



MINISTRY OF DEFENCE



Ministry of Defence



Annual Report and Accounts 2002/2003



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

Ministry of Defence Annual Report and Accounts

**including the Annual Performance Report and
Consolidated Departmental Resource Accounts**

2002/03

(For the year ended 31 March 2003)

Laid in accordance with the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed
30 October 2003

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Foreword by the Secretary of State

In previous years the Ministry of Defence has produced two separate, but important, performance documents – the Annual Performance Report and the Departmental Resource Accounts. We have combined these documents into a single publication this year, which is titled the Annual Report and Accounts. This is a significant development which not only accords with best practice in the commercial private sector but also gives a more balanced understanding of our activities as measured against both the Parliamentary and the Treasury control regimes.

Departmental business in the latter part of the financial year was dominated by events in Iraq. Operation TELIC saw 46,000 UK personnel deployed to the Gulf in just eleven weeks. This included some 5,000 Reservists, representing the largest mobilisation of Reserves since the 1950s. On 20 March 2003, the US-led coalition began military operations against Saddam Hussein's regime, and in just over four weeks the regime was removed. Once again, British forces performed many difficult and demanding tasks with great distinction. They continue to do so as the task moves to one of security and humanitarian support. I would like to pay tribute to our Armed Forces, and in particular to those Service personnel who lost their lives in operations in the Gulf.

Iraq was by no means the only focus of our attention. UK forces acted as a force for good around the world, including in Afghanistan, Sierra Leone and the Balkans. They were also very active at home. More than 19,000 personnel provided emergency fire cover and during fifteen strike days attended nearly 20,000 incidents, ensuring essential safety cover and significantly reducing the risks to both life and property.

Throughout the year our Servicemen and women demonstrated, through their dedication and professionalism, why they are respected throughout the world. It is only right that we provide them with the facilities they require. During 2002/03 we were able to improve a further 1,440 Service family houses



Rt. Hon. Geoff Hoon MP, Secretary of State for Defence

to the highest standard, surpassing our target of 1,200. Over 90% of families are now housed in high-standard properties. We continued to modernise training, establishing the Defence Academy in April 2002 along with the formation of the Directorate General Training and Education in October 2002. These improvements have been reflected in our recruitment: 2002/03 was the most successful recruiting year for a decade.

Security and defence policy development during the year focused on two themes: the evolution of Europe's security arrangements through the complementary improvement of NATO's and the European Union's capabilities; and the development of our response to the increasing threat from international terrorism and the spread of Weapons of Mass Destruction. In July 2002, we published a "New Chapter" to the Strategic Defence Review, which was the Department's response to the new security environment following the events of 11 September 2001 and the threat of international terrorism. We also agreed to a US request to upgrade the ballistic missile early warning radar at RAF Fylingdales for missile defence purposes.

The 2003 Equipment Programme was dominated by the outcome of the 2002 Spending Review which enabled significant new investment in the types of equipment identified in the New Chapter to the Strategic Defence Review. This included further investment in 'network enabled capability', resulting

in better communications between sensors, decision-makers and weapons systems providing for swifter and more accurate responses.

The Department fully met the target to keep net financial resource expenditure for routine operations within budgeted limits. The total underspend of £63M against the Departmental Expenditure Limits – less than 0.3% of the budget – represents a position well within performance measurement parameters. Following further significant progress against the requirements of the National Audit Office, the Department has only

one outstanding Resource Account qualification issue, relating to stock systems. Defence remains a complex business and our progress towards an unqualified Resource Account has been acknowledged as encouraging by the Comptroller and Auditor General.

As this Report highlights, this was another extraordinarily demanding year for our Armed Forces and civilian staff. They helped to make the world a safer place, facing every task and new challenge with their customary professionalism and commitment.



Introduction

1. This year, for the first time, the Ministry of Defence has merged its Annual Performance Report and its Departmental Resource Accounts into one document: the MOD Annual Report and Accounts. This offers readers a more comprehensive and clearer record of the Ministry of Defence's performance during the last financial year. The Annual Report and Accounts is divided into two discrete parts: Section 1 covers non-financial performance (which was previously published as the Annual Performance Report) and Section 2 covers financial performance (which was previously published as the Departmental Resource Accounts).

