaborative Radar 90 for the Eurofighter 2000.	RfR1	£66.523M <sup>1</sup>
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.	RfR1	Unquantifiable
Liabilities arising from the insurance risk of exhibits on loan to the Navy, Army and RAF museums.	RfR1	£1.340M
Contractorisation of Atomic Weapons Establishment (AWE): Indemnity to Hunting-BRAE Ltd in respect of nuclear risks under the Nuclear Installations Act 1965. <sup>2</sup>	RfR1	Up to £140M per incident
Contractorisation of AWE: Indemnity to Hunting-BRAE Ltd in respect of non-Nuclear-Installations Act nuclear risks resulting from claims for damage to property or death and personal injury to a third party.	RfR1	Unquantifiable
Contractorisation of AWE: Indemnity to Hunting-BRAE Ltd in respect of non-nuclear risks, covering employer's liability, property damage and business interruption, public and product liability. <sup>2</sup>	RfR1	Unquantifiable
Contractorisation of AWE: Indemnity to Hunting-BRAE Ltd in respect of employees having a claim on a personal insurance policy repudiated because of that employee's involvement with Nuclear Accident Response Team activities.	RfR1	Unquantifiable
Contractorisation of AWE: Indemnity to AWE Management Ltd and AWE plc in respect of non-Nuclear Installations Act 1965 nuclear risks resulting from claims for damage to property or death and personal injury to a third party.	RfR1	Unquantifiable

<b>Non-Statutory Liabilities</b>	<b>RfR</b>	<b>Value</b>
Contractorisation of AWE: Indemnity to AWE Management Ltd in respect of non-nuclear risks, covering employer's liability, property damage and business interruption, public and product liability.	RfR1	Unquantifiable
Contractorisation of AWE: Indemnity to AWE Management Ltd and AWE plc in respect of an employee having a claim on a personal insurance policy repudiated because of that employee's involvement with Nuclear Accident Response Team activities.	RfR1	Unquantifiable
Indemnity to Devonport Royal Dockyards Ltd (DRDL) in respect of nuclear risks under the Nuclear Installations Act 1965.	RfR1	Amount of liability unlimited, but could be zero if there is no claimable incident
Indemnity to the Babcock Group in respect of nuclear risks under the Nuclear Installations Act 1965.	RfR1	Unquantifiable
Indemnities to DRDL and 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.	RfR1	Unquantifiable
Product liability to BAE Systems in respect of work carried out by third party contractors on aircraft for which BAES are Design Authority and for which BAES, at MOD's request provide the third party contractor with design advice and verification.	RfR1	Unquantifiable
Liabilities arising from the sale of Married Quarters estate to the Annington Group: to continue to provide utilities - mainly electricity, gas, water and sewerage services on repayment terms to sites that are surrendered in the first 25 to 28 years which depend on adjacent bases for these services; or to contribute to the cost of installing "public" utility services up to a maximum of £25m across the estate.	RfR1	£18.85M
Indemnity to SERCO to meet the cost of redundancy liability for ex-MOD staff transferred to the company with the contract for the operation and maintenance of Tracking and Surveillance Radar, Telemetry equipment and other services at Royal Artillery Ranges Hebrides.	RfR1	£1.41M
Liability arising out of an agreement with NAAFI to compensate the company for any overall losses resulting from the action or policies of MOD leading to a cessation of certain core requirements.	RfR1	£22.3M
Indemnity to BAE Systems (formerly GEC Marconi and Vickers Shipbuilding and Engineering Ltd (VSEL), Barrow) for third party risks.	RfR1	Up to £140M per incident
Standard indemnity to BAE Systems (formerly GEC Marconi and VSEL) in respect of fissile material intended for use on the VANGUARD and ASTUTE Classes contract.	RfR1	Unquantifiable
Waste management, decommissioning and dismantling costs associated with the MOD's nuclear activities on certain MOD operated sites and sites currently operated by: Atomic Weapons Establishment Management Ltd, British Nuclear Fuels Limited, Nuclear Industries Radioactive Waste Executive, Rolls Royce & Associates and UK Atomic Energy Authority.	RfR1	£16,729.918M

