

The Government's

# Expenditure Plans

2006-07 to 2007-08

Ministry of Defence

This document is part of a series of Departmental Reports (Cm 6811 to Cm 6838) which, along with the Main Estimates 2006-07, the document Public Expenditure Statistical Analyses 2006 and the Supplementary Budgetary Information 2006-07, present the government's expenditure plans for 2005 to 2008.



MINISTRY OF DEFENCE

**THE GOVERNMENT'S  
EXPENDITURE PLANS  
2006-07 TO 2007-08**

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

July 2006

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## 1. INTRODUCTION

This report provides details of the Government's plans for Defence expenditure for the two years 2006-07 to 2007-08, as set in Spending Review 2004. Together with the Ministry of Defence's Annual Report and Accounts, it forms part of a series of reports published by all Government Departments.

### DEPARTMENTAL REPORTING

All Government departments are required by HM Treasury to provide an annual departmental report to Parliament to set out future expenditure plans and also to report progress in meeting key Public Service Agreement (PSA) targets in the context of the Budget and Pre-Budget statements.

In the MoD, this requirement is met through the annual publication of two documents, the MoD's Government's Expenditure Plans and the Department's Annual Performance Report and Accounts. This report sets out the Department's forward-looking high level plans over the remainder of the 2004 Spending Review period (2006/07-2007/08). The Annual Report & Accounts, published in July, provides a retrospective report of how the Department has performed against PSA targets and the final Resource Accounts for the preceding financial year (2005-06).

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

- Departmental Plan 2005-2009 (December 2005);  
[http://www.mod.uk/linked\\_files/publications/dept\\_plan2005\\_09.pdf](http://www.mod.uk/linked_files/publications/dept_plan2005_09.pdf)
- Departmental Framework document (November 2005);  
[http://www.mod.uk/linked\\_files/publications/dept\\_framework\\_doc\\_v2.pdf](http://www.mod.uk/linked_files/publications/dept_framework_doc_v2.pdf)
- MoD Annual Report and Accounts 2004/05 (CH 464, October 2005);  
<http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/Reports/AnnualReports/MoDAnnualReports0405/>
- UK Defence Statistics 2005 (September 2005);  
<http://www.dasa.mod.uk/natstats/ukds/2005/ukds.html>
- Defence Departmental Investment Strategy (March 2005);  
[http://www.mod.uk/linked\\_files/issues/finance/investment\\_strategy04.pdf](http://www.mod.uk/linked_files/issues/finance/investment_strategy04.pdf)
- The Spending Review 2004 White Paper (Cm 6237, July 2004);  
[http://www.hm-treasury.gov.uk/media/749/F2/sr2004\\_ch13.pdf](http://www.hm-treasury.gov.uk/media/749/F2/sr2004_ch13.pdf)

## 2. THE PURPOSE OF THE MINISTRY OF DEFENCE AND THE ARMED FORCES

### AIM

To deliver security for the people of the United Kingdom and the Overseas Territories, by defending them, including against terrorism, and to act as a force for good by strengthening international peace and stability.

*A force for good in the world*

We achieve this aim by working together on our core task to produce battle-winning people and equipment that are:

- fit for the challenge of today.
- ready for the tasks of tomorrow.
- capable of building for the future.

### VISION AND PUBLIC SERVICE AGREEMENT

The Defence Vision is reflected in the three objectives and six targets of the Department's Public Service Agreement (PSA). The PSA represents a contract between the Department and the taxpayer as to what we will deliver.

#### MoD PUBLIC SERVICE AGREEMENT 2005/06 TO 2007/08

**Objective I:** Achieve success in the military tasks we undertake at home and abroad.

1. Achieve the objectives established by ministers for operations and military tasks in which the United Kingdom's Armed Forces are involved, including those providing support to our civil communities.
2. By 2008, deliver improved effectiveness of UK and international support for conflict prevention by addressing long-term structural causes of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction, where the UK can make a significant contribution, in particular Africa, Asia, Balkans and the Middle East. *(Joint target with the Foreign and Commonwealth Office and the Department For International Development.)*

**Objective II:** Be ready to respond to the tasks that might arise.

3. Generate forces which can be deployed, sustained and recovered at the scales of effort required to meet the Government's strategic objectives.
4. Play a leading role in the development of the European Security Agenda, and enhance capabilities to undertake timely and effective security operations, by successfully encouraging a more efficient and effective NATO, a more coherent and effective European Security and Defence Policy (ESDP) operating in strategic partnership with NATO, and enhanced European defence capabilities. *(Joint target with the Foreign and Commonwealth Office.)*
5. Recruit, train, motivate and retain sufficient military personnel to provide the military capability necessary to meet the Government's strategic objectives.

**Objective III:** Build for the future.

6. Deliver the equipment programme to cost and time.

In addition, the Department agreed an efficiency target for the same period covering total annual efficiency gains of at least £2.8 billion by 2007-08, of which three-quarters will be available for re-investment in defence capability and further modernisation initiatives.

The Department's PSA for 2005-06 to 2007-08 was published in the White Paper "Spending Review 2004: Public Service Agreements 2005-08" (Cm 6238, July 2004, available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)). Current progress against the Public Service Agreement is reported in the Department's Annual Report and Accounts. Quarterly performance data can also be found on the MoD and HM Treasury websites at [www.mod.uk](http://www.mod.uk) and [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

## 3. THE STRUCTURE OF THE MOD

### 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. He is supported by a Minister of State for the Armed Forces, a Parliamentary Under-Secretary of State and Minister for Defence Procurement and a Parliamentary Under-Secretary of State and Minister for Veterans. The Secretary of State and his three ministerial colleagues are accountable to Parliament – which votes public money to the MoD for defence purposes.