Section 1

2. Section 1 details the Department's performance against its Public Service Agreement (PSA) targets. It is structured along the lines of the Defence Balanced Scorecard, through which the Department's performance is reported internally. The Defence Balanced Scorecard encapsulates the Defence Management Board's key objectives and priorities, including the Department's PSA targets, over the full range of MOD business. In the Report, these objectives are grouped into four chapters or 'perspectives' (as shown in Figure 1): Output and Deliverables, Resource Management, Enabling Processes, and Building for the Future. Within these perspectives, the main section headings correspond to high-level Scorecard objectives (i.e. Operations, Effectiveness, Policy, etc.). In addition, each chapter provides a more detailed account of MOD performance and activity in those areas covered by the Scorecard and across a broader range of related subjects.

3. The Scorecard was introduced in April 2000 and aimed to improve the assessment, reporting and management of Departmental performance. By tracking progress against clearly defined performance measures, including the MOD's PSA targets, the Scorecard focuses the Board's attention on what is really important in delivering outputs and achieving results. Its strength as a performance management tool lies in its ability

to clarify and communicate the Defence Management Board's strategic intent and in its flexibility to adapt and improve. Further development of the Scorecard is discussed in paragraph 149.

Performance against PSA targets

4. The MOD's progress against its PSA targets is addressed throughout this report and, for ease of reference, is also summarised at Annex B. Of the 22 individual PSA targets from the 1998 Comprehensive Spending Review and the 2000 Spending Review, 12 have been met, four are on course to be met, three were partly met, two have been missed, and one is not yet assessed. The Department published its PSA performance at the half-year point with The Government's Expenditure Plans 2003/2004 to 2005/06: Ministry of Defence (Cm 5912, May 2003).

5. The performance of the Defence agencies is covered at Annex C, whilst MOD performance against mandatory Government Standards is described at Annex D.

Section 2

6. Under the Government Resources and Accounts Act 2000, the Department is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

7. The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

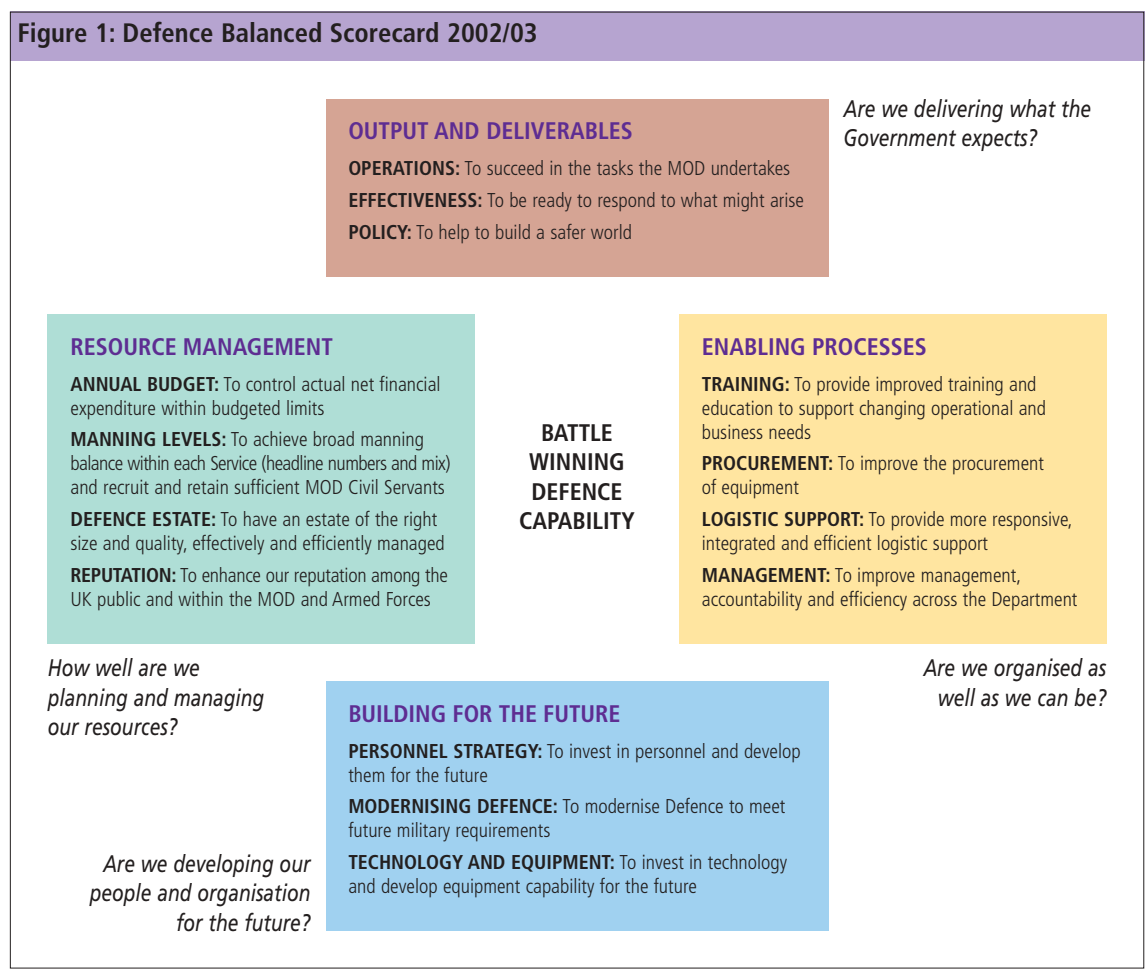
8. The Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department, with responsibility for preparing the