**Non-Statutory Liabilities**

	<b>RfR</b>	<b>Value</b>
Indemnity to Rolls Royce Power Engineering, Derby for risks associated with the handling of fissile materials.	RfR1	Up to £140M per incident
Standard shipbuilding indemnity (in lieu of insurance) to GEC Marconi as part of the ASTUTE Class contract against loss damage and liability incurred by the submarine builder.	RfR1	Unquantifiable
Termination liabilities in respect of phase 2 of the NILE project.	RfR1	£0.156M

## Notes:

- 1 Represents sterling equivalent of €102M which is subject to exchange rate movements.
- 2 AWE contingent liabilities will last for 10 years after the end of the contract.

# PUBLIC PRIVATE PARTNERSHIPS/PRIVATE FINANCE INITIATIVE

The Department seeks to involve the private sector in the delivery of efficient services. Asset use can be maximised through Public Private Partnerships (PPP), whereby we get a better quality service for optimal value. PPPs cover a range of service acquisition techniques including strategic partnering in which private sector partners help make best use of assets including the exploitation of spare capacity. The Private Finance Initiative (PFI) also continues to play an important role in the provision of defence services. During 2001-2002, the Department signed six further PFI deals with a capital value of £316 million, bringing its total number to 42 with capital investment totalling £2.2 billion. The Department will continue to use PPP/PFI as a major element of its efficiency strategy, and further projects will be identified in due course.

<b>TABLE 8:</b>	<b>PUBLIC PRIVATE PARTNERSHIPS/ PRIVATE FINANCE INITIATIVE</b>			£M
	<b>01-02 estimated outturn</b>	<b>02-03 plans</b>	<b>03-04 plans</b>	
Estimated Capital Spending of projects on contract	308	262	105	
Capital Value of projects at preferred bidder stage	0	90	198	
Revenue costs	474	496	551	

# NON-DEPARTMENTAL PUBLIC BODIES: EXECUTIVE BODIES

The Department has seven executive Non-Departmental Public Bodies whose planned expenditure is outlined below.

<b>TABLE 9: NON-DEPARTMENTAL PUBLIC BODIES: EXECUTIVE BODIES</b>				£M
<b>Name of Body</b>	<b>Total Gross Expenditure of Body</b>			
	<b>01-02 estimated outturn</b>	<b>02-03 plans</b>	<b>03-04 plans</b>	
Royal Navy Museum	1.350	1.360	1.380	
Fleet Air Arm Museum	1.850	1.860	1.880	
Royal Navy Submarine Museum	1.300	2.400	0.980	
Royal Marines Museum	0.910	0.880	0.910	
National Army Museum	4.684	4.800	3.920	
Royal Air Force Museum	6.532	11.392	7.658	
Oil and Pipelines Agency <sup>1</sup>	1.690	1.900	1.950	
<b>Funding from the Defence Budget</b>				
	<b>01-02 estimated outturn</b>	<b>02-03 plans</b>	<b>03-04 plans</b>	
Royal Navy Museum	0.980	1.004	1.029	
Fleet Air Arm Museum	0.546	0.561	0.575	
Royal Navy Submarine Museum	0.519	0.522	0.535	
Royal Marines Museum	0.707	0.673	0.707	
National Army Museum	4.684	4.800	3.920	
Royal Air Force Museum	6.068	6.051	6.182	
Oil and Pipelines Agency <sup>1</sup>	-	-	-	

Notes:

- <sup>1</sup> The running costs of the Oil and Pipelines Agency (OPA) are no longer funded from the Defence Budget. It is funded from any surplus obtained from the operation of the Government Pipeline and Storage System by the OPA. Should a surplus not be generated then MOD would have to bear the cost.