### 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 Under Secretary. They share equal 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 Permanent Under Secretary is the Government's principal civilian adviser on Defence and has primary responsibility for defence policy, finance and the administration of the Department. 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 DEFENCE COUNCIL

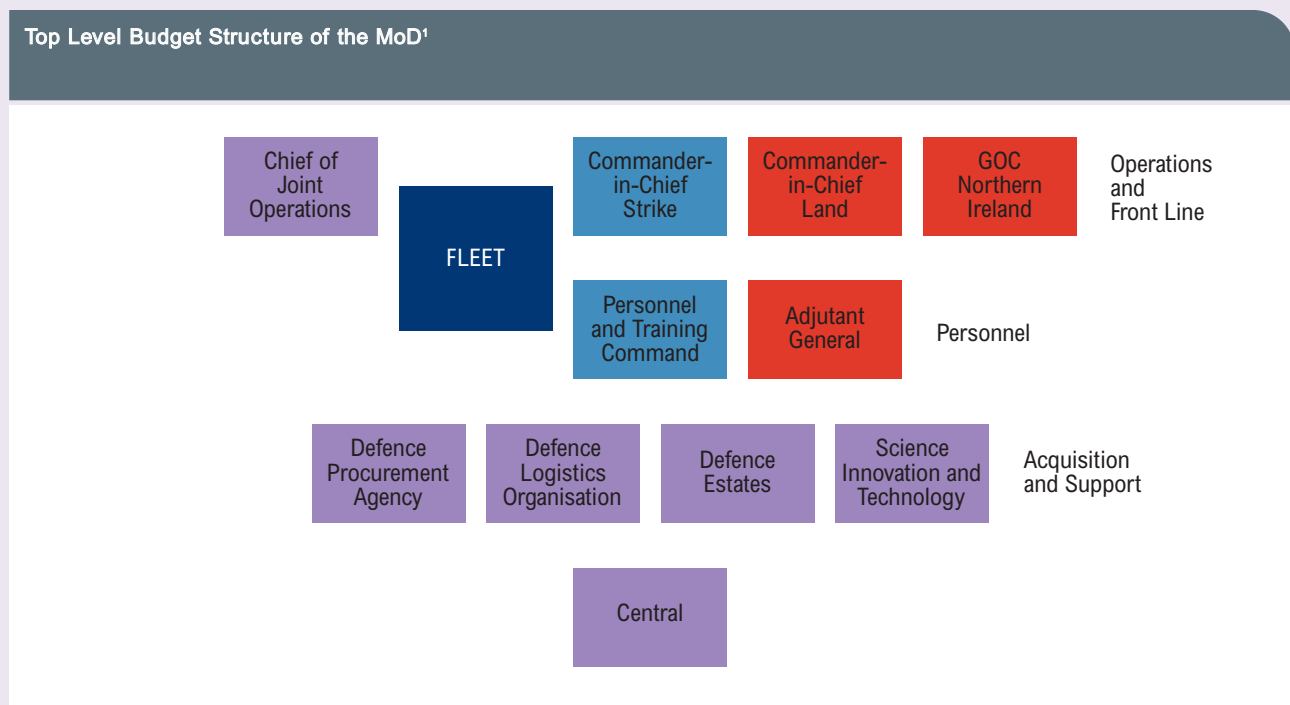
The Defence Council is the senior Departmental committee. It is chaired by the Secretary of State, and comprises the other Ministers, the Permanent Under Secretary, the Chief of the Defence Staff and senior Service officers and officials who head the Armed Services and the Department's major corporate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

### THE DEFENCE MANAGEMENT BOARD

The Defence Management Board is the highest non-ministerial committee in the MoD. Chaired by the Permanent Under Secretary, it is the main corporate board of the MoD, providing senior level leadership and strategic management of Defence. Its role is to deliver the Defence Aim set out in the Public Service Agreement and it owns the Defence Vision. The Board is made up of the non-Ministerial members of the Defence Council, the Finance Director and external, independent non-executive members.

### TOP LEVEL BUDGETS

The delivery of Defence outputs falls to Top Level Budget holders – Service Commanders-in-Chief and the heads of other major delivery organisations. Top Level Budget holders are responsible for the delivery of specific outputs – typically elements of military capability or supporting services to other Top Level Budgets. At the conclusion of each biennial planning round, the outputs and the related resources for each Top Level Budget are set out in Service Delivery Agreements between the Permanent Under Secretary and the Chief of the Defence Staff on the one hand and the Top Level Budget holder, or Service Chief where appropriate, on the other hand.



## TOP LEVEL BUDGET ROLES

### Central TLB

The role of the Central TLB is to provide the framework to enable MoD to act as both a Department of State and as the Strategic Headquarters of the Armed Forces. It provides three key functions: **HEAD OFFICE:** strategy and policy, allocation of resources against objectives and targets, monitoring performance, and setting standards; **MILITARY CAPABILITY:** providing centrally managed force elements at defined readiness states (including Special Forces, medical and intelligence services); and **CORPORATE SERVICES:** delivering cost-effective and efficient centralized Corporate Services to the wider Department, e.g. finance and personnel services.

### Chief of Joint Operations (CJO)

With a few exceptions, CJO is responsible for running all military operations from the Permanent Joint Headquarters in Northwood. Military assets are assigned to CJO for the duration of the operation only. In addition to these operational responsibilities, CJO is responsible for the Sovereign Base Areas and British forces in Cyprus, Gibraltar, the South Atlantic Islands and Diego Garcia.