Department's accounts and for transmitting them to the Comptroller and Auditor General. In preparing the accounts the Accounting Officer is required to comply with the Resource Accounting Manual, prepared by the Treasury.

- The Government's Expenditure Plans 2003/04 to 2005/06: Ministry of Defence (Cm 5912, May 2003);
- A New Chapter to the Strategic Defence Review (July 2003);
- UK Defence Statistics 2003 (September 2003);
- Main Supply Estimates 2003/04 (HC 648);
- Supplementary Budgetary Information 2003/04 (Cm 5797).

Further Information

9. Other sources of information relevant to MOD performance include the documents listed below, all of which are available on the MOD website at <http://www.mod.uk>. An overview of the top-level organisation and management of the MOD is shown at Annex A.



Section 1

Performance Report

Output and Deliverables

Operations

Objective:

To achieve success in the tasks we undertake.

Performance Measures:

- a) *Successful Operations, as measured through achievement of specific Operational Objectives.*
- b) Proportion of the Armed Forces involved in the prosecution of Military Tasks.

Performance Assessment:

- a) *A high degree of success was achieved in all Operations, including overseas in Iraq, Afghanistan, Sierra Leone, the Balkans, and in the UK (including emergency cover during the firefighters' strike). The Trident submarine force maintained a nuclear deterrent capability at sea throughout the year.*
- b) Activity levels rose considerably from the previous year as a result of greater operational demands. They peaked at 55.6% for the Army in the last quarter during operations in Iraq. The main deployments of the UK's Armed Forces are depicted in Figure 2. The Defence Aim and Military Tasks are available on the Department's website at www.mod.uk.

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

10. All three Services were heavily involved in operations throughout the year. The deployments to the Gulf and Iraq were the largest and most demanding. But UK personnel were also engaged in Afghanistan, Sierra Leone and the Balkans, provided emergency fire-fighting cover in the UK, and continued to support the Police in Northern Ireland. This was therefore an exceptionally busy, and successful, year for the Armed Forces.

Operations in Iraq – Operation TELIC

11. Following the Gulf Conflict in 1991, United Nations resolutions imposed strict conditions on Iraq including the destruction, removal or rendering useless of its Weapons of Mass Destruction under the supervision of inspectors. Despite significant diplomatic efforts over twelve years, it was with regret that the

UK and a number of other nations concluded that this would not be possible without military intervention. Therefore on 20 March 2003, a US-led coalition, with a substantial UK contribution, began military operations against the Saddam Hussein regime.

12. Although the Operation was US-led, the UK played a significant role in removing the Saddam regime. Operation TELIC, as the UK's contribution was named, saw 46,000 personnel deployed to the region in just eleven weeks. From the first amphibious assault on to the Al Faw peninsula to the fall of Basrah, British forces concentrated on operations in the south of Iraq, enabling the US forces to advance on Baghdad with a speed not seen in previous conflicts. Our aircraft operated in an air campaign remarkable for the level of precision weaponry used. Within four weeks of the start of the Operation, Saddam Hussein's regime was removed and most of Iraq was under coalition control.

The success of the military campaign owed much to the determination and professionalism of the coalition's Armed Forces and the civilians who supported them.