## LONG-TERM PROJECTS

Table 10 sets out long-term works and information technology projects with an individual value of £25 million or more on site in 2002-03. Projects which will reach completion before the start of 2002-03 or which are due to start on site after 2002-03 are not shown, though there may be relatively minor expenditure on these projects in the form of fees, equipment, enabling works etc, or following completion of the work on site.

Further details on MOD Projects can be found in the following publications:

- UK Defence Statistics 2001 dated September 2001 (Table 1.17);
- Report by the Comptroller and Auditor General (HC 330) dated 23 November 2001.
- Ministry of Defence Performance Report 2000/2001 (Cm 5290) dated November 2001.

Project		Year of Start/ Original estimate of year of completion		Current estimate of year of completion		£ (thousands, in 2002-03 prices)				
						Original estimate of expenditure	Current estimates of Expenditure			Total
							Spent in past years	Estimated provision for 2002-03	To be spent in future years	
<b>Central TLB</b>										
1. Tidworth, Matthews and Avon – Married Quarters demolition and rebuild	2000-01/2003-04	2003-04	Works	46,039	15,111	14,974	15,400	45,485		
			Fees	1,805	1,074	357	644	2,075		
			<b>Subtotal</b>	<b>47,844</b>	<b>16,185</b>	<b>15,331</b>	<b>16,044</b>	<b>47,560</b>		
2. Middle Wallop – Married Quarters demolition and rebuild <sup>1</sup>	2000-01/2003-04	2003-04	Works	25,688	10,002	12,782	8,837	31,621		
			Fees	1,486	1,163	420	299	1,882		
			<b>Subtotal</b>	<b>27,174</b>	<b>11,165</b>	<b>13,202</b>	<b>9,136</b>	<b>33,503</b>		
3. New Accounting Systems Integrator contract (ASI) <sup>2</sup>	2001-02/2003-04	2003-04	Works	7,585	2,268	4,604	713	7,585		
			Fees	68,265	20,407	41,438	6,420	68,265		
			<b>Subtotal</b>	<b>75,850</b>	<b>22,675</b>	<b>46,042</b>	<b>7,133</b>	<b>75,850</b>		
Projects costing £25,000,000 or more			<b>Total</b>			<b>74,575</b>				
Projects costing less than £25,000,000			<b>Total</b>			<b>51,817</b>				
<b>Total Central TLB</b>							<b>126,392</b>			
<b>Adjutant General</b>										
4. Defence Information Infrastructure (Army) <sup>3, 4, 5</sup>	2001-02/2004-05	2005-06	Works	63,764	13,705	26,101	40,855	80,661		
			Fees	111,005	21,380	23,846	64,230	109,456		
			<b>Subtotal</b>	<b>174,769</b>	<b>35,085</b>	<b>49,947</b>	<b>105,085</b>	<b>190,117</b>		
Projects costing £25,000,000 or more			<b>Total</b>			<b>49,947</b>				
Projects costing less than £25,000,000			<b>Total</b>			<b>43,036</b>				
<b>Total Adjutant General</b>							<b>92,983</b>			