### Fleet (FLEET)

The single TLB now known as Fleet was formed on 1 Apr 06 by merging the old TLBs of Commander in Chief Fleet (CINCFLEET) and Second Sea Lord/Commander in Chief Naval Home Command (2SL/CNH) TLBs. Headed by Commander in Chief Fleet, the TLB is responsible for delivery of warships and trained crews and Royal Marines to CJO at agreed readiness states. CINCFLEET maintains an operational command and control capability, in particular for the nuclear deterrent force. The Second Sea Lord is responsible for the provision of personnel: recruitment, individual and collective training and career management.

### Land Command (LAND)

LAND is responsible for the delivery of land component military capability (Army formations and equipment) to CJO and to GOC NI at agreed readiness states through collective training and the generation of military capability of units, brigades and divisions.

'The two former Navy TLBs (CINCFLEET & 2SL/CNH) merged on 1 April 2006. PTC and CinC Strike are due to collocate at the end of 2006. CinC LAND and the Adjutant General are scheduled to combine by 2008/09.

## **Strike Command (STC)**

Strike Command is the RAF's operational TLB and is responsible for providing aircraft and trained aircrews to CJO at agreed readiness states. In addition, STC maintains aircraft and aircrew for Quick Reaction Alert to defend UK airspace and conduct Search and Rescue Operations.

## **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.

## **Adjutant General (AG)**

AG is responsible for providing trained officers and soldiers, principally to allow CinC LAND to meet commitments to CJO and other TLBs. AG is also responsible for recruitment into the Army and for individual training.

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

PTC is responsible for the recruitment and training of RAF personnel who are subsequently employed in STC and other TLBs. PTC is also responsible for providing basic flying training for all three services. In 2006, Headquarters RAF PTC is collocating with Headquarters STC at RAF High Wycombe.

## **Defence Procurement Agency (DPA)<sup>2</sup>**

Responsibility for the procurement of equipment to meet future requirements lies with the Defence Procurement Agency (DPA), located mainly at Abbey Wood, Bristol.

## **Defence Logistics Organisation (DLO)<sup>2</sup>**

The DLO provides logistic support to the frontline of all three services.

## **Science|Innovation|Technology (SIT)**

The prime output of this TLB is the delivery of expert advice and the development of scientific and technological solutions to satisfy the MoD's needs and problems.

## **Defence Estates (DE)**

DE is responsible for managing and developing the defence estate in a sustainable manner, in line with acknowledged best practice and Government policy.

## **DEFENCE AGENCIES AND TRADING FUNDS**

The MoD has five Trading Funds and 17 On-Vote Defence Agencies. These were set up as part of the Government's Next Step programme, to improve the effectiveness and efficiency of service delivery to customers. The aim was to emphasise performance standards, greater freedom and exposure to commercial disciplines, customer focus, delegation of authority and personal accountability. All Trading Funds and Agencies have a Framework Document that sets out their role, responsibilities and delegations. Each organisation also publishes separate Key Targets, Corporate Plans and Annual Reports and Accounts.

The MoD's five Trading Funds are ABRO (Army Base Repair Organisation), DARA (Defence Aviation Repair Agency), the Met Office, the UK Hydrographic Office and Dstl (Defence Science and Technology Laboratory). The Trading Funds lie outside the Department's TLB structure and provide services to other parts of the MoD and external customers on a repayment basis. The MoD is likely to remain the largest single customer for all Trading Funds.

MoD's 17 On-Vote Agencies each have a TLB "Owner" who provides strategic direction and funding. These agencies provide a range of intermediate outputs (e.g. storage and distribution services) or corporate services to other parts of the MoD (e.g. payroll or personnel vetting services). They are different from most other government agencies in that the majority of their customers tend to be internal rather than external.

<sup>2</sup>As announced in the written Ministerial Statement (3rd July 2006) – DPA and DLO are to merge by April 2007.

## 4. SPENDING PLANS

The spending plans for the Department set out in this report for the financial years 2006-07 to 2007-08 are based on the Government's Spending Review 2004, which set budgets from 2005-06 to 2007-08. The key points are:

- the Defence Budget will increase by £3.7 bn over 2005/06 to 2007/08, representing 1.4% average annual real terms growth.
- MoD has committed itself to achieving £2.8 bn of efficiencies by 2007/08, of which three-quarters will be available for re-investment in defence capability and further modernisation initiatives. This includes, under the Gershon review, a reduction of 15,000 posts by 2007/08 – over 10,000 civilian posts and 5,000 service posts in administrative and support functions.
- MoD is also committed to relocating some 3,900 civilian and service posts out of London and the South East by 2010.

The 2003 Defence White Paper provided an assessment of the future strategic environment and the key security challenges facing defence: the threat from international terrorism; the proliferation of weapons of mass destruction; and the consequences of failed and failing states. Against this baseline, a further White Paper-Delivering Security in a Changing World: Future Capabilities – was published in July 2004, setting out significant force structure changes designed to ensure that the UK's Armed Forces are best equipped to meet the changing international security environment. These changes are underpinned by the budget settlement obtained in the 2004 Spending Review, which represents a shift in investment in military capability towards greater deployability, better targeted action and swifter outcomes, complemented by investment in the defence estate and business modernisation.

### THE DATA

The MoD's Main Estimates, and detailed Supplementary Budgetary Information, have been published separately (2006-07 Main Supply Estimates (HC 1035 May 2006) and Supplementary Budgetary Information (Cm 6771 May 2006).

The financial tables in this report use figures based on Resource Accounting and Budgeting (RAB) and cover the full range of resources within the MoD's Main Estimates; including;

- Provision of defence capability – Covering the Department's operating costs and the equipment programme.
- Conflict prevention – Covering the cost of peacekeeping operations.
- War pensions and allowances – Covering the cost of the pensions themselves.<sup>3</sup>

In addition, the financial tables include the separate Estimate for Armed Forces retired pay and pensions. Unless otherwise stated, the tables in this report include non-cash charges such as depreciation and capital charges in the Departmental Expenditure Limits (DELs). Annually Managed Expenditure (AME) (War Pensions and Allowances and Armed Forces Retired Pay and Pensions) remains outside DEL and is shown separately.