13. We knew this Operation would require us to help provide humanitarian aid and support as soon as we began to take control of regions of southern Iraq, and had planned the Operation on this basis. Our troops quickly switched from offensive to stabilisation operations and to helping provide humanitarian assistance. The UK continues to play a full part in the re-building of Iraq through the establishment of conditions for a stable and law-abiding Iraqi government.

Key Successes

14. Operation TELIC showed once again why the UK's Armed Forces are respected around the world. The high quality of their training and professional expertise was demonstrated in the skill with which they performed their roles. The tasks required of our Servicemen and women throughout the campaign and in the immediate aftermath of hostilities were numerous and complicated. Their impressive performance in achieving their military objectives so rapidly should not be underestimated.

15. The Operation showed the effectiveness and wide capability of the equipment and logistics support available to our Armed Forces. This matched and often exceeded expectations, reflecting the benefits of recent operational experience and the value of Exercise SAIF SAREEA II held in Oman in 2001. Our Tomahawk cruise missile capability again proved a particularly useful long-range, stand-off, precision asset. The Shallow Water Mine Sweeping System was used operationally for the first time, enhancing the mine sweeping and clearance capability key to our opening up the southern Iraqi port of Umm Qasr for humanitarian aid. Challenger 2 (our main battle tank), Warrior (an infantry fighting vehicle) and AS90 (a self-propelled artillery piece) were all effective. Dust mitigation measures for Challenger 2 overcame the difficulties that arose in Exercise SAIF SAREEA II. Earlier difficulties with the SA80 A2 rifle were also resolved. The air contribution was marked by greatly increased use of precision guided weapons (some 85% of total UK air-delivered munitions) including the new Storm Shadow missile, reflecting lessons

learnt from previous operations. The increased flexibility of multi-role aircraft was demonstrated by the use of Tornado GR4 and Harrier GR7 aircraft on both reconnaissance and offensive missions.

16. Overall, operations in Iraq confirmed the 1998 Strategic Defence Review's conclusion that the Armed Forces should develop an expeditionary-based strategy, providing ready, balanced forces able to apply decisive effect in scenarios of varying intensity, frequency and character in an uncertain and unpredictable world.

Use of Reserves

17. Some 5,000 Reservists took part in the Operation in Iraq in a wide range of roles, from infantry and logistics to more specialised roles such as doctors and air traffic controllers. Further Reservists have been called out to assist the stabilisation force and help with reconstruction. Our Reservists proved their quality beyond doubt, and showed that, as envisaged in the 1997 Strategic Defence Review, they provide a useful and useable force, relevant to modern conflict and capable of integration with Regular forces.

Lessons

18. As with all major operations and exercises, the Department is undertaking a lessons exercise to identify what we did well, and what we could do better in the future. The results of this work will be used to inform our future programmes. In July we published our 'Early Reflections' on the Operation, an authoritative account of the Operation which also identified some emerging lessons (available on the MOD website <http://www.mod.uk>). The full lessons programme, covering all elements of the Operation in Iraq, is still underway. We expect to complete this detailed scientific analysis of the effectiveness of our equipment, military strategy and planning processes during the autumn, and we plan to publish a fuller report before Christmas.



When combat operations ceased, UK troops quickly switched from offensive to stabilisation operations and to helping provide humanitarian assistance.

Other Overseas Operations

International Terrorism

19. During the year, the UK continued to play an active part in operations against international terrorism. This included deploying naval forces on interdiction operations in the Mediterranean and Arabian Seas and combat forces in Afghanistan, and support to coalition aircraft operating in the area. We also played an important role in helping the Afghan people rebuild and restore their country and their prosperity.

20. Between April and July 2002, we deployed a 1,700-strong battle group to support coalition operations against the remnants of Al Qaeda and Taliban forces in eastern **Afghanistan**. Known as Task Force JACANA, this force, built around 45 Commando, Royal Marines, conducted a series of successful, major operations that denied and destroyed terrorist infrastructure and interdicted the movement of the terrorists.

21. We are also helping rebuild Afghanistan. Until June 2002, we led the International Security Assistance Force (ISAF) in Kabul, which helped first the Interim Administration and then the Afghan Transitional Authority (ATA) to maintain security and stability in Kabul. After the transfer of the leadership of the ISAF, our contribution reduced from 1,500 to around 300 personnel. In March 2003 we began a highly successful programme to use part of our contribution to the ISAF to train Junior Non-Commissioned Officers for the Afghan National Army.