Project	Year of Start/ Original estimate of year of completion	Current estimate of year of completion		£ (thousands, in 2002-03 prices)					
				Original estimate of expenditure	Current estimates of Expenditure				
					Spent in past years	Estimated provision for 2002-03	To be spent in future years	Total	
<b>Land Command</b>									
5. Tidworth – rebuild of existing barracks for armoured infantry battalion <sup>4, 6, 7</sup>	2002-03/2003-04	2004-05	Works Fees	40,100 718	0 51	11,454 210	34,110 569	45,564 830	
			<b>Subtotal</b>	<b>40,818</b>	<b>51</b>	<b>11,664</b>	<b>34,679</b>	<b>46,394</b>	
6. Aldershot – Construction of new barracks for mechanised infantry battalion <sup>8</sup>	2000-01/2001-02	2002-03	Works Fees	47,424 2,043	27,495 1,707	18,199 300	1,223 195	46,917 2,202	
			<b>Subtotal</b>	<b>49,467</b>	<b>29,202</b>	<b>18,499</b>	<b>1,418</b>	<b>49,119</b>	
7. Woodbridge – rebuild and refurbishment of existing barracks for close support engineer regiment <sup>4, 5, 6</sup>	2002-03/2002-03	2005-06	Works Fees	33,242 179	0 174	1,727 0	73,372 0	75,099 174	
			<b>Subtotal</b>	<b>33,421</b>	<b>174</b>	<b>1,727</b>	<b>73,372</b>	<b>75,273</b>	
8. Wattisham – infrastructure works for attack helicopter deployment <sup>8</sup>	2000-01/2003-04	2003-04	Works Fees	28,697 773	15,529 509	13,014 163	662 120	29,205 792	
			<b>Subtotal</b>	<b>29,470</b>	<b>16,038</b>	<b>13,177</b>	<b>782</b>	<b>29,997</b>	
9. Bovington – rebuild and refurbishment of existing barracks for armoured recce regiment <sup>9</sup>	2001-02/2003-04	2003-04	Works Fees	0 0	0 0	0 0	0 0	0 0	
			<b>Subtotal</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
10. British Forces Germany – Upgrade and modernisation of the worst Single Living and Federal Service families accommodation <sup>1</sup>	2002-03/2011-12	2011-12	Works Fees	364,349 0	0 0	2,000 0	362,349 0	364,349 0	
			<b>Subtotal</b>	<b>364,349</b>	<b>0</b>	<b>2,000</b>	<b>362,349</b>	<b>364,349</b>	
Projects costing £25,000,000 or more			<b>Total</b>			<b>47,067</b>			
Projects costing less than £25,000,000			<b>Total</b>			<b>172,649</b>			
<b>Total Land Command</b>							<b>219,716</b>		
<b>Chief of Defence Logistics</b>									
11. Portsmouth – Refurbishment of Western Jetties <sup>10</sup>	1998-99/2006-07	2008-09	Works Fees	78,492 6,087	26,131 1,597	0 30	63,825 5,789	89,956 7,416	
			<b>Subtotal</b>	<b>84,579</b>	<b>27,728</b>	<b>30</b>	<b>69,614</b>	<b>97,372</b>	
12. NAVYSTAR (Naval Sector IT infrastructure project) <sup>11</sup>	1996-97/2006-07	2008-09	Works Fees	79,732 982	29,523 3,959	5,852 574	34,360 3,443	69,735 7,976	
			<b>Subtotal</b>	<b>80,714</b>	<b>33,482</b>	<b>6,426</b>	<b>37,803</b>	<b>77,711</b>	
13. ACCESS (Aircraft Computerised Equipment Support System) <sup>12</sup>	1997-98/2000-01	2001-02	Works Fees	0 0	0 0	0 0	0 0	0 0	
			<b>Subtotal</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
14. Logistics Information Technology Strategy (LITS) – Tranche <sup>1</sup>	1992-93/2002-03	2003-04	Works Fees	234,728 184,666	230,095 76,492	3,482 8,200	0 8,400	233,577 93,092	
			<b>Subtotal</b>	<b>419,394</b>	<b>306,587</b>	<b>11,682</b>	<b>8,400</b>	<b>326,669</b>	
15. Provision of an Internet Protocol based wide area network to support business <sup>13</sup>	2001-02/2004-05	2004-05	Works Fees	0 0	0 0	0 0	0 0	0 0	
			<b>Subtotal</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
16. EMMA, Phase 1 –Construction of Junior Ratings' Single Living accommodation at HMS Nelson <sup>5</sup>	2002-03/2004-05	2004-05	Works Fees	22,500 3,330	0 650	8,028 2,657	12,142 2,248	20,170 5,555	
			<b>Subtotal</b>	<b>25,830</b>	<b>650</b>	<b>10,685</b>	<b>14,390</b>	<b>25,725</b>	