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

<sup>3</sup>The costs of pension administration are contained within provision of defence capability.

## 5. DEFENCE INVESTMENT STRATEGY

Capital investment in the MoD consists of investment in fighting equipment, capital spares, high value munitions, and infrastructure (land, buildings, Information Technology, plant, etc.) required to achieve our PSA objectives. To ensure best value for money in the delivery of these objectives, we use both direct investment and indirect investment under Public Private Partnerships (PPP) or Private Finance Initiatives (PFI).

The Department's plans for capital investment for the period covered by this document are described in greater detail in the Defence Departmental Investment Strategy (a link to this document is given in Chapter 1).

### INVESTMENT PLANS

The Department's investment plans are summarised as follows;

**Capability modernisation:** The 2003 Defence White Paper built on the SDR by setting out the future capability needs of the Armed Forces, as they move to an effects-based approach to warfare. The Defence equipment programme is constructed to provide the equipment capability for the Armed Forces to deliver the overall military effect required. The emphasis is on capabilities that improve military effectiveness, deliver efficiency improvements and exploit technological advances.

**Non-equipment:** In conjunction with equipment procurement, defence also invests in non-equipment, such as the defence estate, business modernisation and IT/communications. Examples of non-equipment projects include Allenby/Connaught, a 35-year PFI project which aims to deliver nearly 11,000 single room en-suite bed spaces and Defence Information Infrastructure, which is rationalising the 6,000 IT applications to a figure below 1,000 and enabling many paper-based processes to be replaced by equivalent electronic services.

Further examples of the Department's long-term investments are set out in Table vii of this report.

### ASSET MANAGEMENT

MoD's asset base is large, diverse, geographically dispersed and varies significantly in age. At any time there are many items approaching the end of their useful life and many others entering service with, in the case of fighting equipment and buildings, a life of perhaps 25-50 years. Management of our assets is therefore a substantial task. More detail on MoD assets can be found in the Departmental Investment Strategy.

### ASSET DISPOSALS

The Department is committed to ensuring it does not hold estate assets which are no longer required to meet operational needs. This is carried out by Defence Estates, whose strategy is to provide an estate of the right size and quality which is managed and developed effectively in line with acknowledged best practice, and is sensitive to social and environmental considerations. This involves managing the defence estate as a corporate asset and focusing the MoD's activities onto fewer, larger sites, allowing the disposal of land, building and facilities, although this may be offset to an extent by some acquisition or new build at 'core' sites.

The scope for the disposal of assets is restricted by operational requirements, which directly or indirectly drive the need for all MoD's holdings. Practical constraints such as marketability, legal and regulatory requirements (listed buildings, environmental regulations, limitations on arms transfers, etc) also impact on disposals.

### WIDER MARKETS INITIATIVE

The aim of the Wider Markets Initiative is the commercial exploitation of the Department's assets which need to be retained but are not fully used. Subject to certain conditions, the revenue generated can be used as extra income to fund departmental activities.

Much of MoD's Wider Markets income comes from numerous small local arrangements for the loan of manpower, equipment, land and facilities. Wider Markets projects in MoD include:

- An apprentice training contract between the Naval Recruiting and Training Agency (with their partners, Flagship) and Network Rail.
- A partnering arrangement with Landmarc for the management of the Army training estate, from which MoD receives a major share of any third-party income generated.
- A contract between the Defence Communication Services Agency and ntl to exploit the spare capacity of the Boxer Communication Towers.
- The publication of potential MoD film locations on a dedicated website.

## 6. PUBLIC SPENDING

Table i sets out, in resource terms, a summary of expenditure from 2001/02 to 2007/08. This is split into consumption of resources and capital spending. A detailed breakdown of each is provided at Table ii and iii respectively.

It should be noted that figures have been adjusted to meet 2006/07 budgetary guidance and HM Treasury instructions. This includes adjustments to historic figures to enable comparison with future years.

**Table i: Total Public Spending for the Ministry of Defence**

	2001-02 Outturn £000	2002-03 Outturn <sup>(1)</sup> £000	2003-04 Outturn £000	2004-05 Outturn £000	2005-06 Outturn £000	2006-07 Plans £000	2007-08 Plans £000
<b>Consumption of Resources:</b>							
Provision for Defence capability	31,846,421	37,001,150	29,992,215	30,074,253	31,701,507	32,468,162	32,580,481
Unprogrammed operations/conflict prevention <sup>(2)</sup>	530,016	1,117,429	1,233,155	938,181	1,055,848	47,326	-
War pensions and allowances	1,237,535	1,165,411	1,116,047	1,109,521	1,068,595	1,029,951	994,971
Armed forces retired pay and pensions <sup>(3)</sup>	3,208,776	3,317,558	3,481,851	3,294,300	4,502,079	4,588,662	4,756,830
<b>Total resource budget <sup>(4)</sup></b>	<b>36,822,748</b>	<b>42,601,548</b>	<b>35,823,268</b>	<b>35,416,255</b>	<b>38,328,029</b>	<b>38,134,101</b>	<b>38,332,282</b>
<i>of which</i>							
<b>Resource DEL <sup>(4)</sup></b>	<b>32,340,757</b>	<b>36,450,568</b>	<b>31,329,935</b>	<b>31,286,724</b>	<b>32,936,816</b>	<b>32,643,245</b>	<b>32,717,202</b>
<b>Capital spending:</b>							
Provision for Defence capability	5,890,323	5,780,827	5,808,811	6,580,451	6,582,508	6,919,660	7,573,680
Unprogrammed operations/conflict prevention <sup>(2)</sup>	56,069	318,690	260,275	173,842	211,243	-	-
<b>Total capital budget <sup>(5)</sup></b>	<b>5,946,392</b>	<b>6,099,517</b>	<b>6,069,086</b>	<b>6,754,293</b>	<b>6,793,751</b>	<b>6,919,660</b>	<b>7,573,680</b>
<i>of which</i>							
<b>Capital DEL <sup>(5)</sup></b>	<b>5,835,512</b>	<b>6,149,417</b>	<b>6,073,300</b>	<b>6,754,293</b>	<b>6,839,637</b>	<b>6,926,660</b>	<b>7,588,880</b>
<b>Total public spending <sup>(6)</sup></b>	<b>35,348,168</b>	<b>35,441,604</b>	<b>35,579,625</b>	<b>37,131,254</b>	<b>38,535,073</b>	<b>38,958,761</b>	<b>40,340,962</b>

