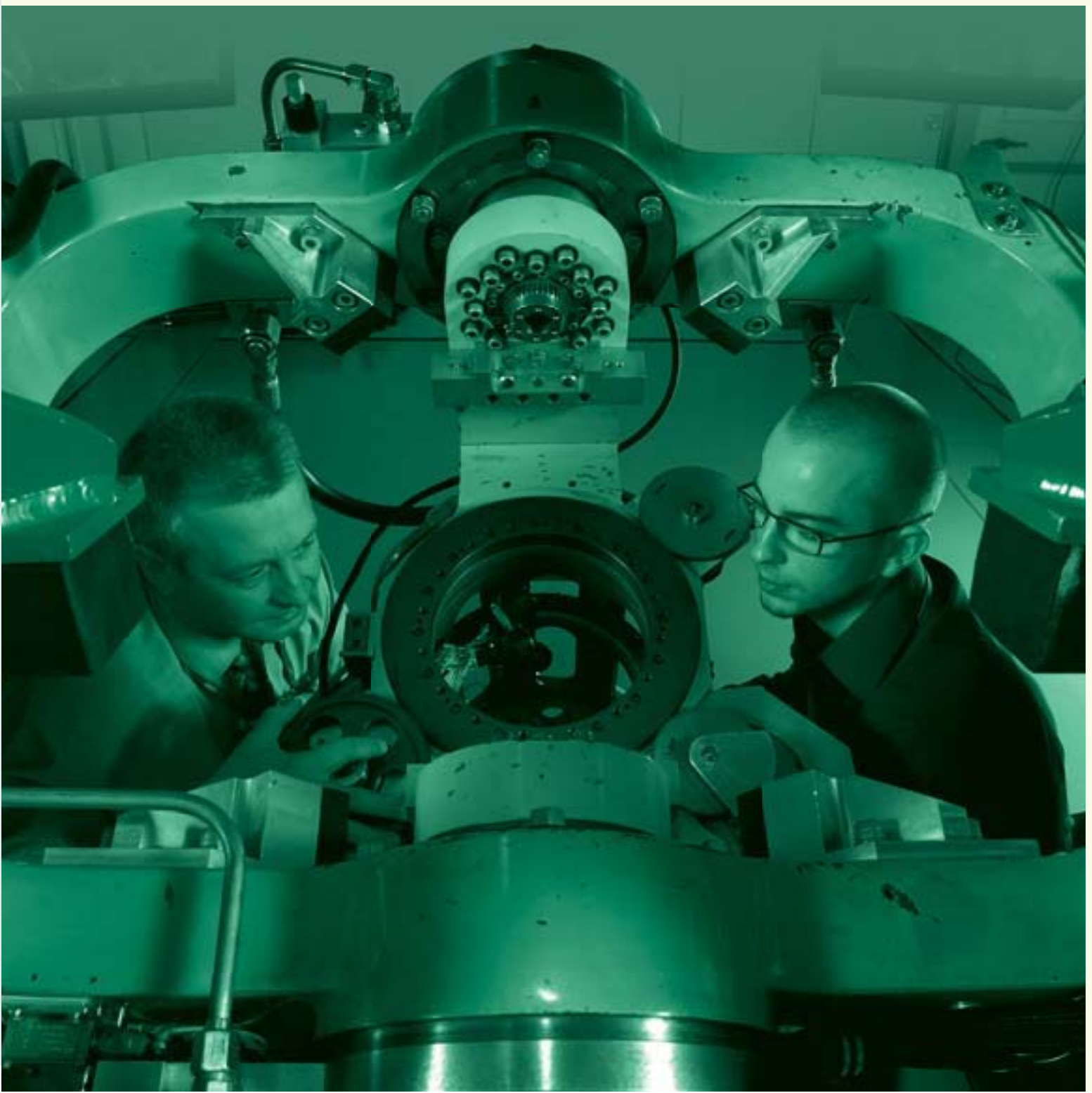


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# Resources



## FINANCE

Objective: Control our expenditure within allocated financial resources, while maximising our outputs.

### Public Service Agreement Target (SR2002 MoD Target 7)

Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability. Year-on-year output efficiency gains of 2.5% will be made each year from 2002-03 to 2005-06, including through a 20%<sup>1</sup> output efficiency gain in the Defence Logistics Organisation:

- Reduce the per capita cost of successfully training a military recruit by an average of 6% by April 2006;
- Achieve 0% average annual cost growth (or better) against the Major Equipment Procurement Projects;
- Reduce by 14% (relative to April 2002) the output costs of the Defence Logistics Organisation, while maintaining support to the Front Line;
- Reduce MoD Head Office and other management costs by 13%;
- Identify for disposal land and buildings with a Net Book Value of over £300M.

### Performance Measures and Assessment

#### In-year Departmental financial management:

- Net resource consumption of £32,738M for provision of Defence capability against resources voted by Parliament of £34,665M;
- Net additional Resource and Capital expenditure of £1,266M on operations against resources voted by Parliament of £1,431M;
- Expenditure against war pensions and allowances of £1,069M, against resources voted by Parliament of £1,073M;
- Outturn of £31,855M against Resource Departmental Expenditure Limit<sup>2</sup> of £32,626M;
- Outturn of £6,627M against Capital Departmental Expenditure Limit of £6,468M.

#### Achieve 10% cumulative overall efficiency improvement compared to 2001-2002:

- Subject to confirmation and validation, we believe we have met the overall target of 10%;
  - Following organisational changes it is no longer possible to measure the per capita training cost on the basis used in the PSA target;
  - 0.1% in-year reduction on Major Equipment Projects (target 0% cost growth);
  - 9.8% cumulative reduction in Logistics costs by 2004-05 compared to 2001-02 (target 10%); we expect the achievement for 2005-06 will lie in the range £350M-£400M, producing cumulative reduction of at least 13.7% (target 14%);
  - 12.0% cumulative reduction in Head Office costs (target 13.0%);
  - Cumulative value of £456M land and buildings identified for disposal (target £300M).

<sup>1</sup> Relative to April 2000 (1999/00 outturn). Performance thus includes efficiency achieved in 2000/01 and 2001/02.

<sup>2</sup> The Departmental Expenditure Limits (DELs) are budgetary figures. Resource DEL includes provision for cash release of nuclear provisions. Capital DEL includes estimated capital additions for the Royal Hospital Chelsea, neither of which are voted by Parliament.



## DEFENCE BUDGET AND SPENDING

256. The Ministry of Defence again achieved an unqualified opinion from the Comptroller and Auditor General that the Departmental Resource Accounts in Section 2 of this report give a true and fair view of the state of affairs of the Department and of its net resource outturn, recognised gains and losses and cash flows for the year.

### Departmental Outturn

257. Planned expenditure for the year was set out in the *Ministry of Defence: The Government's Expenditure Plans 2005/06 to 2007/08*, and in the Main, Winter, and Spring Supplementary Estimates voted by Parliament. Provisional outturn for the year was set out in the *Public Expenditure Outturn White Paper 2005-06* which was published in July 2006. Table 10 compares final performance against the final estimates approved by Parliament, as reported in the Statement of Parliamentary Supply on page 187 of the Accounts. It includes Resource Departmental Expenditure Limit (Resource DEL), Annually Managed Expenditure (AME)<sup>3</sup> and Non Budget<sup>4</sup>, but does not include income payable to the Consolidated Fund, shown in Note 5 to the accounts. Total Defence expenditure in 2005/06 was contained within voted provision, with an overall Net Resource underspend, which includes both cash and non cash items and unallocated provisions, of £1,977M.

258. As set out in the explanation of variation between Estimate and Outturn in the Departmental Resource Accounts on page 188, the main elements in RFR1 were underspends of £375M against Resource DEL<sup>5</sup>, £263M in AME, and £1,289M in Non Budget. The underspend in Resource DEL relates to lower than estimated depreciation costs following reviews of stocks and fixed assets. AME is showing an underspend due to the transfer of nuclear liabilities to the Nuclear Decommissioning Authority. The underspend on Non Budget is due to lower than expected charges when the discount rate was changed, and again the transfer of nuclear liabilities to the Nuclear Decommissioning Authority. Explanations of the differences between Outturn and the Departmental Expenditure Limit are shown at paragraph 263.

259. One of the principal pressures on the Defence budget in 2005-06 was the increase in fuel and utility costs, which showed increases from 2004-05 of 55% and 21% respectively. Due to actuarial changes to pension contribution rates, contribution rates for Service personnel were increased at a higher level than anticipated, and the overall increase in pension costs (known as SCAPE<sup>6</sup>) from 2004/05 to 2005/06 was 18%, compared with an increase in salaries and wages of 1.5%.

Table 10: 2005-06 Parliamentary Controls (£M)

	Final Voted Provision	Net Resource Outturn	Variation
Request for Resources 1 (Provision of Defence capability)	34,665	32,738	(1,927)
Request for Resources 2 (net additional cost of operations)	1,101	1,055	(46)
Request for Resources 3 (war pensions and allowances)	1,073	1,069	(4)
Net Resources	36,839	34,862	(1,977)
Net Cash Requirement	31,502	30,603	(899)

<sup>3</sup> Annually Managed Expenditure (AME) covers programmes that are demand-led, or exceptionally volatile in a way that could not be controlled by the Department.

<sup>4</sup> Non Budget costs, are items of expenditure subject to Parliamentary, but not Treasury, controls.

<sup>5</sup> Direct Resource DEL consists of items such as pay, equipment support costs, fuel and administrative expenses.

<sup>6</sup> Indirect Resource DEL, also known as 'non cash' includes items such as depreciation, cost of capital and movements in the level of provisions;

<sup>6</sup> SCAPE: Superannuation Contributions Adjusted for Past Experience.

## Cost of Operations

**260.** No formal budget is set for the cost of operations. The Department is voted additional resources in RfR 2 to cover the net additional costs of operations and Conflict Prevention Programmed Expenditure, and the request for resources is normally made in the Supplementary Estimates which is the first occasion when the Department can reach a reasonably firm forecast of costs. Total net expenditure is set out in Table 11 below. Overall expenditure in 2005-06 was £1,266M, including £957M for operations in Iraq, £63M for operations in the Balkans (Bosnia and Kosovo), and £199M for operations in Afghanistan. Additional detail is shown in Note 2 to the Departmental Resource Accounts (page 200).

## Resources by Departmental Aims and Objectives

**261.** Details of the MoD's expenditure for 2005-06 broken down against our three primary Public Service Agreement objectives are summarised in Table 12 and set out in detail in the Statement of Operating Costs by Departmental Aims and Objectives (page 192) and Note 24 (pages 225 to 228) to the Departmental Resource Accounts. It is shown

net of the £468M<sup>7</sup> for excess Appropriation-in-Aid and Consolidated Fund Extra Receipts included in total outturn of £34,862M in Table 10 (see Note 5 to the Defence Resource Accounts 2005-06 on page 203).

## Outturn against Departmental Expenditure Limit

**262.** In addition to the Net Resource controls set out above, against which Departmental expenditure is presented in the Departmental Resource Accounts and audited by the National Audit Office, the Department works within two Departmental Expenditure Limits (DELs) covering both the majority of the Department's operating costs (excluding some non-cash costs specifically relating to nuclear provisions) and capital expenditure. Detailed outturns by Top Level Budget Holder against their RFR1 DEL control totals are set out in Table 13. The Estimates figures shown in Note 2 of the Departmental Resource Accounts were based on provision at the half year point, and there were budgetary movements between TLBs between then and the year end reflecting changing circumstances. The total outturn for FY 2005/06 was contained within the Resource DEL with an underspend of £771M. The apparent overspend of £159M in Capital DEL was a consequence of a technical

Table 11: Net Additional Costs of Operations 2005/06 (£M)

	Final Voted Provision	Outturn	Variation
<b>Resource</b>			
Iraq (Operation TELIC)	838	797	(41)
Afghanistan (Operation HERRICK)	150	148	(2)
Balkans (Operation OCULUS)	64	63	(1)
Programme Expenditure (African and Global pool)	49	47	(2)
<b>Total Resource</b>	<b>1,101</b>	<b>1,055</b>	<b>(46)</b>
<b>Capital</b>			
Iraq (Operation TELIC)	260	160	(100)
Afghanistan (Operation HERRICK)	70	51	(19)
Balkans (Operation OCULUS)	-	0	0
<b>Total Capital</b>	<b>330</b>	<b>211</b>	<b>(119)</b>
<b>Total Net additional cost of Operations</b>	<b>1,431</b>	<b>1,266</b>	<b>(165)</b>

Table 12: Resources By Departmental Objectives 2005-06 (£M)

	Net Operating Cost
<b>Objective 1:</b> Achieving success in the tasks we undertake	<b>3,564</b>
<b>Objective 2:</b> Being ready to respond to the tasks that might arise	<b>26,601</b>
<b>Objective 3:</b> Building for the future	<b>3,160</b>
<b>(Total RfRs 1 &amp; 2)</b>	<b>33,325</b>
Paying war pensions benefits (RfR3)	1,069
<b>Total Net Operating Cost</b>	<b>34,394</b>

<sup>7</sup> This comprises the receipts from the flotation of QinetiQ, receipts in excess of Appropriations in Aid, and income that is not classified as Appropriations in Aid.



accounting change that arose from a review of the balance sheet value of the intangible assets associated with the Joint Combat Aircraft Programme. It does not lead to an increase in the overall programme costs or to any change in the planned profile of cash expenditure. Nor does it represent a breach of Parliamentary supply. The Resource DEL underspend mainly resulted from lower than expected depreciation costs.

## Resource and Capital DEL Variances

263. Table 13 shows an underspend against the DEL of £612M. The variations on Direct Resource DEL relate to:

- Commander in Chief Fleet (£16M underspend) – the majority of the underspend was the consequence of changes in asset lives, notably the major refit and overhaul for *HMS Vanguard* which reduced spend against Indirect Resource DEL.
- General Officer Commanding (N Ireland) (£36M overspend) – the overspend relates to the provision for future civilian redundancy payments and write-offs for base closures in the Province as a result of the normalisation process.
- Commander-in-Chief Land Command (£97M overspend) – there was an over spend against Direct and Indirect Resource DEL. The reasons for the former included higher SCAPE charges and new arrangements for Ghurkha National Insurance Contributions. The reason for the latter was principally impairments relating to the Quinquennial revaluation.
- Chief of Joint Operations (£81M overspend) – this is predominantly because of asset write offs in preparation for the accounting re-organisation to single balance sheet owners.
- Chief of Defence Logistics (£346M under spend) – Indirect Resource DEL was underspent due to the review of stocks and fixed assets.
- 2nd Sea Lord/Commander-in-Chief Naval Home Command (£26M overspend) – the majority of the over spend was a consequence of the write off of an intangible asset balance.