22. In July 2003 the UK deployed a Provincial Reconstruction Team to the northern city of Mazar-e Sharif and its five surrounding provinces. The role of

the team was to aid the extension of the ATA's capacity, the development of a stable and secure environment in the Afghan regions and to stimulate security sector reform and reconstruction. The Team was military led but included representatives from the Foreign and Commonwealth Office and the Department for International Development. In due course, it may also include personnel from other nations.

Sierra Leone

23. The UK maintained an important military commitment in Sierra Leone, supporting the government, providing a programme of training and assistance to their Armed Forces, and advising their Ministry of Defence. Developments were promising: the country has enjoyed its first full year of peace for a decade and democratic elections, free from violence and intimidation, were held in May 2002. In July 2002 the security situation was judged to be sufficiently benign to end Operation SILKMAN (the overarching Operation for UK forces in Sierra Leone), but we continued to provide a UK-led International Military Advisory and Training Team.

24. Threats remain, most notably from the risk of continuing unrest in Liberia, and the UK will continue to stand by Sierra Leone. To demonstrate our commitment to the settlement process, in February 2003 we deployed a Company Group from 2nd Battalion The Royal Gurkha Rifles and a Type 23 frigate, HMS Iron Duke, to Sierra Leone. This also demonstrated our ability to conduct such deployments rapidly, notwithstanding our involvement in operations elsewhere in the world. We also continued to support the UN Mission in Sierra Leone where the UK provided seven headquarters staff officers, including the Chief of Staff, and fifteen military observers.



The UK continued to provide a programme of training and assistance to the Republic of Sierra Leone Armed Forces.



The deployment of Army units to Heathrow provided a very visible example of the MOD providing direct support to the Police in countering terrorism in the UK.

The Balkans

25. NATO's review of operations in the Balkans in March 2002 set out a regional approach to stabilisation operations, allowing a reduction in the numbers of troops deployed across the region of 30% over the year. In March 2003, the UK contributed some 1,350 troops to the NATO Stabilisation Force in **Bosnia** (SFOR), based in the northwest of the country, maintaining our successful partnership with Canada and the Netherlands. In **Kosovo**, UK troop numbers reduced significantly to some 350, and lead nation responsibility for Multi-National Brigade Centre was passed to Finland.

26. Assistance to the International Criminal Tribunal for the former Yugoslavia (ICTY) is an integral part of Operations in both Bosnia and Kosovo. By the end of March 2003, 32 detention operations had been conducted, half of which involved UK forces.



During fifteen days of strike action by the Fire Brigades Union, Armed Forces personnel attended nearly 20,000 incidents.

27. The UK remained engaged in security sector reform to underpin the efforts of the international community to bring stability to the region. Armed Forces reform is crucial to building a sustainable peace within the region and is an important step in the rehabilitation of nations into the international community. The UK has focused its efforts on practical and effective projects. One example was Operation FLORIAN, which trained some 160 Bosnian ex-service personnel as firefighters.