Notes:

<sup>(1)</sup> In 2002-03, Provision for Defence Capability includes an unusually large increase in non-cash expenditure in line with asset management policy agreed with Her Majesty's Treasury.

<sup>(2)</sup> Unprogrammed operations/conflict prevention costs fluctuate significantly due to changes in demand for military involvement in such activities. As a result, we do not plan for these costs in the Spending Review. Each year the Department asks for the planned programme expenditure through the Estimates process.

<sup>(3)</sup> As a consequence of adopting Financial Reporting Standard 17 'Retirement Benefits', the Resource Accounts of pension schemes administered by central government now account for the accruing cost of providing pensions rather than just the benefits payable and contributions receivable. There have been other technical changes to cost attribution. Historic figures may vary from previous expenditure plans.

<sup>(4)</sup> Resource expenditure consists of operating cost items such as pay, equipment, support costs, fuel and administrative expenses. Also included are non-cash items such as depreciation, cost of capital and movements in the level of provisions. The Total resource budget is the sum of Resource DEL plus Annually Managed Expenditure (AME).

<sup>(5)</sup> Capital expenditure consists of the purchase of fixed assets, income from the disposal of fixed assets and the repayment of the capital element of loans to trading funds. The Total capital budget is the sum of Capital DEL and Capital AME.

<sup>(6)</sup> In order to give a single measure of spending on public services under full resource budgeting, the Total public spending line is presented as the sum of the resource and capital budgets, less depreciation. This reflects the resources required plus the net investment in them, but avoids double counting the writing down of the existing capital stock and the cash outlay on new assets. It is not the sum of this table.

## 7. CONSUMPTION OF RESOURCES BY ACTIVITY

Table ii provides a functional breakdown of the Department's resource spending plans from 2001-02 to 2007-08.

It should be noted that figures have been adjusted to meet the 2006/07 budgetary guidance and HM Treasury instructions. This includes adjustments to historic figures to enable comparison with future years.

Consumption of Resources by Activity:	2001-02 Outturn £000	2002-03 Outturn <sup>(1)</sup> £000	2003-04 Outturn £000	2004-05 Outturn £000	2005-06 Outturn £000	2006-07 Plans £000	2007-08 Plans £000
<b>Provision of Defence capability</b>	<b>31,846,421</b>	<b>37,001,150</b>	<b>29,992,215</b>	<b>30,074,253</b>	<b>31,701,507</b>	<b>32,468,162</b>	<b>32,580,481</b>
<i>of which:</i>							
Commander-in-Chief FLEET <sup>(2)</sup>	–	–	–	–	–	4,193,248	4,147,773
Commander-in-Chief Fleet	3,636,056	4,597,475	3,240,826	3,579,265	3,555,687	–	–
General Officer Commanding (Northern Ireland)	614,237	695,775	649,280	625,910	579,508	571,374	596,411
Commander-in-Chief Land Command	4,945,023	5,227,393	5,078,537	5,317,456	5,631,932	5,718,578	5,967,530
Commander-in-Chief Strike Command	4,128,258	4,546,080	3,385,292	3,492,795	4,042,770	3,729,740	3,896,444
Chief of Joint Operations	460,503	509,809	529,054	549,226	577,212	518,487	546,519
2nd Sea Lord/Commander-in-Chief Naval Home Command	684,056	725,301	692,975	796,523	777,709	–	–
Adjutant General	1,710,462	1,719,112	1,742,917	1,799,433	1,948,047	1,807,068	1,843,945
Commander-in-Chief Personnel and Training Command	929,901	1,059,774	993,313	1,127,183	903,575	926,466	962,318
Chief of Defence Logistics	8,964,801	10,598,111	7,691,456	6,704,129	7,526,530	7,317,031	7,772,638
Central Defence Estates	2,618,781	2,588,318	2,729,116	3,256,652	2,528,639	3,320,201 <sup>(3)</sup>	2,383,152
	–	–	–	–	1,056,196	901,756	1,066,944
Defence Procurement Agency	2,709,593	4,307,948	2,839,449	2,316,414	2,072,097	2,460,013	2,645,546
Science   Innovation   Technology	444,750	426,054	420,000	509,267	501,605	534,200	551,261
Departmental Unallocated Provision <sup>(4)</sup>	–	–	–	–	–	470,000	200,000
<b>Operations/Conflict Prevention <sup>(5)</sup></b>	<b>530,016</b>	<b>1,117,429</b>	<b>1,233,155</b>	<b>938,181</b>	<b>1,055,848</b>	<b>47,326</b>	<b>–</b>
<b>Armed Forces Pay and Pensions</b>	<b>3,208,776</b>	<b>3,317,558</b>	<b>3,481,851</b>	<b>3,294,300</b>	<b>4,502,079</b>	<b>4,588,662</b>	<b>4,756,830</b>
<b>War Pensions and Allowances</b>	<b>1,237,535</b>	<b>1,165,411</b>	<b>1,116,047</b>	<b>1,109,521</b>	<b>1,068,595</b>	<b>1,029,951</b>	<b>994,971</b>
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**Notes:**

<sup>(1)</sup> In 2002-03, Provision for Defence Capability includes an unusually large increase in non-cash expenditure in line with asset management policy agreed with Her Majesty's Treasury.