Table 13: RFR1 Outturn against Departmental Expenditure Limits (DEL) 2005-06 (£M)

	DEL	Outturn	Variation
<b>Resource DEL</b>			
<b>Allocated to TLBs:</b>			
Commander-in-Chief Fleet	3,564	3,548	(16)
General Officer Commanding (Northern Ireland)	544	580	36
Commander-in-Chief Land Command	5,535	5,632	97
Commander-in-Chief Strike Command	4,042	4,043	1
Chief of Joint Operations	489	570	81
Chief of Defence Logistics	7,869	7,523	(346)
2nd Sea Lord/Commander-in-Chief Naval Home Command	752	778	26
Adjutant General	1,764	1,924	160
Commander-in-Chief Personnel and Training Command	934	904	(30)
Central	2,309	2,458	149
Defence Procurement Agency	2,303	2,272	(31)
Defence Estates	1,139	1,056	(83)
Corporate Science and Technology	501	502	1
Departmental Level Adjustments	881	65	(816)
<b>Total Resource DEL</b>	<b>32,626</b>	<b>31,855</b>	<b>(771)</b>
<b>Capital DEL</b>			
<b>Allocated to TLBs:</b>			
Commander-in-Chief Fleet	6	7	1
General Officer Commanding (Northern Ireland)	6	4	(2)
Commander-in-Chief Land Command	67	47	(20)
Commander-in-Chief Strike Command	19	10	(9)
Chief of Joint Operations	17	19	2
Chief of Defence Logistics	1,049	1,045	(4)
2nd Sea Lord/Commander-in-Chief Naval Home Command	13	11	(2)
Adjutant General	14	17	3
Commander-in-Chief Personnel and Training Command	19	13	(6)
Central	(7)	(44)	(37)
Defence Procurement Agency	5,051	5,228	177
Defence Estates	222	274	52
Corporate Science and Technology	0	0	0
Departmental Level Adjustments	(8)	(4)	4
<b>Total Capital DEL</b>	<b>6,468</b>	<b>6,627</b>	<b>159</b>

- Adjutant General (£160M overspend) – the overspend relates to the provision for future redundancy payments.
- Air Officer Commanding-in-Chief RAF Personnel & Training Command (£30M underspend) – this indirect Resource DEL underspend was due to a revaluation of training aircraft and a reduction in depreciation for land and buildings.
- Central (£149M overspend) – the Indirect Resource DEL overspend was primarily due to the write off of fixed assets and redundancy provisions.
- Defence Procurement Agency (£31M underspend) – there was an underspend in Direct Resource DEL, where cash release of provisions was lower than expected, due to the transfer of nuclear liabilities to the newly formed Nuclear Decommissioning Authority.
- Defence Estates (£83M underspend) – there was an underspend in Indirect Resource DEL mainly on lower than originally estimated provision costs for contamination relating to the disposal of firing ranges held by the former Defence Evaluation Research Agency (DERA).
- The Departmental Level Adjustments line shows the Indirect Resource DEL that was held centrally (the Departmental Unallocated Provision), which was not allocated to specific TLBs. The Departmental Unallocated Provision was drawn down at Spring Supplementary Estimates to ensure that sufficient resources were available to cover forecasts of Indirect Resource spend from Top Level Budget Holders (TLB), including provisions for redundancy payments.

264. Land Command TLB underspent against Capital DEL allocation by £20M principally through a slippage in capital payments to contractors. Within the Central TLB the redemption of QinetiQ preference shares prior to the flotation of QinetiQ contributed additional receipts which, combined with lower than expected expenditure on

capital assets, gave a total underspend of £37M. The overspend of £177M in the Defence Procurement Agency reflects the technical accounting change in the Joint Combat Aircraft programme (see paragraph 262). The overspend in Defence Estates of £52M relates principally to a slippage in the disposals programme which will be recovered in 2006/07.

## Reconciliation between Estimate and DEL

265. Table 14 provides a reconciliation between the outturn shown in the DEL Table 13 with the Estimate, to assist in understanding the differences between the tables presented here in the annual report, and those shown in the Departmental Resource Accounts. The totals shown for Resource and Capital DEL are for RFR1 only. Non voted items in this table relate to the cash release of nuclear provisions which is not a Parliamentary control, but which makes up part of the Department's net cash requirement. There is a small element of non voted funding within Capital DEL.

## Reconciliation between Estimates, Accounts and Budgets

266. The Department is required to use different frameworks to plan, control and account for income and expenditure. The planning framework uses resource and capital budgets broken down into DEL and AME and these budgets are referred to throughout the Spending Review, Budget Red Book, Pre-budget Report and individual Departmental Annual Reports. Control is exercised through the Parliamentary approval of Supply in the Main and Supplementary Estimates. Some elements of DEL and AME are outside the Supply process. Equally, some expenditure is voted but outside the scope of the budgets. Audited outturn figures are reported within the Departmental Resource Accounts, prepared under the conventions of UK GAAP, adapted for the public sector, with adjustments necessary to reconcile to either the planning or control totals. Table 15 provides the reconciliation between these three bases.

Table 14: Reconciliation between Estimate and DEL £M

	Provision	Outturn
<b>Resource Estimate (RfR 1)</b>	<b>34,665</b>	<b>32,738</b>
Less: Annually Managed Expenditure	(87)	177
Less: Non Budget	(2,349)	(1,060)
Add: Non Voted	397	0
<b>Resource DEL (Table 13)</b>	<b>32,626</b>	<b>31,855</b>
<b>Capital Estimate</b>	<b>6,782</b>	<b>6,793</b>
Less: RfR 2	(330)	(211)
Less: AME	16	46
Less: Capital Spending by Non Departmental Bodies		(1)
<b>Capital DEL (Table 13)</b>	<b>6,468</b>	<b>6,627</b>

**Table 15: Reconciliation of Resource Expenditure between Estimates, Accounts and Budgets £M**

	Provision	Outturn
<b>Net Resource in Estimates</b>	<b>36,839</b>	<b>34,862</b>
Adjustments to include:		
Consolidated Fund Extra Receipts in the OCS		(468)
Other adjustments		
<b>Net Operating Costs in DRAc</b>	<b>36,839</b>	<b>34,394</b>
Adjustments to remove:		
Voted expenditure outside the budget	(2,349)	(1,060)
Adjustments to include:		
Other Consolidated Fund Extra Receipts		468
Resource consumption of non departmental public bodies	24	24
<b>Resource in Treasury Budget</b>	<b>34,514</b>	<b>33,826</b>
Of which		
Departmental Expenditure Limit	33,727	32,937
Annually Managed Expenditure	787	889



A meeting to review the Accounts

future year's accounts (known as advance notifications). The costs identified are estimates, so the final loss declared may therefore be either larger or smaller. The estimated value of our advance notifications of losses and special payments reduced by about 25% over the year, from about £817M to about £607M. This reflected the closure of several substantial historic cases (see previous paragraph) and the limited number of new cases identified. 84% by value of the advance notifications comes from cases identified before 1 April 2005. This includes two cases, each of £205M, for the UK's withdrawal from the multinational long range anti armour missile programme (LR TRIGAT) in 1995 and for writing-down of the value of Chinook Mark 3 helicopters. We cannot close the former case until all related transactions by all the original partners have been completed. Pending final agreement of the way forward on the latter project we have deliberately taken a very prudent accounting approach that maximises the size of the potential write-off.

## Losses and Write-Offs

**267.** Details of losses, gifts and special payments are set out in Note 31 to the Departmental Resource Accounts (pages 236 to 240). The total value of new and potential losses and special payments arising in year (both closed cases and advance notifications) fell by a further 36%, from £222M in 2004-05 to £143M in 2005-06. We continue to work to minimise the number of new cases that arise. Excluding, gifts and payments made by the Veterans Agency the value of cases closed during the year amounted to £394M, a decrease of 6% from 2004-05. 88% of this was from final closure of cases previously notified. £252M was from two cases over five years old: £105M from the UK's decision not to proceed with the medium range anti-tank guided weapons system (MR TRIGAT) in 2000; and £147M from the failure of the project to construct a Radioactive Liquid Effluent Treatment Plant at the Atomic Weapons Establishment Aldermaston.

**268.** The losses statement also identifies potential losses that have not yet been brought to completion and have therefore been identified for formal incorporation in a

## 2002 SPENDING REVIEW EFFICIENCY PROGRAMME

**269.** The Department's Public Service Agreement following the 2002 Spending Review (SR2002) included a target of year-on-year output efficiency gains of 2.5% from 2002-03 to 2005-06, to be achieved by making improvements in the efficiency and effectiveness of the key processes for delivering military capability. This is measured as the weighted average of performance against a set of process-related supported targets, the weighting being determined by the relative resources covered by each supporting target. Overall results are set out in Table 16. As explained at paragraph 231, the scrutiny of the Defence Logistics Organisation's efficiency achievement for 2004-05 has concluded that there is evidence to substantiate at least £280M of the efficiency savings of over £400M reported in the Annual Report and Accounts 2004-05. Consequently, we have revised the achievement of 11.1% against the SR2002 logistics target reported last year to 9.8%, and the overall achievement

from 8.2% to 7.3%. As explained at paragraph 232, work (which should be completed by autumn 2006) is in hand to confirm the SR2002 logistics efficiency achievement for 2005-06. On the basis of work to mid-June 2006, we expect the achievement for 2005-06 will lie in the range £350M-£400M. We have assessed performance against the PSA target in Table 16 using the lower end of this range.

270. The measurement of performance against the Training supporting target was discontinued from 2004-05, and the contribution against this target towards the overall target has been taken as zero. This is explained further at paragraph 186. In year, the Procurement

supporting target has been achieved; further details on performance against procurement targets are at paragraphs 136-137. As explained at paragraph 131, we have assessed the final achievement against the management costs target as remaining at 12%, as the benefits from the new organisational initiatives included in the SR2004 efficiency programme do not fall within the SR2002 period. The final achievement on the Estates disposals target was £456M against a target of £300M. Subject to confirmation and validation, we believe we have met the overall target of 10%, as collectively the supporting targets included a contingency margin that has allowed the overall target to be achieved although several of the supporting targets have been missed.

**Table 16: SR02 Efficiency Improvements**

Target	Weighting	Cumulative Trajectory			
		2002-03	2003-04	2004-05	2005-06
Reduce by an average of 6% the per capita cost of training a successful military recruit to the agreed standard.	9	2%	4%	5%	6%
<b>Achievement</b>		<b>1.7%</b>	<b>4.2%</b>	<b>Discontinued</b>	<b>Discontinued</b>
Achieve 0% average annual cost growth (or better) against the equipment procurement projects included in the Major Projects Report, while meeting customer requirements.	6	0%	0%	0%	0%
<b>Actual in-year cost growth</b>		<b>5.7%</b>	<b>3.1%</b>	<b>-4.6%</b>	<b>-0.1%</b>
Reduce by 20% the output costs of the Defence Logistics Organisation, while maintaining support to the Front Line	68	2%	6%	10%	14%
<b>Achievement</b>		<b>3.1%</b>	<b>6.6%</b>	<b>9.8%<sup>1</sup></b>	<b>13.7%<sup>2</sup></b>
Reduce MoD Head Office and other management costs by 13%	5	5%	9%	12%	13%
<b>Achievement</b>		<b>6.3%</b>	<b>10.6%</b>	<b>12%</b>	<b>12%</b>
Identify for disposal land and buildings with a net book value of over £300M	12	£84M	£134M	£258M	£300M
<b>Achievement</b>		<b>£135M</b>	<b>£230M</b>	<b>£395M</b>	<b>£456M</b>
<b>Overall Target</b>	<b>100</b>	<b>2%</b>	<b>5%</b>	<b>8%</b>	<b>10%</b>
Overall Achievement		2.3%	5.0%	7.3% <sup>1</sup>	10.0%

**Notes:**

1. The 2004-05 achievement against the Logistics target and the overall achievement have been amended from that reported in the *Annual Report and Accounts 2004-05* to reflect subsequent checking and validation. See paragraph 231 for further information.
2. Logistics performance is subject to validation by Defence Internal Audit.
3. The net book value of land and buildings reflects their valuation in accordance with the Department's accounting policies. The actual income from the sales could vary significantly from this value and will be dependant upon the market conditions at the time of sale.



## 2004 SPENDING REVIEW EFFICIENCY PROGRAMME

**271.** The Government is committed to funding the Armed Forces as they modernise and adapt to meet evolving threats and promote international stability in the changing global security environment. The 2004 Spending Review announced in July 2004 increased planned spending on Defence by an average of 1.4% per year in real terms over the three years to 2007-08, with total planned Defence spending £3.7 billion higher in 2007-08 than in 2004-05. In cash terms, the equivalent increase is £3.5 billion, an average real growth of 1.5% per year. Further modernisation of Defence will be supported through the continued provision of the Defence Modernisation Fund, amounting to £1 billion over the three years to 2007-08, which represented an increase in both its size and scope. Building on our existing change programme, we also undertook to realise total annual efficiency gains of at least £2.8 billion by 2007-08, of which three-quarters will be cash releasing, to be re-invested in Defence capability and further modernisation initiatives. Further detail about the current performance against this target and the wider Defence Change Programme is set out in paragraphs 121-133.

### SALE OF QINETIQ

**272.** Under the public private partnership for Defence research which began in 1998, QinetiQ has been transformed from an in-house research and development organisation into an international Defence technology and security company that develops cutting-edge technology for our Armed Forces and provides technological advice and services to MoD, other Government Departments, the US Department of Defense, and non-government customers. QinetiQ was jointly owned by its employees (13%), the MoD (56.5%) and The Carlyle Group (30.5%). On 10 February 2006 the company was successfully floated on the London Stock Exchange in the next stage of its transition to the private sector. This raised £347M net for the taxpayer of which £250M is being reinvested in the Defence programme. The MoD retained a 19.3% stake and a Special Share to safeguard Defence and security interests of the UK. We also nominate a non-executive director to the QinetiQ Board.

**273.** The results highlighted in QinetiQ's audited preliminary accounts for 2005/06 reflect the company's success in delivering its growth strategy including through the commercialisation of Defence technology and expansion of its US presence, while continuing to deliver value to its primary customer the MoD. Group turnover for the year grew 22.9% to £1,051M and operating margin increased to 8.6%, contributing to an operating profit of £90.7M.