Military Aid to the Civil Authorities

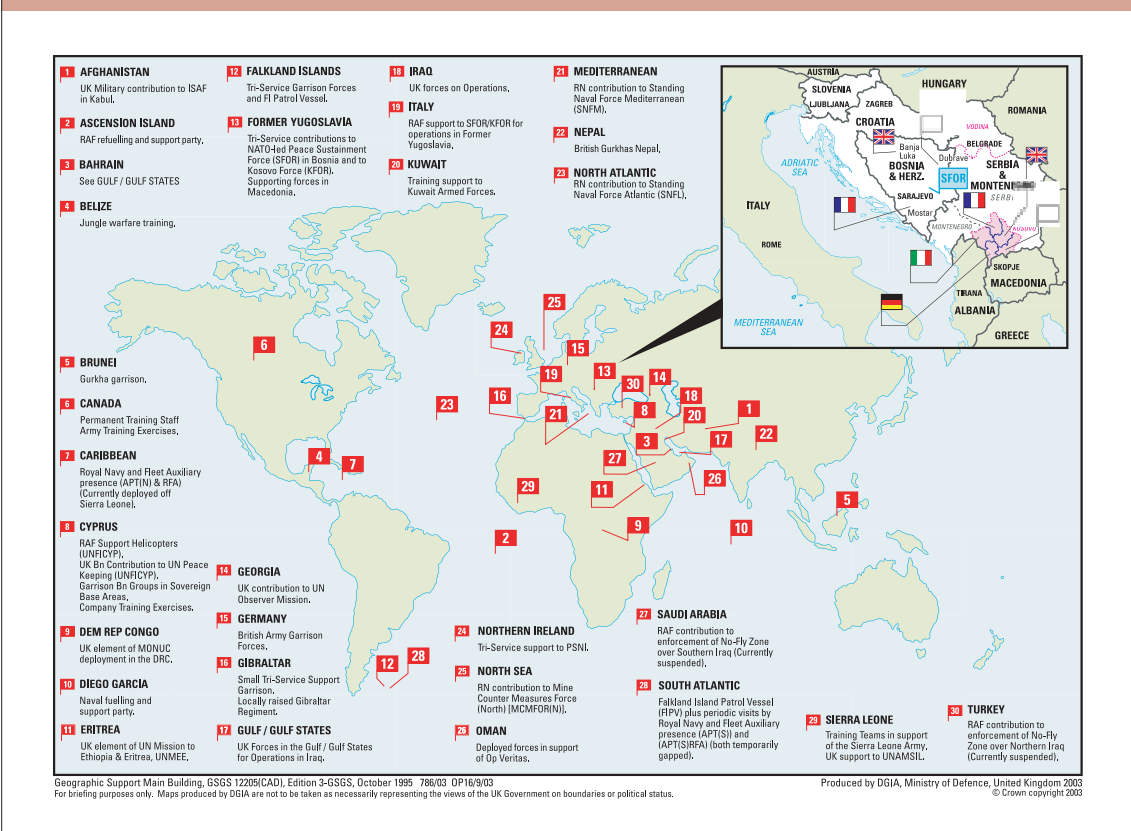
28. Throughout 2002/03, UK Armed Forces provided specialist support to the civil police. Explosive Ordnance Disposal experts routinely supported the police across the country by examining and making safe suspected explosive devices, whether historical relics, criminal or terrorist in nature. The Armed Forces also provided support to the police and Home Office in countering terrorism in the UK: the deployment of Army units to Heathrow and its environs in February 2003 provided a very visible example of the ability to provide direct support at short notice.

Emergency Fire Cover – Operation FRESCO

29. The Armed Forces were also called upon to provide emergency fire cover when negotiations between the Fire Brigades Union and the local government employers broke down. Training began in August 2002 and at the peak of the deployment more than 19,000 personnel from all three Services were held ready to provide emergency cover. Although it later proved possible to reduce the number of personnel to 16,000, the commitment only ended with the settlement of the dispute in June 2003.

30. This contingency cover was deployed for a total of fifteen days of strike action, during which time Armed Forces personnel attended 19,866 incidents. Although inevitably limited in comparison to normal fire service cover, the Armed Forces nonetheless provided basic emergency cover in a professional manner, significantly reducing risks to life and property.

Figure 2: Principal Deployments of the Armed Forces on 1 April 2003



31. The primary source of manpower for this Operation was troops training for future deployments. This made it possible to continue to meet operational deployments in the short term, but the disruption of training programmes will have a longer-term impact. The provision of specialist rescue teams drawn from the Royal Navy's and the Royal Air Force's professional firefighters also had a disruptive impact disproportionate to the number of personnel involved.

Military Aid to the Civil Power in Northern Ireland

32. The Armed Forces continued to play a significant role in supporting the Police Service of Northern Ireland in maintaining law and order, especially in the face of the threat from dissident republican groups. Military patrols supported the police in searching for and capturing terrorists, their weapons and equipment, and in dealing with serious public disorder. The total number of Service personnel committed to Northern Ireland reduced slightly from 14,580 on 1 April 2002 to 14,320 by 1 April 2003.

Counter-Drugs Operations

33. The Armed Forces also provided valuable assistance to HM Customs and Excise and other anti-narcotics agencies around the world. In particular, in addition to normal commitments Royal Navy ships undertook patrols and joint operations in the Caribbean with US Coast Guard and drug-enforcement agencies. One such operation saw seizure of drugs valued at around £65M.

Other Military Tasks

Independent Nuclear Deterrent

34. Throughout the year the UK's Trident submarine force maintained an independent nuclear deterrent capability at sea in support of NATO's strategy of war prevention and as the ultimate guarantee of our national security.