Project	Year of Start/ Original estimate of year of completion	Current estimate of year of completion		£ (thousands, in 2002-03 prices)				
				Original estimate of expenditure	Current estimates of Expenditure			
					Spent in past years	Estimated provision for 2002-03	To be spent in future years	Total
17. Devonport – Remote ammunition facility Tamar (Raft) <sup>14</sup>	2001-02/2004-05	2005-06	Works	25,500	10,498	16,522	10,060	37,080
			Fees	2,890	4,143	1,596	2,529	8,268
			<b>Subtotal</b>	<b>28,390</b>	<b>14,641</b>	<b>18,118</b>	<b>12,589</b>	<b>45,348</b>
Projects costing £25,000,000 or more			<b>Total</b>			<b>47,011</b>		
Projects costing less than £25,000,000 <sup>15</sup>			<b>Total</b>			<b>878,127</b>		
<b>Total Chief of Defence Logistics</b>						<b>925,138</b>		
<b>RAF Strike Command</b>								
18. Tornado Rebasing <sup>6</sup>	2000-01/2002-03	2002-03	Works	37,747	37,006	573	7	37,586
			Fees	1,960	2,121	36	1	2,158
			<b>Subtotal</b>	<b>39,707</b>	<b>39,127</b>	<b>609</b>	<b>8</b>	<b>39,744</b>
19. Eurofighter – Infrastructure works <sup>16</sup>	2002-03/2007-08	2007-08	Works	37,360	0	4,515	32,845	37,360
			Fees	2,265	295	392	1,578	2,265
			<b>Subtotal</b>	<b>39,625</b>	<b>295</b>	<b>4,907</b>	<b>34,423</b>	<b>39,625</b>
Projects costing £25,000,000 or more			<b>Total</b>			<b>5,516</b>		
Projects costing less than £25,000,000 <sup>15</sup>			<b>Total</b>			<b>94,000</b>		
<b>Total RAF Strike Command</b>						<b>99,516</b>		
<b>Defence Procurement Agency Operating Costs and Nuclear Warhead and Fissile Material programme</b>								
20. ASPECT (future computer project) <sup>17</sup>	1995-96/2002-03	2002-03	Works	15,054	15,546	0	0	15,546
			Fees	48,226	43,636	1,641	0	45,277
			<b>Subtotal</b>	<b>63,280</b>	<b>59,182</b>	<b>1,641</b>	<b>0</b>	<b>60,823</b>
21. Command and Control Information Technology <sup>4, 18</sup>	1996-97/2001-02	2002-03	Works	21,674	19,642	1,065	2,965	23,672
			Fees	12,898	8,628	25	20	8,673
			<b>Subtotal</b>	<b>34,572</b>	<b>28,270</b>	<b>1,090</b>	<b>2,985</b>	<b>32,345</b>
Projects costing £25,000,000 or more			<b>Total</b>			<b>2,731</b>		
Projects costing less than £25,000,000 <sup>15</sup>			<b>Total</b>			<b>18,638</b>		
<b>Total Defence Procurement Agency Operating Costs and Nuclear Warhead and Fissile Material programme</b>						<b>21,369</b>		

Notes: This is an update to the Long Term Projects (Works and IT) Table (Table 19) published in last year's Report (Cm 5109).

- Unless otherwise stated, dates shown for year of start/year of completion refer to the main contract. The original estimate of expenditure is the approved estimated cost at the date of letting the main contract, where this stage has been reached. Where this is not yet the case, the cost is based on the pre-tender estimate or, failing that, the estimate at final sketch plan stage. See notes 7,8,10,11 and 16 for the exceptions to this rule.