## WIDER MARKETS INITIATIVE

**274.** The aim of the Treasury's Wider Markets Initiative is the commercial exploitation of departments' assets which need to be retained but are not fully used. Defence activities under the initiative have grown steadily since its launch in 1998. These include the Defence Communication Services Agency's contract with Arqiva to exploit the Boxer Communication Towers, the Services' efforts to protect and exploit the military 'brands', exploitation of our intellectual property, sale of surplus training capacity, letting of land, making available sites and facilities for filming purposes and renting out surplus storage capacity. We have worked to improve our management processes. In 2005-06 we trained about 100 people as Wider Markets Practitioners and began to provide training for Commercial Officers in contracting for sale. In a recent Government-wide report on the Initiative the National Audit Office concluded that we had been particularly pro-active in improving the overall quality of the management of our commercial activities.



Wider Markets Initiative: Filming Top Gear.

## FINANCE PROCESS IMPROVEMENT

**275.** The Finance Director initiated a review of the Finance Function in 2004, in part as a response to the Gershon Initiative, to review our internal performance and plans for simplifying and improving financial processes, structures and systems. As a result of this review the "Simplify and Improve" Programme was created, which is being delivered through the Defence Resource Management Programme. The two main recommendations were:

- creation of a Financial Accounting Shared Service Centre, which will save some posts by removing transactional processing from TLBs, and allow skilled professional staff to concentrate on value added activities to support decision-making; and,

- centralisation of fixed assets onto Single Balance Sheets to place assets with those parts of the Department which make the real decisions concerning their purchase and support. The Defence Logistics Organisation will own Single Use Military Equipment and Plant Machinery and Transport, the Defence Procurement Agency will own Equipment related Assets Under Construction, Defence Estates will own Land and Buildings, and the Defence Communications Services Agency will own IT and Communications. This went live on 3 April 2006.

The Shared Service Centre is being created incrementally and will be based in Liverpool and Bath.

276. A Treasury team reporting to the Head of the Government Accountancy Service conducted a review of the MoD's financial management processes and presented its findings in July 2005. This concluded that

the overall picture was of positive progress and that the Department had or was putting in place the processes, systems and standards to deliver an effective strategic financial management function. As well as finding much to commend in our current arrangements, the review supported our plans for the future, including our strategic determination to shift the focus of the finance function from transactional processing to improved support for decision-making at all levels. Specific recommendations in the report included implementation of the 'Simplify and Improve' programme, the introduction of Biennial Financial Planning to bring greater stability and discipline to the forward Defence Programme and allow for a more measured timetable and approach to the planning round, and the introduction of a new finance information system – the Planning, Budgeting and Forecasting tool – to improve financial planning and forecasting across the Department. This is being rolled out for in-year management in 2006-07 and the 2007 planning rounds.

## FURTHER SOURCES OF INFORMATION

277. Detailed Information on the Department's financial performance is contained in the Departmental Resource Accounts in Section 2 of this report. Further information is also available from the following sources:

- *2004 Spending Review: Stability, security and opportunity for all: investing for Britain's long-term future: New Public Spending Plans 2005-2008* (Cm 6237) at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk);
- SR2004 Public Service Agreement and technical note at [www.mod.uk](http://www.mod.uk);
- SR2004 Efficiency technical note at [www.mod.uk](http://www.mod.uk);
- *Ministry of Defence: The Government's Expenditure Plans 2005/06 to 2007/08* (Cm 6532) at [www.mod.uk](http://www.mod.uk);
- *Central Government Supply Estimates 2005-06: Main Estimates (HC 2)* available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk);
- *Central Government Supply Estimates 2005-06: Main Estimates 2005-06 Supplementary Budgetary Information* (Cm 6489) available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk);
- *Central Government Supply Estimates 2005-06: Winter Supplementary Estimates (HC 672)* available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk);
- *Central Government Supply Estimates 2005-06: Spring Supplementary Estimates (HC 827)* available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk);
- *Public Expenditure Outturn White Paper 2005-06* available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk) (July 2006);
- *Veterans Agency Annual Report and Accounts 2005-06* available at [www.veteransagency.mod.uk](http://www.veteransagency.mod.uk) (August 2006);
- NAO Report *Ministry of Defence Wider Markets Initiative* available at [www.nao.org.uk](http://www.nao.org.uk).



## Essay: Understanding Losses and Special Payments

In common with any large Government Department or company with a significant capital investment programme and a sizable asset base, the Ministry of Defence will always have write offs to report. This is particularly true in a period of strategic change as assets that are no longer needed are disposed of. When write off action is taken we have formal processes to ensure that lessons are identified and learned. Major write offs are brought to the attention of departmental Audit Committees chaired by non-executive directors from outside the MoD.

In line with standard accounting practice the losses and special payments, shown at Note 31 of the Departmental Resource Accounts, are split into two sections:

- Closed cases – where the losses and special payments have been formally signed off;
- Advance Notifications – where the losses and special payments arose during 2005-06 and prior years but where the cases have not yet been formally signed off and the amounts are our best estimates. Once they are formally signed off they will appear in future accounts as closed cases.

The losses statement provides a level of visibility and transparency not matched by commercial accounts, as private sector organisations are not required to disclose similar information. The size of the MoD and of its capital assets under active management, together with the range and complexity of Defence business, means that we face a scale of challenge unique in the public sector.

Reported losses are not necessarily indicative of a failure of control, although we obviously seek to identify those that are and learn appropriate lessons. But losses also result from sensible management decisions (such as the decision to withdraw from the Medium Range TRIGAT project to procure a more advanced solution more quickly at a lower through-life cost). The changes envisaged in the December 2003 Defence White Paper *Delivering Security in a Changing World*, in the July 2004 *Future Capabilities* paper, and the significant organisational efficiencies and rationalisations contained in the Department's 2004 Spending Review Efficiency programme following the Lyons and Gershon reviews, will inevitably generate further write-offs in future years as force structures and our organisation are adjusted to meet changing circumstances.

We are working to improve processes for losses and special payments in three areas:

- greater consistency in recording and reporting, based on a clearer understanding of the purpose of the losses statement in public sector accounting;
- improvements in the identification and dissemination of lessons learned; and
- more systematic review of the information and actions relating to losses by MoD management boards and audit committees, with due regard to materiality and proportionality.

We are also working to ensure that identified losses are assessed and closed as early as possible in order to ensure that any lessons arising are learned in a timely fashion. In this respect it is worth noting that the value of our advance notifications of losses and special payments reduced by about 19% since last year, and of that value only 14% relates to cases identified during 2005-06 as opposed to a number of long-standing historic cases (see paragraphs 267-268). It can take some time to complete write off from the time of advance notification. This can be for a variety of reasons, including legal issues and the valuation of complex cases. The same losses can therefore appear over a number of years until the case is finally closed, and this needs to be taken into account when reading the accounts.

The existing MoD guidance on losses and special payments is under review and revised guidance will be issued later in 2006. The Treasury has also undertaken to review the rules on losses and special payments in Government Accounting. The Defence Audit Committee is pursuing improvements in identifying and disseminating lessons learned. Further information on this is contained in the Committee's Annual Report, published on the MoD website. Top Level Budget (TLB) Audit Committees review losses and special payments, and TLB Holders are required to draw any significant concerns to the attention of the Permanent Under Secretary, as Accounting Officer. They do so in their annual submissions to him which underpin the Statement on Internal Control in the Departmental Resource Accounts. The Defence Audit Committee also reviews losses at the Departmental level as part of the year-end process. Individual TLBs have developed specific approaches tailored to their own circumstances, for example requiring cases over a certain value to be addressed personally by the TLB Holder. Others are identifying trends and involving their audit committee in commissioning remedial action. Whilst the Defence Audit Committee addresses the spreading of best practice we do not believe it would be right to adopt a "one size fits all" approach as the issues are distinct in different TLBs.

With such a large capital investment programme (£13.7 billion of assets under construction at 31st March 2006) there will inevitably be cases where we decide not to proceed with programmes when priorities or requirements change to reflect an evolving wider Defence need, or we conclude that the technical challenge is too demanding. As part of the Smart Acquisition initiative, we have sought to increase the level of investment in the concept and assessment phases of programmes to bound risk more carefully prior to major investment decisions. In this way, we should limit losses arising from a subsequent project failure – but this will not impact on major changes in requirement or procurement strategy.

## MANPOWER

Objective: Achieve overall Service manning balance and a smaller civilian workforce.

### Public Service Agreement Target (SR2004 MoD Target 5)

Recruit, train, motivate and retain sufficient military personnel to provide the military capability necessary to meet the Government's strategic objectives to achieve manning balance in each of the three Services by 1 April 2008.

### Performance Measures and Assessment

Trained strength of Forces between +1% and -2% of the overall requirement 1 April 2008. As at 1 April 2006:

- RN/RM trained strength of 35,470, or 96.3% of overall requirement (95.1% on 1 April 2005);
- Army trained strength of 100,620<sup>1</sup>, or 98.8% of overall requirement (98.3% on 1 April 2005);
- RAF trained strength of 46,900<sup>2</sup>, or 99.2%<sup>2</sup> of overall requirement (101% on 1 April 2005);
- RN/RM Volunteer Reserve strength of 3,170, or 81% of overall requirement (69% on 1 April 2005);
- Army Volunteer Reserve strength of 32,150, or 84% of overall requirement (82% on 1 April 2005);
- RAF Volunteer Reserve strength of 1,450, or 65% of overall requirement (67% on 1 April 2005).
- Critical shortage groups remained in all three Services

Achieve stable Voluntary Outflow rates for each Service:

- Slight increase in Voluntary Outflow rates across all three Services, but Army and RAF continue to remain within stable long term goal rate.

Civilian Workforce:

- 103,930 Full Time Equivalent civilian staff employed on 1 April 2006 (108,470 at 1 April 2005) including 15,100 Locally Engaged Civilians outside the UK.

Civilian Progression:

- Limited scope for progression, reflecting current drawdown programme.

Diversity:

- Overall Service ethnic minority strength (including Commonwealth recruits) increased to 5.5% at 1 April 2006 (5.3% at 1 April 2005) against target of 6% by 2006. UK ethnic minority intake:
  - RN 2.0% (target 3.5%, 2004-05 intake 2.3%);
  - Army 3.6% (target 3.9%, 2004-05 intake 3.7%);
  - RAF 1.5% (target 3.6%, 2004-05 intake 1.7%).
- As at 1 April 2006, women comprised 9.1% of UK Regular Forces, and 9.6% of the total 2005-06 intake;
- Proportion of women and disabled increased at all levels of Defence civil service. Proportion of ethnic minorities stable or slightly reduced. Civilian diversity targets exceeded for disabled personnel in MoD Senior Civil Service and women in Band B, and just missed for women in Band D. Significantly below target for women and ethnic minority personnel in Senior Civil Service, ethnic minority and disabled personnel in Band B and Band D.

<sup>1</sup> Figures for Army Office Intake and Strength are provisional pending ongoing investigation of possible late reporting of intake data

<sup>2</sup> Due to the introduction of a new personnel administration system all RAF data is provisional.

## SERVICE MANPOWER

### Trained Strength

278. On 1 April 2006, the total trained strength of the Royal Navy and Royal Marines was 35,470. This was a shortfall of some 1,370 personnel or 3.7% against the requirement of 36,830, but represents a recovery of 1.2% against the position a year earlier. This improvement was achieved using standard manpower levers such as extensions of service, acting high rank, use of Full Time Reserve Service and firm requirement control. The Army's total trained strength was 100,620<sup>3</sup> on 1 April 2006, a shortfall of some 1,180<sup>3</sup> personnel or 1.2%<sup>3</sup> against the requirement target of 101,800, again a slight improvement on the shortfall of 1.7% on 1 April 2005. The total trained strength of the Royal Air Force was 46,900<sup>4</sup> on 1 April 2006 against a requirement of 47,290<sup>4</sup>, a shortfall of some 390<sup>4</sup> personnel or 0.8%<sup>4</sup> compared to an excess of 1% on 1 April 2005. Although this represents the formal figure at 1 April, the deficit has varied throughout the year by as much as -2.3%. RAF personnel numbers will fall further during the year as the Service continues reducing towards a size of around 41,000 by 1 April 2008. There is therefore likely to be a growing shortfall in RAF personnel against requirement throughout 2006-07 until the next formal requirement reduction takes effect on 1 April 2007. Overall at 1 April 2006 the Army and Royal Air Force were therefore within the Public Service Agreement Manning Balance target range of +1% to -2%, but the Royal Navy, while making progress, remained below the range.



Sandhurst Cadets passing out

Table 17: Strength and Requirements of Full Time UK Regular Forces, Full Time Reserve Service & Gurkhas

	Royal Navy/Royal Marines			Army			Royal Air Force		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Trained Requirement	36,830	38,190	38,720	101,800	104,170	106,730	47,290	48,730	49,890
Trained Strength	35,470	36,320	37,470	100,620 P	102,440	103,560	46,900 P	49,210	49,120
Variation	-1,370	-1,870	-1,250	-1,180 P	-1,730	-3,170	-390 P	+480	-770
Untrained Strength	4,650	4,520	4,500	11,260 P	10,970	13,650	2,180 P	3,020	4,650
Total UK Regular Forces	40,110	40,840	41,970	111,880 P	113,420	117,210	49,070 P	52,230	53,770

Notes:

1. Data from DASA.

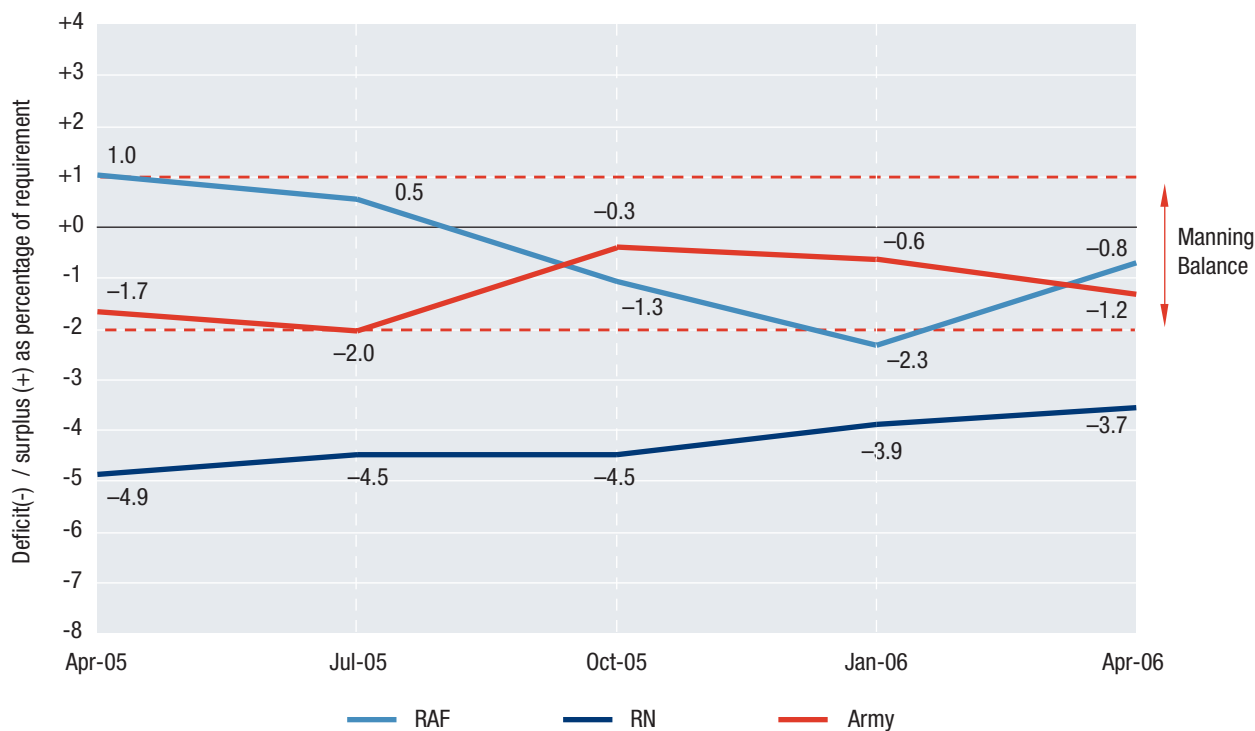
2. Figures are rounded to the nearest ten and may not sum precisely to the totals shown. Figures at 1 April include Full Time Trained UK Regular Forces, Trained Gurkhas and Full Time Reserve Service personnel. Untrained figures includes Full Time Untrained UK Regular Forces and Untrained Gurkhas.