<sup>(2)</sup> Commander-in-Chief Fleet & Second Sea Lord/Commander-in-Chief Naval Home Command have merged and a new single Fleet TLB has been created with effect from 1st April 2006.

<sup>(3)</sup> 2006-07 Plans include a large allocation of indirect RDEL to cover cost of capital and depreciation charges. This will be reallocated to TLBs once fixed assets are transferred to the single balance sheet owners.

<sup>(4)</sup> A Departmental Unallocated Provision has been established to provide flexibility to manage potential non-cash pressures such as impairments and write downs.

<sup>(5)</sup> Unprogrammed operations/conflict prevention costs fluctuate significantly due to changes in demand for military involvement in such activities. As a result, we do not plan for these costs in the Spending Review. Each year the Department asks for the planned programme expenditure through the Estimates process.

## 8. CAPITAL EXPENDITURE BY ACTIVITY

Table iii provides a functional breakdown of the MoD's investment or capital spending plans from 2001-02 to 2007-08.

It should be noted that where the value of disposals receipts exceeds the value of expenditure the figure will be negative.

Capital Spending by Activity:	2001-02 Outturn £000	2002-03 Outturn £000	2003-04 Outturn £000	2004-05 Outturn £000	2005-06 Outturn £000	2006-07 Plans £000	2007-08 Plans £000
<b>Provision of Defence capability</b>	<b>5,890,323</b>	<b>5,780,827</b>	<b>5,808,811</b>	<b>6,580,451</b>	<b>6,582,508</b>	<b>6,919,660</b>	<b>7,573,680</b>
<i>of which:</i>							
Commander -in-Chief FLEET <sup>(1)</sup>	–	–	–	–	–	33,101	53,116
Commander-in-Chief Fleet	151,885	15,965	37,401	17,000	7,022	–	–
General Officer Commanding (Northern Ireland)	24,128	107,190	43,380	28,000	4,353	46,664	48,951
Commander-in-Chief Land Command	8,241	29,280	185,766	153,000	47,061	176,762	177,588
Commander-in-Chief Strike Command	75,292	66,591	40,376	28,000	9,846	77,223	76,112
Chief of Joint Operations	25,929	25,816	22,000	25,967	18,742	26,721	66,087
2nd Sea Lord/Commander-in-Chief Naval Home Command	7,136	15,417	28,047	23,000	10,978	–	–
Adjutant General	31,713	24,820	29,004	22,345	17,277	17,018	24,966
Commander-in-Chief Personnel and Training Command	17,202	14,876	17,933	24,000	12,705	35,209	30,754
Chief of Defence Logistics	1,319,019	1,221,172	1,210,004	1,285,015	1,045,332	1,019,951	1,290,653
Central <sup>(2)</sup>	-116,577	-121,593	-100,638	359,567	-92,988	58,063	69,200
Defence Estates <sup>(3)</sup>	–	–	–	–	273,730	32,213	-152,000
Defence Procurement Agency Science   Innovation   Technology	4,346,355	4,381,293	4,295,538	4,614,557	5,228,450	5,396,735	5,888,253
<b>Unprogrammed Operations/ Conflict Prevention <sup>(4)</sup></b>	<b>56,069</b>	<b>318,690</b>	<b>260,275</b>	<b>173,842</b>	<b>211,243</b>		
<b>Total Capital Budget</b>	<b>5,946,392</b>	<b>6,099,517</b>	<b>6,069,086</b>	<b>6,754,293</b>	<b>6,793,751</b>	<b>6,919,660</b>	<b>7,573,680</b>

Notes:

<sup>(1)</sup> Commander-in-Chief Fleet & Second Sea Lord/Commander-in-Chief Naval Home Command have merged and a new single Fleet TLB has been created with effect from 1st April 2006.

<sup>(2)</sup> Includes Capital AME for Self Financing Public Corporation's capital loan repayments, apart from 2004-05 where there were no repayments.

<sup>(3)</sup> Outturn figures include in-year transfers for capital works programmes undertaken by Defence Estates on behalf of TLBs. This is not reflected in plans.

<sup>(4)</sup> Unprogrammed operations/conflict prevention costs fluctuate significantly due to changes in demand for military involvement in such activities. As a result, we do not plan for these costs in the Spending Review. Each year the Department asks for the planned programme expenditure through the Estimates process.

## 9. MOD CAPITAL EMPLOYED

Table iv sets out total capital employed by the Department.

It should be noted that from 2004/05 all categories of fixed assets, except Intangibles, Assets in the Course of Construction and Capital Spares, are subject to a quinquennial revaluation, which is being conducted on a rolling basis and is due to complete by 31 March 2007. At time of print, plan figures for 2006/07 and 2007/08 have been compiled with a projected estimate of this revaluation. They are therefore subject to future variation.