- 1 The original estimate of expenditure for this project is based on the estimate of the final sketch plan.
- 2 This project appears for the first time in this table, as a decision to place a new contract was not taken in time to include it in last year's Statement.
- 3 The title of this project has changed from that shown in last year's table (Army Information Infrastructures Programme (AIIIP)). This project is an element of the MOD-wide Defence Information Infrastructure programme.
- 4 The current estimated year of completion has been revised from that shown in last year's Statement.
- 5 The original estimate of expenditure for this project is based on the pre-tender estimate.
- 6 A revision has been made to the Year of Start from that shown in last year's Statement.

- 7 The original estimate of expenditure is based on the estimate at initial financial approval, and will be subject to refinement until the prime contractor is appointed and the main contract is let.
- 8 The original estimate of expenditure for this project includes two firm price contracts. These contracts are inclusive of inflation assessments within the sum agreed.
- 9 This project has been cancelled prior to tender action being taken. A more suitable site has been identified.
- 10 The original estimate of expenditure for the "Refurbishment of Western Jetties" project is derived partly from rough order of costs estimates.
- 11 The original estimate of expenditure for this project is based upon the business approvals.
- 12 This project has been closed following a strategic option study. Maximum re-use will be made of the ACCESS technology in the development of a replacement solution.
- 13 This project has now been subsumed within the contract for provision of Defence Fixed Telecommunications Service. This is the subject of Public Private Partnership funding which does not meet the criteria for inclusion within this table.
- 14 This project appears for the first time in this table, having been incorrectly omitted from last year's Statement.
- 15 Certain projects are not separately identified for security or commercial reasons. The total cost of these projects are, however, included in the totals for projects costing less than £25 million.
- 16 The original estimate of expenditure for this project is based on pre and post option study costs.
- 17 Maintenance costs beyond 2003-04 have incorrectly been included in previous year's submissions. These costs do not form part of the project contract and have therefore been removed.
- 18 Responsibility and funding for this project will transfer from the Adjutant General to the Chief of Defence Logistics and Defence Procurement Agency Operating Costs and Nuclear Warhead and Fissile Material programme from 1st April 2002, with the latter organisation taking lead responsibility for the project as a whole.

# EXPORT OF DEFENCE EQUIPMENT

The Defence Export Services Organisation within the Ministry of Defence is tasked with promoting the export of British defence equipment. Provision for the administrative expenses of the Defence Export Services Organisation, for procurement and overseas sales of equipment, and management of sales of surplus defence equipment in the United Kingdom and overseas by the Disposal Services Agency of the Defence Export Services Organisation are detailed in Table 11 below.

**TABLE 11: EXPORT OF DEFENCE EQUIPMENT**

	£ thousand	
	Expenses	Receipts
<b>Administration &amp; Sales Promotion</b>		
Provision for the administrative expenses of the Defence Export Services Organisation's staff in the Central TLB		
Administrative expenses	57,136	42,979
Promotion of sales	1,965	982
Interest support	-	-
Departmental expenses and receipts arising from staff on loan	-	-
<b>Total</b>	<b>59,101</b>	<b>43,961</b>
<b>Procurement &amp; overseas sales of equipment<sup>1</sup></b>		
Provision made for procurement explicitly to meet orders from, and for receipts from overseas sales to, foreign Governments (including those for items made available from service stocks)		
Chief of Defence Logistics/Defence Procurement Agency	3,215	13,316
<b>Total</b>	<b>3,215</b>	<b>13,316</b>
<b>Disposal Sales<sup>(1)</sup></b>		
The Defence Export Services Organisation, through its Disposal Services Agency, manages certain sales of surplus Defence Equipment in the United Kingdom and overseas. Provision for associated direct expenditure and for receipts from such sales is made in the budgets of the Chief of Defence Logistics and the Central TLBs.		
	185	12,265

Notes:

<sup>1</sup> Receipts of £24.233m generated by the Disposal Services Agency through overseas and disposal sales are included in the above totals.