3. 'P' denotes provisional. Army Officer figures are provisional pending investigation. RAF figures are provisional due to the introduction of the new Joint Personnel Administration system.

<sup>3</sup> Figures for Army are provisional pending investigation of possible late reporting of intake data.

<sup>4</sup> Due to the introduction of a new personnel administration system all RAF data is provisional.

Figure 8: Service Manning Surplus/Deficit<sup>5</sup> over the last year



## Manning Pinch Points

**279.** Within these broad totals, there are a number of specific skill groups where there are not enough personnel to meet requirements. These are known as Manning Pinch Points and are defined as a trade or area of expertise with insufficient trained strength (Officers or Other Ranks) to perform directed tasks. This can result from a shortage of people, an increased operational requirement to deploy personnel, or a combination of the two. Manning Pinch Points are managed by the individual Services, with a central working group maintaining an overview to identify trends and ensure best practice. Each Service maintains a dynamic list reflecting operational commitments and manning levels within branches and trades as they vary over time:

- In the Royal Navy, shortages in Petty Officer Mine Warfare, Nuclear Marine Engineering watchkeepers, Warfare Leading Hands, Royal Marine Other Ranks and Air Engineering Technicians remain a concern. Their impact on operational capability continues to be mitigated through a combination of micro-management of the pinch point communities and prioritisation of manning according to task;

- The Army had 24 Manning Pinch Points trades in 2005-06, including Intelligence Operators and Vehicle Mechanics. Each pinch point has a mitigation plan which is reviewed regularly and systematically. Manning of the Royal Artillery and Infantry are also major foci of effort, where sustained operational requirements are creating the greatest shortfalls against harmony guidelines;
- The Royal Air Force is facing a period of deficit manning as the drawdown programme proceeds. During this year there were deficits in a number of specialisations including Junior Officer Pilots, Fighter Controllers, Medical Officers, Weapons Systems Operator (Linguist), Weapons Systems Operator (Air Load Master), Provost/Security, Medical Support and Nurses, causing breaches of Individual Harmony Guidelines in some cases.

<sup>5</sup> These figures are calculated using total trained strength versus total trained requirement. Data from DASA.



280. During 2005-06, work continued to refine the Deployable Medical Capability we need to meet planning assumptions. Preliminary conclusions suggest that there may be potential to reduce the overall personnel requirement, which would have the effect of reducing medical officer shortfalls from 22.1% to 7%, and dental officer shortfalls from 8.4% to 5.2%. Medical recruitment and retention continued to improve with an increase of 342 personnel during 2005 to a total of 7,712 trained personnel in the Defence Medical Services in January 2006. Medical Officer shortfalls continued to be concentrated in anaesthetics, psychiatry, and Accident and Emergency. There were nursing shortfalls in Accident and Emergency and Intensive Therapy Units. The Defence Medical Services are trying to improve recruitment and retention by selective re-skilling, adapting the training input and outflow to address particular shortage areas, and increasing direct entry recruitment. The new Armed Forces Pension Scheme with its specific bonus arrangements for medical and dental officers should also improve retention. We also mitigate shortfalls by employing civilian agency contractors and working closely with our allies and partners on operations. Despite the continuing shortfalls, at no point have the Defence Medical Services been unable to meet operational commitments.

## Recruitment and Trained Inflow

281. 2005-06 was a difficult year for recruitment, especially for the Naval Service and the Army. The Armed Services continue to face stiff recruiting competition in the face of high levels of employment. Specifically:

- Naval Service Officer recruitment levels remained at 370, but this was against a higher target than the

previous year. However application levels for Royal Navy ratings and Royal Marine other ranks showed a significant improvement, mainly as a result of a sustained and coordinated focus on Royal Marine recruiting. Additional resources for Royal Marine recruiting (£1.2M) made available in year also had a positive impact;

- Army recruitment of Other Ranks was 1,200 below target, although there were 1,000 more recruits than last year. High employment, a prosperous and strong economy and attractive alternatives in further education all compete with the Army for young men and women. The majority of the shortfall reflected low application levels and enlistments in the first half of the year, which then picked up in the second half. The Army is addressing the shortfall in several different ways. In particular it is trying to attract more high quality recruits, to reduce wastage during training, and working to keep retention levels steady. Infantry recruiting was a primary focus for effort;
- The Royal Air Force broadly met its recruiting targets during 2005-06, but this mainly reflected the reduced target during the drawdown period. The Service therefore concentrated much of its outreach effort on those not yet of recruitment age, to ensure that interest in a career in the Royal Air Force is maintained for when the recruiting requirement rises again. Lower than expected recruitment figures for officers in previous years and a disruption in the officer training pipeline in 2004-05 had a negative effect on our Gains to Trained Strength figures. For non-commissioned aircrew, lower than expected recruitment figures in previous years significantly reduced the Gains to Trained Strength figures.

Table 18: Intake to UK Regular Forces from civilian life

	Royal Navy/Royal Marines			Army			Royal Air Force		
	2005-06	2004-05	2003-04	2005-06	2004-05	2003-04	2005-06	2004-05	2003-04
Officer intake	370	370	340	770 P	760	880	320 P	290	520
Other Rank intake	3,570	3,320	3,780	11,910	10,940	14,310	1,110 P	1,880	3,640
Total intake	3,940	3,690	4,120	12,690 P	11,690	15,190	1,430 P	2,180	4,160

Notes:

1. Data from DASA.
2. UK Regular Forces includes Nursing Services and excludes Full Time Reserve Service Personnel, Gurkhas, the Home Service battalions of the Royal Irish Regiment and mobilised reservists. It includes trained and untrained personnel.
3. All intake to UK Regular Forces includes re-enlistments and rejoined reservists.
4. 'P' denotes provisional. Army Officer figures are provisional pending investigation of possible late reporting of intake data. RAF figures are provisional due to the introduction of the new Joint Personnel Administration system.
5. Figures are rounded to ten and may not sum precisely to the totals shown.

**Table 19: Gains to Trained Strength**

	Numbers achieved in 2005-06	Target (and % achieved)
Naval Service Officers	370	410 (90%)
Naval Service Other Ranks	2,330	2,700 (86%)
Army Officers <sup>2</sup>	750	810 (93%)
Army Other Ranks <sup>2</sup>	7,770	9,230 (84%)
Royal Air Force Officers	360 P	370 (98%) P
Royal Air Force Other Ranks	1,770 P	1,800 (98%) P

**Notes:**

1. Naval Service and RAF figures come from DASA. The Army figures come from the Adjutant General TLB.
2. The Army numbers and target show officers completing the Royal Military Academy Sandhurst and soldiers completing Phase 2 training. This metric is used for internal manning management and does not match the figures produced by DASA and published in Tri Service Publication 4.
3. 'P' represents that figures are provisional due to the introduction of the new Joint Personnel Administration system in the RAF.

## Retention and Voluntary Outflow

282. Rates of retention and voluntary outflow (previously known as premature voluntary release) also contribute to the achievement of manning balance. The Armed Forces have set thresholds, based upon historical averages, against which they manage the potential impact of early exits in order to achieve a desirable balance between retaining skills and experience and new recruitment. We therefore track the number of Service men and Service women voluntarily leaving the Forces before the end of their agreed term, against of stable long-term voluntary outflow rates of 2% and 5% for RN officer and ratings respectively, 4.1% and 6.2% for Army Officers and soldiers, and 2.5% and 4% for RAF officers and Other

Ranks. Figures for the last three years are set out below. There was a significant increase in Voluntary Outflow exits rates for RAF Other Ranks during 2005-06 which put the RAF above its long term target range. This was caused by faster processing of applications for redundancy from staff during the drawdown period; Voluntary Outflow application rates did not change significantly. Whilst some of the Voluntary Outflow figures are above the stable long term goals this is partly a reflection of employment opportunities outside the Services. We have a number of initiatives to improve retention and morale in general, including improving living accommodation (see paragraphs 301-302), better travel allowances to allow people home more readily, better work-life balance and improved working conditions at the front-line.

**Table 20: Voluntary Outflow Exit Rates**

	Stable long term Voluntary Outflow goals	12 months ending 31 March 2006	12 months ending 31 March 2005	12 months ending 31 March 2004
RN/RM Officers	2.0%	2.8%	2.5%	2.5% <sup>2</sup>
RN/RM Ratings	5.0%	6.0%	6.4%	5.7%
Army Officers	4.1%	4.3%	3.9%	3.7%
Army Soldiers	6.2%	5.5%	5.7%	5.3%
RAF Officers	2.5%	2.5% P	2.4%	2.1%
RAF Other Ranks	4.0%	4.8% P	3.8%	3.7%

**Notes:**

1. Data from DASA and Voluntary Outflow goals from the Departmental Plan 2005-2009.
2. This figure is different to that published in the Annual Report and Account 2003-04 due to the introduction of a new exit code which was not correctly classified.
3. 'P' denotes provisional. RAF figures are provisional due to the introduction of the new Joint Personnel Administration system.



**Table 21: Outflow of UK Regular Forces**

	Royal Navy/Royal Marines			Army			Royal Air Force		
	2005-06	2004-05	2003-04	2005-06	2004-05	2003-04	2005-06	2004-05	2003-04
Officer outflow	520	510	470	1,070	1,100	950	690 P	700	620
Other Rank outflow	3,960	4,130	4,300	13,120	13,970	13,640	3,870 P	3,020	3,410
Total outflow	4,490	4,630	4,770	14,190	15,070	14,600	4,570 P	3,730	4,040

Notes:

1. Data from DASA.
2. UK Regular Forces includes Nursing Services and excludes Full Time Reserve Service Personnel, Gurkhas, the Home Service battalions of the Royal Irish Regiment and mobilised reservists. It includes trained and untrained personnel.
3. All intake to UK Regular Forces includes re-enlistments and rejoined reservists.
4. 'P' denotes provisional. RAF figures are provisional due to the introduction of the new Joint Personnel Administration system.
5. Figures are rounded to ten and may not sum precisely to the totals shown.

## Diversity of the Armed Forces

**283.** Despite continuing efforts, we continue to find recruiting proportionately from UK ethnic minority groups to the Armed Services difficult. Performance against in-year recruiting goals is set out in Table 22. While the Army nearly met its target, limited recruitment opportunities were a significant constraint on the Royal Navy and the Royal Air Force. Overall ethnic minority representation within the Armed Forces continued to increase, reaching 5.5% by 1 April 2006 (see Table 23), reflecting continuing recruitment from a number of Commonwealth countries to, in particular the Army.

**284.** The Armed Forces regularly review their recruiting policies in consultation with the Commission for Racial Equality and other experts in the field, with a view to engaging ethnic minority groups, raising awareness and promoting careers in the Services. They remain committed to becoming more representative of the society they serve, with a goal of 8% ethnic minority representation by 2013. The Army has topped the public sector performers list for the sixth consecutive year in the 'Race for Opportunity's annual benchmarking report on race in the workplace. The RAF and Navy also finished in the top ten public sector performers. Of the top ten overall performers (comprising both private and public

**Table 22: Armed Forces UK Ethnic recruitment**

	2005-06		2004-05		2003-04	
	Target	Actual	Target	Actual	Target	Actual
Navy	3.5%	2.0%	3.0%	2.3%	2.5%	2.1%
Army	3.9%	3.6%	3.4%	3.7%	2.9%	2.8%
RAF	3.6%	1.5%	3.1%	1.7%	2.6%	1.8%

Notes:

1. These figures are unaudited single Service estimates of UK ethnic minority intake.
2. The Army officer intakes is measured by intake into Sandhurst.

**Table 23: Armed Forces ethnic minority representation**

	1 Apr 2006	1 Apr 2005	1 Apr 2004	1 Apr 2003	1 Apr 2002
Royal Navy	2.6%	2.5%	2.4%	2.3%	1.8%
Army	8.0%	7.6%	6.9%	5.9%	4.5%
RAF	2.4% P	2.5%	2.5%	2.6%	2.6%
Armed Forces	5.5% P	5.3%	4.9%	4.3%	3.5%

Notes:

1. Data from DASA.
2. Includes UK and Commonwealth nationals.
3. 'P' denotes provisional. RAF figures are provisional due to the introduction of the new Joint Personnel Administration system.

organisations), the Army finished fifth nationally and the RAF in tenth. Further information on diversity in the Armed Forces is contained in the essay on page 147.



Soldiers take time out

## Sexual Harassment

**285.** On 23 June 2005, the Secretary of State for Defence and the Chief of the Defence Staff signed an agreement with the Equal Opportunities Commission on *Preventing and Dealing Effectively with Sexual Harassment in the Armed Forces*. This aims to create a working environment in which sexual harassment is not tolerated; to ensure that Service personnel who experience sexual harassment feel able to complain and have confidence in the complaints process, including a robust investigation process, high quality support, the use of effective sanctions, a focus on resolving the problem, and protection from future harassment or victimisation; and to monitor the nature and extent of harassment in the Armed Forces in order to correct deficiencies and build upon the strengths of our policies and processes.