Table iv: MoD Capital Employed							
Assets on Balance Sheet:	2001-02 Outturn £m	2002-03 Outturn £m	2003-04 Outturn £m	2004-05 Outturn £m	2005-06 Outturn £m	2006-07 Plans £m	2007-08 Plans £m
<b>Fixed Assets</b>	<b>88,339</b>	<b>86,312</b>	<b>87,345</b>	<b>92,630</b>	<b>95,272</b>	<b>96,721</b>	<b>99,553</b>
<i>of which:</i>							
Land and Buildings	14,348	15,342	15,299	18,122	18,457	18,640	19,225
Fighting Equipment	27,281	26,526	27,157	30,565	31,489	33,648	34,751
Plant, Machinery and Vehicles	4,142	4,296	3,453	3,475	3,274	3,246	3,225
IT and Communications Equipment	828	814	897	1,033	986	1,128	1,258
Assets Under Construction	13,984	12,511	13,177	12,457	13,657	13,462	14,796
Transport <sup>(1)</sup>	*	*	*	3,982	3,912	3,659	3,519
Capital Spares <sup>(2)</sup>	7,558	6,955	6,754	*	*	*	*
Intangible Assets	19,527	19,438	20,187	22,648	22,983	22,436	22,280
Investments	671	430	421	347	514	502	499
<b>Current assets</b>	<b>8,285</b>	<b>7,955</b>	<b>9,306</b>	<b>9,405</b>	<b>9,991</b>	<b>9,507</b>	<b>9,742</b>
<i>of which:</i>							
Stock & work in progress	6,396	5,337	6,318	6,095	6,052	6,387	6,541
Debtors	1,257	2,202	2,676	2,871	2,921	2,913	3,003
Cash at bank and in hand	632	416	312	438	1,018	207	198
Creditors (< 1 year)	-4,662	-5,384	-5,663	-6,076	-6,449	-4,864	-4,807
Creditors (> 1 year) <sup>(3)</sup>	-448	-450	-452	-810	-1,058	-1,209	-1,353
Provisions <sup>(4)</sup>	-5,112	-6,994	-9,389	-9,503	-6,275	-9,286	-9,433
Capital employed within Main Department	<b>86,402</b>	<b>81,439</b>	<b>81,147</b>	<b>85,645</b>	<b>91,481</b>	<b>90,869</b>	<b>93,702</b>
NDPBs' Net Assets	331	331	331	339	339	339	339
Total capital employed in departmental group	<b>86,733</b>	<b>81,770</b>	<b>81,478</b>	<b>85,984</b>	<b>91,820</b>	<b>91,208</b>	<b>94,041</b>

**Notes:**

<sup>(1)</sup> From 2004-05 Transport has been recorded as a separate category.

<sup>(2)</sup> From 2004-05 Capital Spares has not been recorded as a separate category and are now included within either Transport or Fighting Equipment.

<sup>(3)</sup> Includes PFI Contracts.

<sup>(4)</sup> Outturn figures for years 2001-02 to 2004-05 are restated Departmental Resource Accounts figures.

## 10. STAFF NUMBERS

Table v sets out the number of staff employed within the Department. Figures shown are spot figures as at 1st April, consistent with the UK Defence Statistics and other MoD publications.

It should be noted that figures for UK Based Civilians include all permanent and casual personnel, Royal Fleet Auxiliary staff and Trading Fund personnel. In addition, forecasts are only calculated for aggregated data as separate forecasts are not available.

Table v: Staff Numbers <sup>(1)</sup>								
	01 Apr 01 Actual	01 Apr 02 Actual	01 Apr 03 Actual	01 Apr 04 Actual	01 Apr 05 Actual	01 Apr 06 Provisional	01 Apr 07 Forecast	01 Apr 08 Forecast
<b>Service Personnel <sup>(2)</sup></b>	<b>215,000</b>	<b>214,500</b>	<b>217,000</b>	<b>216,900</b>	<b>210,100</b>	<b>204,500 <sup>(3)</sup></b>	<b>194,900 <sup>(4)</sup></b>	<b>192,300 <sup>(4)</sup></b>
UK Based Civilians	104,800	96,000	93,700	93,600	92,800	88,800	86,800	82,100
UK Based Civilians Permanent	103,300	94,300	92,400	92,500	91,600	87,600	...	...
UK Based Civilians Casual	1,500	1,700	1,300	1,200	1,200	1,200	...	...
Locally Engaged Civilians (Non Operational) <sup>(5)</sup>	13,300	12,500	12,800	13,200	12,800	11,800	11,500	11,000
Locally Engaged Civilians (Operational) <sup>(5)</sup>	~	1,600	1,100	2,200	2,900	3,300	2,900	2,900
Civilian Personnel Trading Funds <sup>(6)</sup>	18,800	12,400	12,200	11,400	10,800	10,700	10,700	10,700
<b>Civilian Personnel <sup>(7)</sup></b>	<b>118,100</b>	<b>110,100</b>	<b>107,600</b>	<b>109,000</b>	<b>108,500</b>	<b>103,900</b>	<b>102,200</b>	<b>96,900</b>
Total MoD Manpower	333,100	324,600	324,600	326,000	318,600	308,400	296,200	288,200
<b>Volunteer Reserves &amp; Auxiliary Forces <sup>(8)(9)</sup></b>	<b>47,600</b>	<b>46,600</b>	<b>45,300</b>	<b>43,700</b>	<b>42,300</b>	<b>43,200</b>	<b>43,200</b>	<b>43,200</b>

~ denotes less than 100

.. denotes not available

### Notes:

<sup>(1)</sup> Totals and sub-totals have been rounded separately and so may not appear to be the sums of their parts.

<sup>(2)</sup> Service manpower totals exclude Volunteer Reserves and Auxiliaries, but include Full Time Reserve Service, Home Service battalions of the Royal Irish Regiment (RIRISH HS) and locally engaged personnel. Figures are for trained and untrained personnel, with the exception of RIRISH, where only trained personnel are included. (Untrained RIRISH personnel numbers are negligible).

<sup>(3)</sup> As at 1st April 2006 data for Army Officers and RAF personnel are provisional and subject to review.

