

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

Ministry of Defence Annual Report and Accounts

including the Annual Performance Report and
Consolidated Departmental Resource Accounts

2006-07

(For the year ended 31 March 2007)

Laid in accordance with the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed
23 July 2007

© Crown Copyright 2007

The text in this document (excluding any Royal Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any queries relating to the copyright in this document should be addressed to
The Licensing Division, HMSO, St Clements House, 2-16 Colegate, Norwich, NR3 1BQ.
Fax: 01603 723000 or e-mail: licensing@cabinet-office.x.gsi.gov.uk.

Introduction

- i. The Ministry of Defence's Annual Report and Accounts is a comprehensive overview of Defence and how the Department has used the resources authorised by Parliament from April 2006 to March 2007. It has two main sections: the first comprises the Department's Annual performance Report for 2006-07, including performance against our Public Service Agreement (PSA) targets. The second comprises the Departmental Resource Accounts for 2006-07. There are also a number of Annexes containing background information on the Department, its organisation and administration. Further information is published in parallel on the Department's website at www.mod.uk.

Section One: Annual Performance Report

- ii. Since 2000 the Defence Management Board has used a Balanced Scorecard to assist in the assessment, reporting and management of Defence performance. The scorecard for 2006-07 (Figure 10 at Annex D) encapsulates the Government's key objectives as set out in the Department's Public Service Agreement and the Board's wider supporting objectives and priorities, as set out in the *Departmental Plan 2005-2009*. A more detailed explanation of how the Defence Balanced Scorecard works is at Annex D. The Annual Performance Report is set out on the same basis as the Departmental Plan, with four main sections on Purpose, Future Capabilities, Enabling Processes and Resources, and it reports performance against the targets set out therein. Each section contains separate chapters on the individual high level scorecard objectives, supplemented by an essay providing additional background on some relevant aspect of Defence business during the year. At the highest level the Ministry of Defence's objectives are set out in the Public Service Agreement. The Annual Performance Report therefore starts with a summary of performance as of 31 March 2007 against the targets set in the 2004 Spending Review, including the separate Efficiency Target. Supporting detail is provided throughout the report. A full description of these targets and the way in which performance against them is measured, together with quarterly performance reports, can be found on the MoD website at www.mod.uk.

Section Two: Departmental Resource Accounts 2006-07

- iii. The Department is required to prepare resource accounts for each financial year detailing the resources acquired, held, or disposed of during the year and the way in which it has used them. The Resource Accounts are prepared on an accruals basis in accordance with Treasury guidelines. They must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year. The Accounts are audited by the Comptroller and Auditor General supported by the national Audit Office to ensure that they are true and fair and that they have been properly prepared. The Departmental Resource Accounts for 2006-07 together with the Comptroller and Auditor General's certification comprise Section Two of the Annual Report and Accounts.

Further Information

- iv. The Annexes to the Annual Report and Accounts contain background information, mainly in regard to the administration of the Ministry of Defence. These include information on accounting to Parliament; the higher organisation of the Department; detailed conflict prevention assessments; a description of the Department's performance management system; summary performance of Defence Agencies, Trading Funds and Non Departmental Public Bodies; performance against Government standards for efficient administration; and a summary of the major Defence equipment projects and international collaborative activity. Further information, including the Department's annual Corporate Governance report and the annual report on the work of the Defence Audit Committee are published in parallel on the MoD website and www.mod.uk. Other sources of more detailed information on specific aspects of defence performance and activity are identified throughout the report at the end of every chapter.