**286.** As part of the first phase of the agreement, we conducted extensive research during the year to clarify the nature and extent of sexual harassment, including a survey of all Service women. There was a high response rate (52%) and the responses were broadly consistent across the three Services. The research found that sexualised behaviours (jokes, stories, language and material) were widespread in all three Services. Almost all (99%) Service women who responded had been in situations where such sexualised behaviours had taken place in the previous year. Of those who responded, 15% reported having had a "particularly upsetting" experience and 67% reported having had such behaviours directed at them personally.

**287.** With women comprising over 9%<sup>6</sup> of UK Regular Forces and over 9.5%<sup>6</sup> of the total intake, it is clear from this research that we have a serious problem with which we must deal urgently. This is about operational effectiveness. The success of the Armed Forces depends fundamentally on respect, trust and mutual dependence. Anything that weakens those bonds of trust and respect weakens the Armed Forces as a fighting force. Harassment does just that, so it is crucial that we deal with it. Acknowledging the problem was an important first step. In light of these findings on 26 May 2006, we agreed a new action plan with the Equal Opportunities Commission to prevent and deal with sexual harassment in the Armed Forces, with a clear undertaking to create an environment, through strong leadership, in which harassment is recognised as inappropriate and preventable. It commits the MoD to deliver real improvements for Service personnel, including increased confidence in the complaints system and a reduction in the number of women reporting unwanted behaviour of a sexual nature being targeted at them. The Equal Opportunities Commission will work with us to monitor progress until the current phase ends in June 2008. At the end of this period, the Commission will decide whether we have complied fully with the agreement, or whether it will need to take further action.

## RESERVES MANPOWER

### Type and Structure

**288.** It is Government policy to have more capable, usable, integrated and relevant Reserve Forces supporting their Regular counterparts on operations overseas. The operational utility of the Reserve Forces has again been borne out in the past year through their contribution to operations worldwide, under the five call-out orders currently in force. These cover operations in Iraq, Afghanistan, the Balkans, Sierra Leone and in support of the Government's counter-terrorist objectives. The Reserves are now an integral part of Defence capability, to be drawn upon for use on enduring operations where necessary. A National Audit Office report on the Reserve Forces, published in March 2006, concluded that we have been successful in using the Reserves and that we have successfully developed a culture where the Reserves now expect to be used on operations. In a major survey of Reservists conducted for the study, over 60% of recent entrants to the Reserves stated the desire to serve on operations as an important reason for their joining. Integration into the overall Defence framework is also evident in steps taken to reform the structure and management of the Reserves. The Territorial Army restructuring exercise, announced in March 2006, was complementary to previous work on Future Army Structures for the Regulars (see paragraph 112). On 1 April 2006, the management of the Royal Naval Reserve and the Royal Marines Reserve was brought together under a 1-star Commander Maritime Reserves based in Portsmouth.

<sup>6</sup> Figure from DASA and are at 1 April 2006.



Royal Naval Reserve nurses at work

289. The continuing use of Reserves to augment the Regular Forces requires a sufficient supply of Reservists to be available to undertake these tasks. We are therefore undertaking major efforts to increase levels of recruitment and retention in the Reserve Forces. A breakdown of the current strengths of the Volunteer and Regular Reserve Forces is shown in tables 24 and 25. Although all the Volunteer Reserve forces failed to meet their manning balance target of 95%, the downward trend in manning levels has slowed across each of those forces, and 2005-06 saw an increase in overall strength of both the Royal Marines Reserve and Territorial Army. This is the first such increase in Territorial Army strength since major changes to its size and structure were introduced following the 1998 Strategic Defence Review. In order to improve manning levels, both the Army and the Navy are combining their Regular and Reserves recruiting operations under a single professional organisation, to ensure high quality and consistent branding. The Army has also initiated a wide-ranging manning action plan, covering a range of issue from training to welfare and recruitment to estate infrastructure.

Table 24: Trained Strength and Requirements of Volunteer Reserves at 1 April

	Royal Navy / Royal Marines			Territorial Army			Royal Auxiliary Air Force		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Requirement	3,930	4,840	4,840	38,430	38,430	38,430	2,220	2,220	2,220
Strength	3,170	3,320 <sup>2</sup>	3,780 <sup>2</sup>	32,150	31,410	32,240	1,450	1,480	1,550
<i>Of which mobilised</i>	N/A	10	60	1,110	1,460	2,890	80	20	20
Manning Balance	81%	69%	78%	84%	82%	84%	65%	67%	70%

Notes:

1. TA and R(Aux)AF strength and mobilised data from DASA. RN/RM and all requirement from single service sources.
2. Figures will differ from that shown in previous reports.
3. Figures are rounded to the nearest ten.
4. RN/RM strength and requirement excludes University RN Units. TA strength and requirement excludes non-regular permanent staff, Officer Training Corps and Full Time Reserve Service personnel. R(Aux)AF strength and requirement excludes University Air Squadrons.
5. Volunteer Reserve Manning Balance is calculated from overall requirement against overall strength.

Table 25: Strength of the Regular Reserve Forces at 1 April

	Royal Navy / Royal Marines			Army			Royal Air Force		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Strength	10,400	10,530	10,700	32,060	31,420	31,220	8,100	8,440	9,520
<i>of which mobilised</i>	–	–	–	260	170	150	10	10	10
Individuals liable to recall	10,060	11,650	12,000	95,520	102,760	110,720	26,570	26,720	27,120
Total	20,460	22,180	22,700	127,580	134,190	141,940	34,670	35,160	36,610

Notes:

1. Army and RAF data from DASA, RN/RM data from single service source.
2. Figures exclude Full-Time Reserve Service personnel.
3. '–' denotes zero or rounded to zero.
4. Figures are rounded to the nearest ten, and due to rounding the totals may not always equal the sum of the parts.

**290.** A number of other initiatives are aimed at making staying in the Reserves a more attractive proposition for those currently serving. In April 2005, we introduced a new Reserve Forces Pension Scheme and Armed Forces Compensation Scheme. The latter significantly enhances Reservist's conditions of service because it also takes into account a reservist's civilian as well as his military earnings, even when training. A number of Reserves welfare initiatives have improved communication with Reservists and their families, improved access to welfare facilities for families (special requirements are necessary because, unlike regulars, Reservists do not live within close-knit communities typical of Regular forces) and better management of the sick and injured. This included our undertaking in November 2005 to provide injured Reservists with improved access to diagnosis and treatment at the Reserves Training and Mobilisation Centre at Chilwell, and, where appropriate, at Ministry of Defence Hospital Units. In May 2006 we also announced mental healthcare support for Reservists (see paragraph 215).

## CIVILIAN MANPOWER

### Civilian Contribution to Operations

**291.** About 350 UK-based civilian staff deployed to operational theatres alongside their uniformed colleagues during 2005-06. They worked with military commanders as policy advisers as well as providing local contractual, secretariat and financial advice to deployed forces. Personnel from the Defence Science and Technology Laboratory, the Defence Fire Service and the Ministry of Defence Police have also made a valuable contribution to operations over the last year. On 1 April 2006, we also employed about 15,100 Locally Engaged Civilians, of whom some 3,280 were employed in operational areas. The 2,340 personnel of the Royal Fleet Auxiliary Service regularly deploy to operational theatres alongside their uniformed colleagues, operating a range of Royal Fleet Auxiliary ships to support the front line.



RFA Bayleaf supporting operations in the Gulf.

### Staff Numbers

**292.** We remain on course to meet or exceed our efficiency target to reduce the number of civilian posts in administrative and support roles by 11,000 (including 1,000 Locally Engaged Civilians) by the end of March 2008. We currently plan to reduce around 11,570 posts, of which around 3,250 had been achieved by 31 March 2006, 3,030 in 2006-07 and 5,290 in 2007-08. The total number of civilians employed by the Department (including its Trading Funds and Locally Engaged Civilians) reduced from 108,470<sup>7</sup> Full Time Equivalents on 1 April 2005 to 103,930 on 1 April 2006. This comprised some 3,640 UK based staff with the balance being Locally Engaged Civilians.

**293.** We are making every effort to minimise and, where possible, avoid compulsory redundancies. Natural wastage (mainly normal retirements and resignations) and moves to private contractors, on Transfer of Undertaking and Protection of Employment terms, are expected to produce the majority of the planned reductions. Others will be achieved by reduced recruitment and a voluntary Early Release Scheme. Individuals whose posts are cut are being managed through a Department-wide Redeployment Pool, which gives those in the Pool priority consideration when filling new or vacant posts. Staff leaving through the Early Release Scheme receive assistance including access to a MoD-funded Outplacement Service. Staff leaving on early or normal retirement terms attend a workshop on 'Planning for Retirement'.

### Civilian Diversity

**294.** Details of our diversity performance against our targets are set out in Table 26. The MoD's Unified Diversity Strategy continues to provide the overarching strategic guidance for actions taken to improve the diversity of the Department's civilian staff. This challenge will be significantly more difficult to meet when, in order to deliver our contribution to the Government's efficiency and relocation objectives, we are further reducing the size of our workforce, relocating elements from more to less ethnically diverse parts of the country and limiting recruitment. We refocused our diversity programme following the release in November 2005 of the Civil Service's ten-point plan to increase the pace of diversity reform at senior levels in the Civil Service, drawing together into a single delivery plan our continuing diversity initiatives and those required under the Civil Service plan. This provides our blueprint for diversity reform and sets out the actions the MoD will pursue to support the achievement of diversity targets. A new Equality and Diversity Scheme, taking account of existing, new and likely future legislation to promote equality and diversity, was developed during the year and was launched in May 2006. The Scheme, which will be in force until 2009, sets out our strategy for meeting the statutory general and specific duties for Race, Disability and Gender and our approach to other diversity strands.

<sup>7</sup> These figures are those normally published in UK Defence Statistics and other DASA publications. They differ from those on page 205 which are in accordance with HM Treasury Financial Reporting Manual and shows the average over the year. A detailed explanation is provided on page 205.



**Table 26: Percentage of Women, Ethnic Minority and Disabled Non-Industrial Civilian MoD Staff**

	2007	2006		2005		2004	
	Target	Target	Achieved	Target	Achieved	Target	Achieved
<b>Total Senior Civil Servants in the MoD<sup>9</sup></b>							
Women	15.0	15.0	10.1	15.0	9.2	13.0	8.8
Ethnic Minorities	3.2	3.2	2.6	3.2	2.2	3.0	2.2
Disabled	2.0	2.0	2.9	2.0	3.3	1.9	3.0
<b>Band B</b>							
Women	18.0	18.0	19.1	16.0	18.5	15.0	16.6
Ethnic Minorities	3.5	3.5	2.3	3.0	2.4	2.7	2.5
Disabled	4.0	4.0	2.7	4.0	2.4	3.6	2.0
<b>Band D</b>							
Women	40.0	40.0	38.5	40.0	37.6	38.0	36.1
Ethnic Minorities	4.0	4.0	3.2	4.0	2.9	3.5	2.9
Disabled	6.0	6.0	4.3	6.0	4.2	5.8	4.2

**Notes:**

1. Data from DASA. Figures at 1 April.
2. Percentages of Ethnic Minority Staff calculated as percentages of staff with known ethnicity status.
3. Percentages of Disabled staff have been calculated as percentages of total staff (ie including those who have declared or not declared their status), to be comparable with set targets. This differs from the methodology used in all external publications and in the recruitment table where percentages of Disabled staff are calculated from staff with known disability status.
4. Senior Civil Service data covers SCS and equivalent grades e.g. medical consultants.

**295.** These initiatives reinforce our commitment to inculcating Diversity into how the MoD goes about achieving its business, and to build on our achievements to date. These were recognised through external benchmarking during the year. We maintained our silver ‘Race For Opportunity’ standard (an independent organisation working on race and diversity) and achieved a gold award in the ‘Opportunity Now’ benchmarking exercise. We improved from 59th to 35th in Stonewall’s Corporate Equality Index this year. An independent benchmarking exercise conducted during the year concluded that our diversity policy framework compares very favourably with other public and private sector organisations assessed to date. However, while the benchmarking report also indicates that we have an appropriate policy framework in place, it also showed that there are gaps between our policy and practice in the workplace. We are therefore now focusing on how best to ensure the appropriate policy framework is implemented.

## Civilian Recruitment

**296.** The 2004 Spending Review committed the Department to substantial civilian manpower reductions. Recruitment in 2005-06 was consequently lower than in the previous two financial years and is expected to fall further (see Table 27). However, despite this reduction in recruitment, diversity figures have remained constant and in some cases have improved. The number of women as a percentage of the total industrial and non industrial staff recruited has remained stable (38.9% in 2003-04, 40.5% in 2004-05, 38.8% in 2005-06). We intend to maintain targeted recruitment in certain specialist functions and to ensure an adequate supply of future senior managers. The recruitment information shown in Table 27 includes figures for recruitment of all permanent and temporary (casual) civilian personnel including Trading Fund staff. Additional recruitment information, in accordance with the Civil Service Commissioners’ Recruitment Code, can be found at Annex F.

Table 27: Civilian Recruitment

	2005-06		2004-05		2003-04	
	Non Industrial	Industrial	Non Industrial	Industrial	Non Industrial	Industrial
Total Number recruited	3,510	1,130	5,480	1,700	6,530	2,710
Number and percentage of women	1,510 43.1%	290 25.6%	2,440 44.5%	470 27.5%	3,020 46.2%	580 21.3%
Number of people with declared minority ethnicity <sup>3</sup>	170 7.2%	20 3.0%	130 4.2%	20 2.3%	160 4.6%	20 2.7%
Number of people with declared disabilities <sup>4</sup>	10 ~	~ ~	40 0.7%	20 1.2%	40 0.7%	10 ~

Notes:

1. Data from DASA.
2. The recruitment statistics shown are for all permanent and casual civilian personnel including Trading Fund staff and do not include other methods of entry. No recruitment information is available for Royal Fleet Auxiliary or Locally Engaged Civilian personnel. Further civilian recruitment information required by the Office of the Civil Service Commissioner can be found in Annex F.
3. Percentage of staff recruitment is based on known declarations of ethnicity and excludes staff with unknown or undeclared ethnicity.
4. Percentage of staff recruitment is based on known declarations of disability status and excludes staff with unknown or undeclared disability status.
5. ~ indicated strength of less than ten or percentage based on strength of less than ten.
6. All figures are on a Full Time Equivalent basis.
7. All figures have been rounded to meet Freedom of Information requirements and protect confidentiality.