<sup>(4)</sup> Forecasts are not available for Navy untrained, Army FTRS (Home Commitment), Gurkhas and Royal Irish Home Service personnel. Strengths at 1 April 2006 (or liability in the case of the Gurkhas) have, therefore, been projected forward for future years. Royal Irish Home Service redundancy profiles have been used for forecasts. All RIRISH (HS) personnel will have been disbanded by 1st April 2008.

<sup>(5)</sup> From 1st April 2006 the methods for data capture of LECs have been amended. This is also reflected in forecast figures.

<sup>(6)</sup> From 1 July 2001 the figures shown reflect the manpower numbers of the Defence Science and Technology Laboratory (DSTL), and do not include the staff who transferred to QinetiQ plc. Updated forecasts are not yet available for Trading Funds, strengths at 1 April 2006 have, therefore, been projected forward for future years for this table.

<sup>(7)</sup> Civilian personnel figures are the sum of all permanent and casual personnel, Royal Fleet Auxiliary staff, Trading Fund personnel and Locally Engaged Civilians.

<sup>(8)</sup> Includes Army Officer Training Corps and non-regular permanent staff and excludes University Air Squadron, University Royal Naval Units and FTRS.

<sup>(9)</sup> Forecasts are not available for Volunteer Reserves nor Auxiliary Forces, strengths at 1 April 2006 have, therefore, been projected forward for future years.

## 11. NON-DEPARTMENTAL PUBLIC BODIES: EXECUTIVE BODIES

The Department has six executive Non-Departmental Public Bodies and one Public Corporation. Planned expenditure is outlined below.

Table vi: Non-Departmental Public Bodies: Executive Bodies			
Name of Body	2005-06 Estimated Outturn £000	2006-07 Plans £000	2007-08 Plans £000
<b>Total Gross Expenditure of Body</b>			
Royal Naval Museum	1,430	1,411	1,400
Fleet Air Arm Museum	1,872	1,928	1,986
Royal Navy Submarine Museum	864	780	800
Royal Marines Museum	858	822	857
National Army Museum	5,242	5,394	5,403
Royal Air Force Museum	13,092	8,370	7,500
Oil and Pipelines Agency <sup>(1)</sup>	1,670	1,730	1,790
<b>Funding from the Defence Budget</b>			
Royal Naval Museum	1,025	1,050	1,076
Fleet Air Arm Museum	583	597	611
Royal Navy Submarine Museum	548	562	575
Royal Marines Museum	783	802	821
National Army Museum	4,872	4,995	4,912
Royal Air Force Museum	7,018	6,628	7,019
Oil and Pipelines Agency <sup>(1)</sup>	–	–	–

**Notes:**

<sup>(1)</sup> The Oil Pipelines Agency (OPA) is formally classified as a public corporation for Government and national accounts. The running costs of the 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.

## 12. LONG-TERM INVESTMENT PROJECTS

To achieve our PSA objectives and ensure best value for money in the delivery of our long-term projects, the Department uses both direct and indirect investment, including the use of Public Private Partnerships (PPP) and Private Finance Initiatives (PFI) across a wide range of non-equipment works, information technology and services projects.

Table vii details the top ten approved post Main Gate non-equipment projects by value including their estimated in-year expenditure. Projects which will reach completion before the start of 2006-07 have not been shown.

### PFI

The PFI remains a key component in the delivery of innovative and efficient services for defence to provide best value for money. The Department remains committed to involving the private sector, where appropriate, and using PFI where the requirement is for long-term services based around the provision or refurbishment of a capital asset which can be funded by third party finance.

During 2005-2006, the Department signed 3 further PFI deals with a capital value of almost £1.4 billion, bringing its total number to 55 with a total capital investment of £5.5 billion. PFI remains the cornerstone of the Department's wide-ranging Private Public Partnerships (PPP) programme with a diverse portfolio of projects, worth an estimated capital value of £6 billion, in procurement.

Further details on MoD projects can be found in the following publications:

- Defence Departmental Investment Strategy, March 2005);
- UK Defence Statistics 2005, September 2005 (Table 1.15);
- Major Projects Report (HC595, November 2005);
- Ministry of Defence Annual Report and Accounts.

Table vii: Approved Long Term Non-Equipment Investment Projects

	Description	Approved Cost (£m)	Approved in Service Date (ISD)	Estimated Duration from ISD (Yrs)	Estimated Cost in 2006/07 (£m)
<b>Projects</b>					
Allenby/Connaught	PFI to redevelop barracks in Aldershot and around Salisbury Plain	8,544	2007	35	132
DII Future Programme	Defence Information Infrastructure (increment 1)	3,114	2005	10	533
Regional Prime Contracts	5 individual contracts, providing property management for bases across the regions	2,363	2004-06 <sup>(1)</sup>	7	320
Aquatrine	PFI to provide water and sewerage services to the majority of the defence estate	2,349	2005 <sup>(2)</sup>	25	77
Colchester	PFI signed in 2004 for a fully serviced garrison	2,264	2012	35	69
Main Building charges	PFI for MoD head office building	1,650	2004	26	65
DFTS(F)	PPP to extending the current contract for delivering defence fixed telecommunication services	1,580	2005	7	206
Project SLAM Phase 1	Modernising selected Single Living Accommodation across the three services	786	2004	6	86
Housing Prime	Maintenance for Service Families Accommodation in England and Wales	689	2006	7	108
Vanguard – Training Estate	Contract to maintain the Army training estate and provide services directly in support of training outputs	653	2003	10	85

Notes:

<sup>(1)</sup> This refers to five projects, the first coming in to service in 2004, and the last in 2006.

<sup>(2)</sup> ISD for final package in the three package programme.





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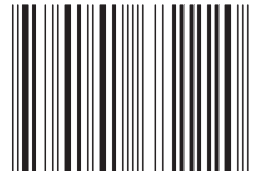
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