Contents

- 3 Introduction
- 6 Ministerial Responsibilities
- 7 Foreword by the Secretary of State for Defence

Section 1: Annual Report

Executive Summary

- 8 Preface
- 10 Summary Assessment
- 13 Performance against Public Service Agreement Targets

Purpose

- 26 Current Operations
- 40 Essay – The Comprehensive Approach in Afghanistan
- 42 Future Operations
- 50 Essay – Supporting current operations and the impact on readiness
- 51 Policy
- 60 Essay – The future of the UK's nuclear deterrent
- 62 Wider Government
- 73 Essay – Defence and Climate Change

Future Capabilities

- 76 Future Effects
- 81 Essay – Royal Air Force Transformation
- 83 Efficiency and Change
- 91 Essay – Change in Defence
- 93 Future Capabilities and infrastructure
- 101 Essay – Implementing the Defence industrial strategy
- 103 Future Personnel Plans
- 108 Essay – Joint personnel administration
- 109 Science Innovation Technology
- 114 Essay – Defence technology strategy

Enabling Processes

- 118 Personnel Management
- 128 Essay – Defence and National Skills
- 130 Health and Safety
- 135 Essay – Duty of Care and Welfare in Initial training
- 136 Logistics
- 141 Essay – Supplying Operations
- 143 Business Management
- 147 Essay – The Capability Review

Resources

- 150 Finance
- 159 Essay – Wider markets
- 160 Manpower
- 173 Essay – Improving service diversity
- 174 Estate
- 183 Essay – Environmental Management on the Defence Estate
- 184 Reputation
- 189 Essay Media Access to Personnel – The Hall Report

Section 2: Departmental Resource Accounts

- 193 Annual Report
- 197 Management Commentary
- 201 Remuneration Report
- 211 Statement of Accounting Officer's Responsibilities
- 212 Statement on Internal Control
- 217 The Certificate of the Comptroller and Auditor General to the House of Commons
- 219 Report of the Comptroller and Auditor General to the House of Commons
- 223 The Accounting Statements
 - 223 Statement of Parliamentary Supply
 - 225 Operating Cost Statement
 - 226 Balance Sheet
 - 227 Cash Flow Statement
 - 228 Statement of Operating Costs by Departmental Aim and Objectives
- 192 Notes to the Accounts

Annexes

- 284 Annex A – Accountability to Parliament
- 298 Annex B – Organisation and Management of Defence
- 301 Annex C – Public Service Agreement Targets – assessment against Performance Indicators
- 305 Annex D – Performance Management
- 308 Annex E – Defence Agency Performance
- 316 Annex F – Government Standards
- 323 Annex G – Defence Equipment Programme and Collaborative Procurement
- 327 Annex H – Non Departmental Public Bodies

Glossary

Index

Ministerial Responsibilities

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

The Right Honourable Des Browne MP was appointed Secretary of State for Defence on the 6th May 2006. The Secretary of State for Defence is the Cabinet Minister charged with making and executing Defence policy and with providing the means by which it is executed, the Armed Forces. As Chairman of the Defence Council and of its three Service Boards (the Admiralty Board, the Army Board and the Air Force Board) he is responsible for the command, administration and discipline of the Armed Forces on behalf of the Crown. Although ultimately responsible for all elements of defence, The Secretary of State is supported by three subordinate Ministers: The Minister of State for the Armed Forces, the Minister of State for Defence Equipment and Support and the Under-Secretary of State for Defence and Minister for Veterans. The Secretary of State assigns responsibility to them for specific aspects of the Armed Forces and the Ministry of Defence's business but retains specific responsibility for: policy, (including nuclear issues and European defence); operations; personnel; finance and efficiency; oversight of major acquisition decisions and Defence industrial issues; and media and communications.



Minister of State for the Armed Forces
Rt. Hon. Bob Ainsworth MP

Responsibilities

Defence policy and planning, including:

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

Operations, including:

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

The Armed Forces (Regular and Reserves), including:

- Readiness
- Sustainability
- Personnel issues
- Performance
- Training
- Reputation
- Inquiries, Boards of inquiry, Inquest

Regional issues and the Devolved Administration

Defence Estates Committee

Defence Equipment and Support business in the House of Commons



Minister of State for Defence Equipment and Support
Lord Drayton

Responsibilities

Defence Equipment Programme and through life Defence logistics support, including:

- ABRO
- Defence Aviation Repair Agency (DARA)

Defence Industrial Strategy

Defence science and technology, including:

- Defence Science and Technology Laboratory (Dstl)
- QinetiQ
- Commercial policy throughout the Department

Defence exports

International aspects of defence equipment and support

Defence business in the House of Lords



Under-Secretary of State for Defence and Minister for Veterans
Derek Twigg MP

Responsibilities

Service personnel issues, including:

- Recruitment, basic training, and education
- Pay
- Equal opportunities
- Service families and Service Children's Education
- Defence Medical Services
- Cadets
- Compensation and claims casework

Veterans affairs, including:

- Legacy veterans' health issues
- War graves
- Medals and memorials
- Commemorative events
- Prisoners of War

Defence estates, including:

- Defence estate acquisition and disposal
- Service housing
- Heritage and Historic buildings

Other issues, including:

- United Kingdom Hydrographic Office (UKHO)
- Met Office
- Non-Departmental Public Bodies
- MoD Police
- Health and safety
- Low flying
- Civilian personnel policy and casework
- Visits by Peers and MPs/Armed Forces Parliamentary Scheme

Foreword

by the Secretary of State

Defending the UK and its interests is a huge responsibility. In today's inter-dependent world it means helping to bring peace and stability to many countries across the world. Increasingly, our security is tied up with the security of others.

The success of that effort is down to the men and women who make defence happen. I have the utmost respect for the men and women of our Armed Forces, both Regular and Reservist, who have risen to these challenges so magnificently over the past year. I also acknowledge the vital work done by the many civilians who support them.

I have been pleased to oversee the introduction of better support and welfare packages, which go some way to demonstrate the Government's gratitude to our Armed Forces. In the last twelve months we have introduced a number of new measures including: an enhanced operational welfare package, a dedicated Service Life Insurance Scheme, an above inflation pay rise and an operational tax free bonus. Accommodation is a key priority. Whilst much of it is of a good standard, the legacy of having a previously neglected estate means that bringing it all up to standard is going to take time. Last year we spent £700M on housing and accommodation and we expect to spend £5Bn in the next decade. The result will be vastly improved accommodation for all Service families and personnel.

Operational tempo continues to be high and our forces are fighting difficult and dangerous campaigns in Iraq and Afghanistan. Campaigns in which lives have been lost and many personnel have been wounded. These operations represent a huge commitment for our personnel and their families. The entire nation is in your debt.

Our forces in Afghanistan take a leading role as part of an international effort to support the democratically elected Afghan Government. We are working in partnership with the Foreign and Commonwealth Office and the Department for International Development to bring sustainable security, governance and reconstruction to that country. We are making progress on all three objectives.

The situation in Iraq remains difficult. We are determined to support Iraq in its drive to be able to govern itself as a democratic country with a functioning economy and capable security forces.



Right Honourable Des Browne MP
Secretary of State for Defence

Our aim is to develop the capacity of the Iraqi security Forces as part of that self-determination process. We have continued to make good progress in the crucial task of building up the Iraqi Security Forces, enabling us to reduce our force levels. Concentrating our forces on fewer bases will allow more of them to drive forward the crucial task of building up the Iraqi Security Forces. We remain committed to Iraq for as long as Iraq needs us.

The pace of both operations makes it more important than ever that our forces have the equipment they need when they need it and at the right price for the taxpayer. The Defence Industrial Strategy is now firmly embedded in our equipment programme and continues to transform our relationships with industry. The principles set out in that Strategy underpin the new Defence Equipment and Support organisation. Defence Equipment and Support was launched in April 2007 taking responsibility for every stage in the life of our equipment – boosting efficiency, reducing costs and speeding up the acquisition process.

Defence does not stand still. We are a dynamic and complex organisation meeting the security challenges of today whilst preparing for an uncertain future. We will achieve this through our people, the world class men and women who serve this country so well.

A handwritten signature in black ink, reading 'Des Browne', written over a horizontal line.