## Civilian Progression

297. The Department also set itself a number of targets on civilian progression, covering promotion to the Senior Civil Service (SCS), Management Development Programme pass-rates at the Assessment Centre for promotion to Band B, and success rates for 'In Service Nominations' to the Civil Service Fast Stream. The relatively small size of the Defence SCS (about 0.3 % of the Defence civil service are Senior Civil Servants, compared to a rate of about 0.9% across the Civil Service as a whole), combined with an unfavourable demographic profile and low rate of turnover that reflect a department that has been shrinking for over 15 years mean that promotion opportunities to and within the SCS remain limited. Although 93 staff applied for promotion to the SCS, we were only able to

make 16 substantive promotions to the Defence SCS in 2005-06 against a target of 18. Similar constraints apply at Band B level. 641 staff applied to the 2006 Band B Assessment Centre. Following a sift exercise, only 17% of staff were invited to attend, compared to 34% in 2005 and only 11% of staff who had applied for promotion were successfully awarded a Band B promotion passport, compared to 24% in 2005. Within that total members of development schemes performed well. Of those invited to the Centre 100% of Fast Stream applicants succeeded against a target of 85%, and 79% of applications from our internal scheme to identify and develop internal talent. The In Service Nomination success rate for the Fast Stream in 2005 was 45% against a target of 50% (5 passes from 11 people sitting).

## FURTHER SOURCES OF INFORMATION

298. Additional Information on Manpower is available from the following sources:

- quarterly PSA reports to HM Treasury at [www.mod.uk](http://www.mod.uk);
- *UK Defence Statistics 2006* available at [www.dasa.mod.uk](http://www.dasa.mod.uk) (from September 2006);
- NAO Report *Ministry of Defence Reserve Forces* (HC964 on 31 March 2006) available at [www.nao.org.uk](http://www.nao.org.uk);
- *Race Equality Scheme* at [www.mod.uk](http://www.mod.uk);
- *Preventing and Dealing Effectively with Sexual Harassment in the Armed Forces* available at [www.mod.uk](http://www.mod.uk);
- Agreement between MoD and Equal Opportunities Commission *Progress Report and Phase Three Action Plan* available at [www.mod.uk](http://www.mod.uk);
- *Delivering a Diverse Civil Service – A 10-Point Plan* available at [www.civilservice.gov.uk](http://www.civilservice.gov.uk);
- *Equality and Diversity Scheme 2006-2009* available at [www.mod.uk](http://www.mod.uk).



## Essay: Diversity in the Armed Forces

For the Armed Forces, diversity is not a matter of political correctness. There is both a clear moral imperative and a compelling business case. The moral imperative stems from the fact that it is right that the Armed Forces be seen to be equally open to and drawn from across the society they serve. Women have as much a part to play in the Defence of the realm as in anything else, and an increasing proportion of our society, while British, come from a wide variety of ethnic and cultural backgrounds. If the Armed Forces are to command the confidence and support of the whole of British society, then they must actively encourage participation from all sections of society. Looked at in business terms, the Armed Forces compete with other employers for the best recruits, particularly as they become more technologically advanced. And drawing on the talents and skills of recruits from different backgrounds will increase flexibility and innovation and help the Armed Forces to understand and respond better to different types of situations and people by bringing different perspectives to their work. Moreover, demographic factors mean that the Armed Forces will have to look beyond their traditional recruiting grounds to find enough recruits of the right calibre. In short, rational self-interest would impel the Armed Forces to look to other sources of talent even if there were no moral case.

However, there are constraints: service in the Armed Forces is a difficult, sometimes dangerous, round-the-clock commitment. Their policies have to take this into account and the Armed Forces are therefore exempt from some aspects of diversity legislation, in particular on disability and age. Because of the need for all military personnel, whatever their trade, to be combat-effective in order to meet a world-wide liability to deploy, they must pass strict medical and physical fitness tests, and the Armed Forces therefore cannot admit people with certain disabilities (although they do recruit people with some disabilities covered by the Disability Discrimination Act, such as dyslexia). With regard to age, the delivery of military fighting power predominantly calls for the physical capacities of youth, and Service personnel need to be young enough when recruited to give a good return of service since their training is expensive. The Armed Forces also need to attract young people into the Services and progress the best of them through to command positions at non-commissioned and officer level in order to 'grow' people with the right experience to fill senior positions, since acquiring military knowledge and experience is a cumulative process and cannot be bought-in. Accordingly, the Armed Forces recruit almost entirely into the Junior Ranks and Junior Officer levels. A corollary of this is that the Services also need policies to encourage personnel to leave after a certain number of years to ensure there is constant movement through the promotion pyramid, otherwise career advancement would become static. This would be unacceptable since Service personnel are unable to move freely in and out of the labour market. Maintaining the balance of age and experience is therefore fundamental to delivering operational capability and the terms of employment for Service personnel are structured accordingly.

Some restrictions are also still imposed on the employment of women. Drawing on advice from the Chiefs of Staff and the conclusions of a detailed study into *Women in the Armed Forces*, the Secretary of State for Defence decided in May 2002 that the case for lifting the restrictions on women serving in ground close-combat roles where they could be required to close with and kill the enemy in hand-to-hand fighting had not been made. Accordingly posts in the Royal Marines General Service, the Household Cavalry and Royal Armoured Corps, the Infantry and the Royal Air Force Regiment remain closed to women. Health and safety considerations mean that submarine and mine clearance diving service also remain closed to women. But 71% of posts in the Royal Navy, 71% of posts in the Army and 96% of posts in the Royal Air Force are open to them.

There has, at times, been a good deal of sensationalist media coverage about 'gays in the Armed Forces'. In practice, the Services now treat sexual orientation as a private matter not relevant to an individual's suitability for a career in the Armed Forces. Personnel are free to choose whether or not to disclose their sexual orientation. The important thing is that if they wish to do so, they must be confident that they will not suffer abuse or intimidation. All members of the Armed Forces are expected to challenge homophobic behaviour, attitudes and all other forms of prejudice.

Encouraging diversity has led the Armed Forces to make a range of practical changes. Like any employer, their personnel planning now has to take account of maternity and paternity leave. Childcare considerations have led to the provision of crèches at many units. Career breaks are available to all at the discretion of the Service, in particular to help with caring responsibilities and domestic problems. In line with the terms of the Civil Partnerships Act, the Services also give parity of treatment, for example in the allocation of accommodation, to gay and lesbian couples who have formally registered their partnerships.

Reasonable adjustments have also been made to accommodate the needs of those from different cultural and religious backgrounds. Sikh men are allowed to wear their religious symbols (the 5Ks); Muslim and Sikh men are permitted to wear short, neatly-cut beards; Muslim women are allowed to wear uniform trousers rather than a skirt and may wear a hijab; male members of the Jewish faith may wear dark plain or patterned yarmulkes whenever they remove other headgear; vegetarian, Halal and Kosher meals can be provided in Service messes and in operational ration packs; and time-off for prayer and religious observance is normally allowed and suitable facilities provided. Reflecting their increasing presence in the Forces, we recently appointed the first chaplains from the Sikh, Hindu, Buddhist and Muslim faiths to join the long-standing Honorary Officiating Jewish Chaplain.

But all these adjustments are subject to the over-riding imperatives of operational effectiveness and health and safety. For example, while Sikh men are normally allowed to wear turbans, some trades require specialist headgear (such as commanders' helmets in armoured fighting vehicles, combat helmets, fire-fighters' breathing apparatus with full hoods, and aircrew flying helmets), especially on operations. Turbans are incompatible with this. Male Sikh personnel can normally wear a patka under specialist headgear but even this is not possible with a flying helmet, which must be closely fitted to the contours of the head to be effective. In these circumstances, Sikh personnel may be required to have their hair cut short.

Persuading the best people to choose a career in the Armed Forces is challenging, whether men or women and whatever their ethnic and cultural background. It involves, among other things, ensuring that they feel welcome and valued. This has meant changing attitudes and behaviours, some of which were cherished as part of the traditional Service ethos. But traditions have to evolve and adapt if they are to survive. Just as wider society has come to consider that language and actions that were once commonplace are no longer acceptable, so have the Armed Forces. This is a matter of respect for others, of sensitivity, of recognising the limits on certain types of behaviour and not crossing the line. Progress comes from gaining acceptance for such changes without destroying the banter and camaraderie that fosters team spirit and underpins operational effectiveness. This is not easy and requires clear, consistent leadership from the top down. Achieving real diversity is difficult; the Armed Forces work at it continuously and direct effort and resources to promote it. And we are getting there.



The recently appointed Buddhist, Hindu, Muslim and Sikh Armed Forces Chaplains.



## ESTATE

**Objective:** Maintain an estate of the right size and quality, managed in a sustainable manner, to achieve Defence objectives.

### Public Service Agreement Target (SR2002 MoD Target 7)

Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability:

- **Identify for disposal land and buildings with a Net Book Value of over £300M (from 1 April 2002 to 31 March 2006).**

### Performance Measures and Assessment

Improving the Estate – Improve Single Living Accommodation to Grade 1 standard by delivering 2,500 Grade 1 bed spaces through Project SLAM and 5,300 Grade 1 bed spaced through other projects:

- **3,570 new-build bed spaces delivered in 2005-06 through Project SLAM;**
- **3,055 new-build bed spaces delivered in 2005-06 through parallel projects.**

Improving the Estate – Improve Service Families Accommodation in the UK by upgrading 600 family houses to Standard 1 for condition:

- **1,705 Service families houses upgraded in 2005-06 of the long term stock 25,091 houses at Standard 1 for condition and 15,794 at Standard 2 for condition. Over 95% of the long term core stock now at Standard 1 or 2 for condition.**

Managing the Estate – Relocation of 3,900 posts outside of London and the South East by 2010:

- **Major Estate rationalisation programme in progress;**
- **1,229 posts so far relocated outside of London and South East.**

Managing the Estate – Achieve gross estates disposal receipts of £250M in year and identify land and buildings for disposal with cumulative value of £300M by April 2006:

- **Accrued gross disposal receipts from surplus land and property of £266M in 2005-06 (cumulative total £685M April 2003-March 2006 against cumulative target of £500M);**
- **Assets with Net Book Value of £61M transferred to Defence Estates in 2005-06 for disposal (cumulative value £456M from 1 April 2002 to 31 March 2006).**

Managing the Estate – Award Regional Prime Contracts for the Central region by September 2005 and East by October 2005:

- **Regional Prime Contract (Central) awarded 2 November 2005;**
- **Regional Prime Contract (East) awarded 16 November 2005;**
- **Housing Prime Contract for England and Wales awarded 14 November 2005;**
- **Value for Money measurement tool under development.**

Managing the Estate – Deliver the Sustainable Development strategy for the Defence Estate:

- **62% of scheduled ancient monuments in good or fair condition in 2005 (56% in 2004);**
- **79% of Sites of Special Scientific Interest assessed as in 'favourable' or 'unfavourable recovering' condition in January 2006 against target of 75%;**
- **Increased access to Defence land.**

## THE DEFENCE ESTATE

**299.** The Ministry of Defence is one of the largest landowners in the UK with a diverse estate of some 240,000 hectares (about 1 per cent of the UK land mass) valued at some £18 billion. It comprises a built estate of around 80,000 hectares (and rights to use a further 5,400 hectares) and a rural estate of some 160,000 hectares (and rights to use about 120,000 hectares more). It includes 179 Sites of Special Scientific Interest (SSSI), around 650 listed buildings and 1,057 scheduled monuments. We spend about £1.5 billion per year on maintenance and construction, with some of these costs offset against income from tenants and other land users. Overseas there are the garrisons in Germany, Cyprus, the Falkland Islands and Gibraltar, major training facilities in Canada, Cyprus, Germany, Norway, Poland and Kenya, and other facilities in Ascension Island, Belize, Brunei, Nepal, Singapore and the United States.

## IMPROVING THE ESTATE

**300.** The housing provided for Service personnel and their families is an important part of their overall package of terms and conditions and plays a significant role in retention and we are committed to providing high quality living conditions. The condition of living accommodation on the Defence estate is not as good as it should be. We invested some £163M during the year to take forward a range of programmes to improve both Single Living Accommodation and Service Families Accommodation, although the need to balance the resources needed against other Defence priorities has meant that we are not able to make progress as fast as we would like.

### Single Living Accommodation

**301.** Project SLAM (Single Living Accommodation Modernisation) is a Prime Contract to upgrade some 9,000 single bed spaces in the UK by 31 March 2008.



Completed SLAM accommodation at St. David's Barracks

It was awarded in December 2002 and construction work began in April 2003. It is providing a greatly improved living environment for single Service personnel, including mostly single rooms with en-suite facilities. Feedback has been good, and there is anecdotal evidence of single Service personnel in private lodgings requesting a return to base to take up SLAM accommodation. 3,570 bed spaces were delivered in 2005-06 against a target of 2,500, bringing the total upgraded so far to 5,582. There are also a number of other projects to modernise Single Living Accommodation in England, Scotland, Northern Ireland, Germany, Gibraltar and Cyprus aiming to upgrade about a further 21,000 single bed spaces by the end March 2008. 3,055 bed spaces were delivered in 2005-06, including over 800 in Germany, against a target of 5,300, bringing the total upgraded since 1 April 2003 to some 10,200. The shortfall against target in 2005-06 reflects delays to some projects pending decisions on the future structure and deployment of Service personnel. Schemes completed during the year included Vimy Barracks, Catterick (539); RAF Coningsby (258); RM Lympstone (412); St David's Barracks, Bicester (390); HMS Collingwood (294); Gutersloh, Germany (216); and Glencourse Barracks, Edinburgh (419).

### Service Families Accommodation

**302.** We currently manage some 49,000 Service Families Accommodation (SFA) properties, of which nearly 43,000 are considered to be long-term core stock. It is intended that the remainder will be handed back to Annington Homes Limited or disposed of as soon as possible. Work continued to improve the overall standard. During 2005-06 1,705 properties were upgraded to Standard 1 for Condition (costing £9.8M) against an original target of 600, bringing the total upgraded to Standard 1 since 1 April 2003 to 5,519. At April 2005, the long-term core stock was made up of 25,091 properties at Standard 1 (24,000 in April 2004), 15,794 at Standard 2 (18,000 in April 2004), 1,982 properties at Standard 3 (900 in April 2003) and 133 at Standard 4 (100 in April 2003). We plan to upgrade a minimum of 900 properties each year up to 2011.

## MANAGING THE ESTATE

**303.** As set out in the Defence Estate Strategy *In Trust and On Trust*, a refreshed version of which was launched in March 2006, our goal is to have an estate of the right size and quality to support the delivery of Defence capability, managed and developed effectively and efficiently in line with best practice, and sensitive to social and environmental considerations. Our approach is continuing to develop to reflect Smart Acquisition principles and substantial rationalisation of Defence activities. In May 2005 the National Audit Office published its report on *Managing the Defence Estate*. This concluded that we had made considerable progress in rationalising and improving the estate, providing a more effective and more efficient estate with wider benefits for the military and for the morale of service personnel and their families, but that more was needed to strengthen the arrangements.



## Rationalisation, Relocation and Disposals

**304.** We are taking forward an extensive programme of estate rationalisation and modernisation as part of the Department's change and efficiency goals. Projects underway include:

- the Army project to collocate the Headquarters of Land Command and the Adjutant General, probably at Andover in Hampshire;
- Project Allenby/Connaught to provide a modern working environment for the Army garrisons around Salisbury Plain;
- the creation of an integrated RAF headquarters at RAF High Wycombe in Buckinghamshire from 1 April 2006 by collocation of the headquarters of the RAF Strike and Personnel and Training Commands;
- the creation of an integrated acquisition and support organisation in the Bristol/Bath area, building on previous plans to collocate the headquarters of the Defence Logistics Organisation with the Defence Procurement Agency at Abbey Wood and, relocate the Defence Logistics Organisation Land and Air environment Integrated Project Teams with the Maritime environment teams;
- rationalisation of the Defence Intelligence Staff's estate;
- rationalisation of the Defence medical estate, including relocation of the Defence Medical Education and Training Agency from Aldershot to the Midlands;
- rationalisation and refurbishment of the Army training estate, including the closure during the year of the Army Technical Foundation College at Arborfield in Berkshire and absorption of its function into the Technical College at Harrogate in Yorkshire;
- rationalisation of the Defence Estate in London, including the closure and disposal of Chelsea Barracks, under a new procurement strategy, Prime Contracting Plus, that will use the value of the sites released by consolidation to fund construction and relocation costs;
- the reduction of the MoD Head Office from three buildings to two, enabling possible disposal of the Old War Office Building in Whitehall;
- follow-up to the review of Defence Airfields.

**305.** This programme will more than deliver on the Department's target under the Lyons Review to move at least 3,900 posts out of London and the South East by 2010. At 31 March 2006, 1,229 posts have relocated. The MoD has a strong track record of reducing or relocating out of London and the south east, having already reduced from more than 20 central London buildings to just 3 buildings in 2004. The further rationalisations outlined

above and a number of smaller projects will contribute a further 3,800 to 4,100 posts over the next four years, not including any relocations resulting from implementation of the Defence Training Review. These will be offset to some degree by the creation of the new integrated Army and RAF headquarters, both of which are likely to move some posts into the South East.

**306.** Accrued gross Estates disposal receipts of £266M were achieved during the year against a target of £250M, bringing total receipts to £685M for the three year period up to March 2006 against the 2002 Spending Review goal of £500M. In addition, assets with a net book value of £61M were identified and transferred to Defence Estates for disposal, bringing their cumulative value from 1 April 2002 to 31 March 2006 to £456M against the 2002 Spending Review Value for Money PSA target of over £300M.

**307.** We have forged a good working relationship with English Partnerships fostered by the signing of a Framework Agreement in 2004 to engender collaborative working. In March 2006 Defence Estates completed the sale of the former Oakington Barracks, approximately five miles from Cambridge, to English Partnerships for £99M. The 288 hectare site will form part of the new town of Northstowe which will be developed to provide approximately 10,000 new homes.

## Prime Contracting

**308.** Management of the majority of the Defence built estate in England and Wales is provided through a series of Regional Prime Contracts (RPCs). Some specific locations, and Service personnel accommodation management, are covered by other management arrangements. The RPC for Scotland covers built, rural and Service accommodation. We successfully completed roll-out of the five RPCs in November 2005 within a few weeks of the target date set in 2002, with the award of final contract for the Central region to Carillion Enterprise, a consortium comprising Carillion Services Ltd and Enterprise plc, and for the Eastern region to Babcock DynCorp, a consortium comprising Babcock Infrastructure Services and DynCorp International, on 2 and 16 November 2005 respectively. They became fully operational at the end of April and June 2006. A Housing Prime Contract for England and Wales to modernise service delivery for the repair and maintenance of Service Families Accommodation was awarded on 14 November 2005 to MODern Housing Solutions, a joint venture between Carillion, Enterprise and Atkins and became fully operational on 1 April 2006. The Contract covers the whole SFA estate across England and Wales, except where properties are covered by extant Private Finance Initiative (PFI) arrangements.

**309.** Regional Prime Contracting has a target to deliver 30% through life value for money improvements in estate management by 2013 through improved planning, supply chain management, incentivisation, continuous improvement, economies of scale and partnering. This is being measured using the Estate Performance Measurement System (EPMS) which is currently being

rolled out following the successful conclusion of pilots in early 2005, focusing initially on the areas of the estate managed under Prime Contracting. The poor availability of historical information on the estate continues to hamper assessments, and we do not expect the value for money improvements being achieved by the Scotland, South West and South East contracts to have been assessed and scored before the end of 2006. However, preliminary data from RPC Scotland, the most mature available, indicates that this level of improvement against the 2003-04 baseline may already have been achieved. This is currently being verified through a robust validation process to ensure that data standards have been applied consistently across the estate.

## Housing Management

**310.** Around 3,000 Service Family properties are currently vacant. This is known as the housing management margin. We continue to use this, less housing earmarked for disposal in the next 12 months, as a measure of the efficiency of our housing management. However, about 6%, over 3,000 further properties, was housing held in abeyance as a result of the uncertainty arising from possible future estate rationalisation decisions and service deployments, which are at historically high level. The housing management margin increased to 13.9% from 11.2% over the year against a target of 10%.

**311.** The number of empty properties also reduced from 1 April 2006 as Gurkha families started taking up SFA following changes to their terms and conditions of service. A rigorous programme to identify and dispose of property for which there is no longer-term requirement continues.

**312.** The service to residents of Service Families Accommodation is changing significantly following the merger of the Defence Housing Executive and Defence Estates and the roll-out of the Housing Prime Contract. We are redesigning the Housing Customer Attitude Survey to be more focussed and remove factors that are outside the control of estate management, such as levels of long term detached duty and operational commitments. Work also continued to develop consistent and world-wide housing standards, charging and reporting mechanisms. While satisfaction levels are an important performance indicator we will not be able to meaningfully quantify the satisfaction levels of SFA residents until this work is completed and the new Housing Prime Contract has bedded in the delivery of services to SFA occupants. It is planned to measure the satisfaction of occupants late in 2006.

## Project Aquatrine

**313.** Project Aquatrine is a Defence-wide 25-year PFI project to deliver water and waste water services to the Defence estate across Great Britain. It comprises three contracts covering the Midlands, Wales and the South West; Scotland; and the North, East and South-East of

England. At the same time as transferring risk to the service providers it is providing increased value for money (in 2005-06 cost benefit efficiencies of over £11M were realised for the contract for the Midlands, Wales and the South West), helping to achieve our sustainability goals (a leakage reduction programme is expected to produce water savings of over 0.75M m<sup>3</sup> across the estate this year) and improving health and safety (new fire mains and static tanks are being installed at a number of locations).

## Supplier Management

**314.** Defence Estates has generated a major rationalisation of its supply base, through the implementation of large-scale Prime Contract and Private Public Partnership projects. As such a significant proportion of Defence Estates business is now contracted out to a reduced number of suppliers for the medium to long term. As part of Defence Estates Supplier Management strategy we are improving the overall working relationship with suppliers and have identified a unique opportunity to work collaboratively with groups of suppliers delivering similar outputs. We have launched a collaborative supplier development programme and in November 2005 launched Supplier Associations for the Prime Contracting community and for Aquatrine. The purpose of these Associations is to create an environment to undertake business improvements, resourced by all parties, to provide tangible benefits to MoD and to industry. In the absence of a competitive atmosphere over the next few years, we are confident the Associations will greatly assist to deliver efficiencies and improve project delivery.

## Sustainable Development: Stewardship, Conservation and Access

**315.** We work to manage the Estate in as sustainable a way as possible. Further information on this is provided in paragraphs 77-82 on sustainable development, and in the essay on Project Allenby/Connaught on page 154. Detailed reporting is set out in the *Sustainable Development Annual Report 2005*. A further strand of our sustainable development strategy is the responsible management of the diverse and nationally important archaeological and environmental assets under our control, and the provision of as much public access and recreation to Defence land as is consistent with safety and security requirements and the delivery of military capability for which that land is held. Detailed information on these is contained in the annual *Stewardship Report on the Defence Estate* and the Ministry of Defence Conservation Magazine *Sanctuary*.



An MoD biodiversity day

**316.** A major audit was conducted during 2005 to check the data we held on the number, status, location, ownership and management responsibility for Scheduled Ancient Monuments on the Defence estate. Over 9,000 monuments are recorded on land we own or use, of which 1,057 are scheduled. Their condition continued to improve, with 62% assessed as in good or fair condition, compared to 56% in 2004.

**317.** The Department has 179 Sites of Special Scientific Interest (SSSIs) covering nearly 84,000 hectares under management (more than any other landowner in the UK). We continued to make progress continues towards meeting the national target of 95% of SSSIs in 'favourable' or 'unfavourable recovering' condition by 2010, with an interim target of 75% by 1 April 2006. 79% of Defence SSSIs were assessed achieving this in January 2006.

Reflecting the quality of management, Defence Estates won a number of external awards during the year, including: the Marsh Lepidoptera Conservation Award for work on habitat management; Highly Commended at the Environment and Sustainable Technology Awards for work on integrating sustainable practices across the Estate; and two English Nature awards at Otterburn and Warcop for SSSI improvements.

**318.** We maintain some 1,300 kilometres of public rights of way on the Defence estate in England and Wales, and over a further 100 kilometres of other permissive routes. This last figure almost doubled with the completion of the Epynt Way in South Wales in the spring of 2006. Downloadable dossiers on selected walks complete with gradings and timings, access details, safety tips, points of interest and maps are available on the upgraded MoD Public Access website at [www.access.mod.uk](http://www.access.mod.uk).



A Defence Estates official on the Epynt Way

## FURTHER SOURCES OF INFORMATION

**319.** Additional Information on Estate is available from the following sources:

- quarterly PSA reports to HM Treasury at [www.mod.uk](http://www.mod.uk)
- UK Defence Statistics 2006 available at [www.dasa.mod.uk](http://www.dasa.mod.uk) (to be published in September 2006);
- NAO Report *Managing the Defence Estate* (HC 25 on 25 May 2005) available at [www.nao.uk](http://www.nao.uk);
- *2005 Stewardship Report on the Defence Estate* available at [www.defence-estates.mod.uk](http://www.defence-estates.mod.uk);
- *The Defence Estate Strategy 2006 – In Trust and On Trust* available at [www.defence-estates.mod.uk](http://www.defence-estates.mod.uk);
- DE Corporate Plan 2006-2011 available at [www.defence-estates.mod.uk](http://www.defence-estates.mod.uk);
- DE Information Booklet at [www.defence-estates.mod.uk](http://www.defence-estates.mod.uk);
- MoD Public Access website at [www.access.mod.uk](http://www.access.mod.uk);
- *Defence Estates Annual Report and Accounts 2005-06* at [www.defence-estates.mod.uk](http://www.defence-estates.mod.uk) (to be published in July 2006);
- *Defence Estates Framework Document* at [www.defence-estates.mod.uk](http://www.defence-estates.mod.uk);
- *Securing the Future – UK Government sustainable development strategy*, Cm 6467 available at [www.sustainable-development.gov.uk/publications/uk-strategy/uk-strategy-2005.htm](http://www.sustainable-development.gov.uk/publications/uk-strategy/uk-strategy-2005.htm);
- *Sustainable Development Annual Report 2005* available at [www.mod.uk](http://www.mod.uk) (to be published in August 2005);
- *MoD Sustainable Development Delivery Strategy for Non-Operational Energy* available at [www.mod.uk](http://www.mod.uk);
- *MoD Sustainable Development Action Plan – February 2006* available at [www.mod.uk](http://www.mod.uk);
- *Safety, Health and Environmental protection in the Ministry of Defence – Policy Statement by the Secretary of State for Defence – May 2005*;
- information on sustainable development at [www.sustainable-development.gov.uk](http://www.sustainable-development.gov.uk);
- information on Defence Estates at [www.defence-estates.mod.uk](http://www.defence-estates.mod.uk);

## Essay: Sustainable Production: Project Allenby/Connaught

### Background

The Government's Sustainable Development strategy, *Securing the Future*, is applied directly to the Government Estate through the Framework for Sustainable Development on the Government Estate. Project Allenby/Connaught is a 35-year PFI project with a capital value of over £1 billion and a through-life value of around £8 billion to deliver the living and working accommodation required in Aldershot and the garrisons around Salisbury Plain (Tidworth, Bulford, Larkhill and Warminster). It will provide a modern environment with associated support services for some 18,000 personnel. It is the largest PFI project of its type in the UK. The contract was awarded to Aspire Defence Limited, (a consortium of Kellogg, Brown & Root and Carillion) on 31 March 2006.

### Practical Sustainability

Sustainable development has been at the heart of Project Allenby/Connaught throughout, and the project continues to look for best practice in sustainable development for incorporation wherever possible. The steps taken from the beginning of the project and the exchange of information with other major redevelopment initiatives has ensured that it embodies a wide range of features that enhance sustainability as well as protecting the environment. Examples of these include:

- **Whole Life Costing.** These principles point towards the solutions which will be most cost-effective in the long run, rather than just providing low initial costs (for example, by replacing poorly insulated buildings that waste a lot of energy with new, well insulated buildings). Such solutions are generally more sustainable;
- **Pairing and Sharing.** Where possible facilities will be shared between occupying units, reducing both the cost and the environmental impact, for example through building designs that allow one kitchen to be shared between two messes;
- **Efficiency in Land Use.** Because the project covers a number of garrisons, it has been possible to plan land use holistically. This has enabled more units to be fitted into Tidworth Garrison, and more land to be released in Aldershot for urban development to the benefit of the wider community;
- **Archaeology, Historic Buildings and Monuments.** Military use has protected Salisbury Plain from intensive farming or urban development, so it is one of the best preserved archaeological and ecological landscapes in Europe. Detailed archive research backed up by physical investigation was undertaken with the Wiltshire County Archaeologist to identify and mitigate the impact of barracks modernisation. There are also a number of historic buildings and ancient monuments potentially affected by the project. Surveys have been commissioned to explore how these can best be incorporated into the new scheme, including where appropriate by keeping them in use, to secure their future and preserve their historic value for the community.

### Assessment and Contractual Obligations

Defence policy requires environmental assessment and sustainability appraisals for all new projects. Project Allenby/Connaught implemented this principle from a very early stage. PFI bidders were required to produce their own sustainability appraisals as part of their bid submissions. They also had to produce a range of innovative sustainability proposals including combined heat and power plants, rainwater collection, solar heating, sustainable urban drainage solutions and waste disposal. Sustainability was scored specifically and was an integral part of the bid evaluation.

The contract requires Aspire Defence Limited to achieve an 'Excellent' rating for around 300 new buildings and a 'Very Good' for over 100 refurbished buildings, measured using a bespoke version of the Building Research Establishment's building design assessment method to measure the impact of buildings upon the environment. These ratings can only be achieved by incorporating measurable sustainable benefits including metering electricity, gas and water usage; using renewable energy technologies such as solar power; reducing car travel by placing living and working amenities in close proximity and linking them with cycle paths; harvesting rain water for toilet flushing; and ensuring timber used for construction is grown in managed forests. A 36-person Junior Ranks Single Living Accommodation demonstrator block was constructed at Perham Down in Hampshire before the contract was awarded. This achieved an 'Excellent' rating and specific credits under the Green Guide for EcoHomes for Carbon Dioxide emissions, reduced water consumption, and waste segregation and recycling facilities. Aspire Defence Ltd also intends to make extensive use of modular construction, which requires less energy to achieve the same quality output and reduces the construction timescale and site traffic as well as increasing flexibility.



## REPUTATION

Objective: Enhance our reputation with our own people and externally.

### Performance Measures and Assessment

Continuing improvement in overall ratings of our reputation of MoD and UK Armed Forces among the UK public:

- Favourable ratings for Armed Forces of 64%, an increase from 54% in March 2005; unfavourable ratings reduced to 5% from 6% in March 2005;
- Favourable ratings for MoD improved to 38% from 32%; unfavourable ratings improved to 14% from 15%.

Continuing improvement in overall scores of our reputation among Service and civilian personnel:

- The most recent survey was conducted in Spring 2005 and showed very high levels of support for our top level objective that the MoD and Armed Forces are a force for good in the world;
- We plan to conduct further research later this year.



## DEFENCE IN THE PUBLIC EYE

**320.** The work of the MoD and the Armed Forces is constantly in the public eye and we work hard to ensure that Parliament, the media and the public have an accurate perception of what we are doing and why. We have improved the MoD and single Service web-sites and our arrangements for supporting journalists on operations. The Department has responded to more requests for information under the Freedom of Information Act than any other Government department (see page 267-268). Public opinion, as reflected in the most recent survey conducted for the MoD, remains strongly favourable to the Armed Forces.

## COMMUNICATING THE WORK OF THE DEPARTMENT

**321.** We publicise and explain the work of the Department through a number of channels. Parliament is central. The communication of Defence policy and activity in Ministerial statements, debates on Defence issues and answers to Parliamentary Questions is a key obligation of officials throughout the Department. In the first year of full operation of the Freedom of Information Act, we received 4,515 requests for information, which was significantly more than any other central Government department. Over three quarters were answered within 20 working days and it was necessary to decline only one tenth of requests made under the Act. Further information is provided in the section on Open Government at Annex F.

**322.** On a day-to-day basis, Defence press officers are responsible for engagement with the media and informing them of newsworthy events. Press officers also respond to questions from journalists and provide the media with the required facts. (The essay on pages 159-160 explains how). The new Defence Media Operations Centre, opened in April 2005, raised our ability to work with the media on operations: its two rapidly-deployable media teams provide early support to journalists in theatres of operation, and collect audio, film and images for supply to media organisations around the world.

**323.** Besides Parliament, the Press Office and the Media Operations Centre, we use a wide variety of mechanisms to get our message across. During the year, MoD exhibitions and single Service presentation teams raised public awareness of the MoD and the Armed Forces, attracting audiences in excess of 150,000 overall. The schools teams similarly helped to raise the profile of the Armed Forces and the MoD amongst young people. Increasingly, however, people learn about Defence online: the Department's and single Service web sites were well used and continue to be extensively improved; the online photographic library alone received more than 100,000,000 "hits" last year. We also continue to take our messages directly to the public, on both a day-to-day basis and through one-off events.

**324.** 2005 was a year of anniversaries. In July a week of events commemorated the 60th anniversary of the end of the Second World War, the finale of which took place in The Mall, where a Lancaster bomber released one million poppies in memory of those who died in the War. The commemoration of the 200th anniversary of Nelson's victory at Trafalgar unfolded in a series of events and activities culminating in a dramatic re-enactment of the battle: surveys suggest nearly half of all UK adults saw, heard or attended one or more of the events. The Services also assisted in the production of documentaries including *The Household Cavalry* and *Shipmates*, which were widely viewed and seen as informative: over half of the 16% of adults who saw the BBC documentary *Shipmates*, which went behind the scenes at Devonport Royal Naval Base, thought the programme conveyed the strong teamwork and professionalism of staff at the Base.



International Fleet Review

## REPUTATION AMONG UK PUBLIC

**325.** The successful achievement of Defence objectives depends upon public support. The Department carries out regular public opinion surveys, using an independent marketing company, to test the reputation of the MoD and the Armed Forces. The most recent, carried out for the Department by Ipsos MORI in March 2006, shows a high level of public favourability towards the Armed Forces. The need for strong Armed Forces is supported by four in every five of those surveyed, and the levels of confidence in the ability of the Armed Forces to carry out their tasks and help make the world a safer place are similarly high, as Table 28 shows. On the other hand, the numbers of people who believe the Armed Forces are well equipped has returned to the levels shown by our surveys in December 2003 and there has been a reduction also in those who consider that the Armed Forces and the MoD have due regard for the environment when carrying out their activities. This was disappointing considering the Department's commitment to sustainable development (see paragraphs 77-82 and 315-318).



Table 28: External Opinion Survey results (percentage of positive replies)

	March 2006	March 2005	Change
<b>Favourability of overall impression of UK Armed Forces and MoD</b>			
Favourable Armed Forces	64	54	+ 10
MoD	38	32	+ 6
Unfavourable Armed Forces	5	6	- 1
MoD	14	15	- 1
Neither Armed Forces	31	39	- 8
MoD	49	53	- 4
<b>The requirement for Defence and Defence tasks</b>			
UK needs strong Armed Forces	80	81	- 1
Confidence in the ability of UK Armed Forces to defend UK	85	82	+ 3
UK Armed Forces help make the world a safer place	73	71	+ 2
Confidence in the ability of UK Armed Forces to defend overseas territories	81	74	+ 7
Confidence in the ability of UK Armed Forces to protect UK Overseas economic interests	70	61	+ 9
<b>Characteristics of the Armed Forces and Ministry of Defence</b>			
UK Armed Forces have the highest professional standards	69	70	- 1
UK Armed Forces are well equipped	37	53	- 16
UK Armed Forces look after their people	61	63	- 2
UK Armed Forces recruit, train and promote their best people regardless of race, gender, religion or sexual orientation	50	56	- 6
UK Armed Forces make a positive contribution to local communities	44	47	- 3
MoD and UK Armed Forces carry out their activities with due regard for the environment	26	36	- 10
MoD is as open as it can be about its activities	31	37	- 6
MoD gives taxpayer value for money (previously "spends taxpayers' money wisely")	34	26	+ 8

## INTERNAL COMMUNICATION

**326.** Good internal communication is vital. It is inseparable from our determination to remain a top class employer who values its people. We are committed to keeping all of our staff, military and civilian, in touch with the latest developments in Defence and the Forces, providing our people with information which is honest, straightforward and timely. Our internal research confirms that the best way to disseminate important information is through the chain of command (or line-management), by the routine cascade from managers to their staff. We support commanders and line managers in briefing their people through a range of corporate publications that complement our official guidance, notices, instructions and briefings:

- The three Armed Services have their own websites, intranets and official publications (RN Broadsheet and Navy News, SOLDIER, RAF News), along with separate channels for internal briefing;
- The MoD maintains a corporate in-house news and information service which provides electronic briefing notes, updates to our public website and intranet and which produces Focus, our monthly Defence newspaper;
- Other constituent parts of the Department, from the largest agencies to smallest branches and units, have their own internal channels for disseminating messages;

- Our major internal change programmes have their own bespoke communication plans, making use of the above channels to get their messages across, along with posters, road shows and other media.

**327.** We believe our in-house corporate publications to be among the best in their class. For 2005, both halves of the MoD's corporate news service – paper and electronic – picked up separate Communicators In Business "Awards of Excellence" in their respective classes. SOLDIER gained four similar awards, including awards for best news photograph and for best feature, whilst Navy News was runner-up in the best feature category, and RAF News was recognised in the best externally-available newspaper category. In March 2006, the Royal Navy's IC DVD 'Two-Six' picked up Gold and Silver awards at the International Visual Communications Association ceremony, benchmarked against the industry's finest.

## REPUTATION AMONG SERVICE AND CIVILIAN PERSONNEL

**328.** We periodically monitor how our own people feel about Defence and the Armed Forces. The most recent information we have (from Spring 2005) showed very high levels of support among Service personnel and MoD civil servants for our top level objective that the MoD and Armed Forces are a force for good in the world. Detailed results are available from the MoD website. We aim to conduct further research later this year.

## FURTHER SOURCES OF INFORMATION

329. Additional Information on Reputation is available from the following sources:

- detailed Opinion Surveys published on [www.mod.uk](http://www.mod.uk);
- Defence image database at [www.defenceimagedatabase.mod.uk](http://www.defenceimagedatabase.mod.uk);
- *Navy News* at [www.navynews.co.uk](http://www.navynews.co.uk);
- *Soldier Magazine* at [www.soldiermagazine.co.uk](http://www.soldiermagazine.co.uk);
- *RAF News* at [www.rafnews.co.uk](http://www.rafnews.co.uk).



## Essay: Press Reporting of Operations

The world has witnessed highly significant changes to the size and nature of the media in recent years. Competing national and global news organisations have grown rapidly in number. Digital technology means ever faster transmission of reports, images and film, to satisfy a sharp increase in public appetite for 24-hour news. The mobile telephone can capture footage that in minutes becomes the focus of breaking news, and in turn can broadcast that news back to its owner. We are responding to these changes, as we must. The Armed Forces are a continual source of media interest, generating coverage which in turn influences their public reputation, locally, nationally and throughout the world. Media reports can impact on the security of personnel deployed in theatre, and the environment in which they do their business.

Military operations present difficult and often dangerous work for journalists. The MoD has raised its efforts to understand their requirements, and to provide better support to them in their coverage. Although journalists usually work to an editorial agenda, experience has shown that where we provide them with adequate support in theatre, their reports reflect a better understanding of the reality of operations. A major development has been the establishment of the Defence Media Operations Centre at RAF Uxbridge in Middlesex. Comprising largely military personnel, its main task is to have two 10-strong Joint Media Operations Teams (JMOT) ready to move at 48 hours' notice to support reporters and film crews as they arrive in theatre.

In October 2005, in the wake of the devastating earthquakes in Pakistan-controlled Kashmir, a JMOT deployed with UK Forces, to support the large numbers of media arriving in the region. Liaising with the UK and Pakistani authorities, the team arranged to airlift reporters and film crews into some of the worst affected – and otherwise inaccessible – areas. This led to vivid reporting on the humanitarian crisis, reaching the homes of potential aid donors throughout the world. The arrival of the England cricket team in Pakistan further illustrated the ability of media operations teams on the ground to harness creative opportunities. Michael Vaughan and Marcus Trescothick agreed to help distribute aid to the stricken villages of Bagh and Rawalakot in an RAF Chinook, extending the media coverage into a number of specialist sport news channels.

The media operations teams are equipped with state-of-the-art technology, including handheld cameras, Steady Cam, and the Avid Pro editing suite, to capture audio, film and stills of the British Forces in theatre. This enables us to supply news organisations throughout the world with accurate, high-quality material that would otherwise be difficult to obtain. In eight months from April 2005, more than 1,500 MoD film clips reached around 30 countries, including footage of the Royal Navy rescue of a Russian submarine off the Kamchatka Peninsula.

More robust media operations arrangements in-theatre have been backed up with improvements in Head Office in Whitehall. The press office 'operations team' has been strengthened, press officers are encouraged to gain experience of working in-theatre, and an enhanced planning team produces media plans for forthcoming events, increasingly in close liaison with other Whitehall departments.

The Iraqi parliamentary elections in December 2005, for instance, posed opportunities but also difficulties and danger for Western journalists. The Department for International Development, the Foreign Office, MoD and Iraqi officials together developed a handling plan for getting reporters and film crews to locations around the country. A media operations team deployed to Baghdad where, working with military authorities, and liaising with the US State Department to ensure consistency, they were able to ensure comprehensive coverage.

Early contact with journalists to explain fully the background to an operation and its practical challenges usually reaps benefits. Advance planning for the making of Jane Corbin's 19 March Panorama report on Iraq allowed us to arrange an interview with the Defence Secretary, background briefings from government officials and an escorted 10-day programme of interviews and visits. It resulted in a report which, while critical of Iraq's infrastructure and security situation, was fair and balanced.



A media crew and JMOT minders take cover during a mortar attack in Iraq

Media imperatives remain balanced between information, newsworthiness and entertainment. There is a continual challenge for MoD to keep up with the pace of reporting, which is accelerating as the number of competing media organisations grows. Lack of support and information can have an adverse effect on news coverage, as illustrated by the rapidly unfolding events in Basra on 19 September 2005, during negotiations to release two members of the British Forces from Jameat police station. Lack of clarity over what had happened, combined with dramatic footage of the petrol-bombing of British armoured vehicles outside the station that were broadcast globally within minutes of the incident, and rumours of insurgents working within the Iraqi security forces, led to conflicting reports and adverse speculation over the future of the British Forces in Basra. This proved particularly challenging for the press office in Whitehall in their handling of journalists' enquiries. But it also showed how such challenges can be overcome where an effort is made to help the media. Soon after the incident, interviews were arranged with the two soldiers filmed escaping from their blazing vehicle. These generated favourable human interest stories detailing the soldiers' courageous handling of the situation.

The media continue to present new challenges and new opportunities. The growth of broadband internet, in particular, offers the potential for more sophisticated provision of electronic news. Work to create more dynamic working relations with the UK regional media continues. And in Iraq and Afghanistan, the post-conflict growth of radio, television and print periodicals is providing greater scope to communicate with local populations in the areas where we operate. We will continue to develop our practices to make best use of this fast-changing environment.