Search and Rescue

35. The Armed Forces maintained a year-round, 24-hour search and rescue helicopter service, based at eight locations around the British Isles and also on Cyprus and the Falkland Islands. Other Service assets,

including the Royal Air Force Mountain Rescue Service and Nimrod maritime patrol aircraft, were also used for search and rescue. Armed Forces rescue services were called out on 1,670 occasions in 2002/03 (compared with 1,790 in 2001/02) and helped 1,230 people, including 61 military personnel.

Security of Overseas Territories

36. In **Cyprus**, UK Forces maintained important military facilities within the Sovereign Base Areas of Akrotiri and Dhekelia. UK forces based in the **Falkland Islands** continued to demonstrate the Government's commitment to the security of that Territory, including South Georgia and the South Sandwich Islands. **Gibraltar** retained its importance as an overseas base for the British Armed Forces, providing valuable support, logistic, communications and training facilities.

Activity Levels of the Armed Forces

37. Although not a measure of performance, activity levels give some indication of the demands placed on the Armed Forces, particularly when looked at over a period of time (see Table 1, Figure 3 and separate box).

38. 2002/03 was exceptionally busy for all three Services. Activity levels peaked at the height of the Iraq conflict, at which time just under 29% of the trained strength of the Royal Navy and Royal Marines was engaged directly in Military Tasks and operations, compared with a peak of 16.7% in 2001/02, some 55% of whole Army strength (compared to a peak of 26.3% in 2001/02) and about 22% of the Royal Air Force (against a peak of 13.6% in 2001/02). The Royal Air Force flew a total of 57,314 operational hours (including 15,485 hours on Operation TELIC), up over 25% from 2001/02.

Table 1: Percentage of Trained Strength Deployed on Operations and Other Military Tasks¹

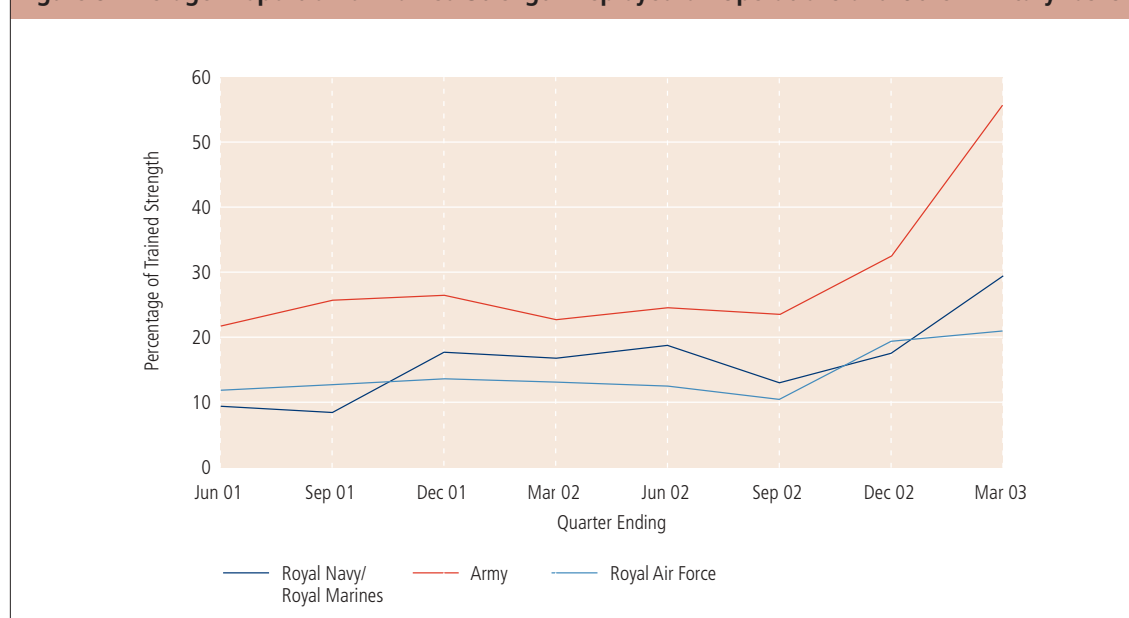
	2001/02 ²				2002/03			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Royal Navy/Royal Marines	9.5%	8.4%	16.7%	15.7%	17.5%	13.0%	16.5%	28.5%
Army	21.8%	25.6%	26.3%	23.9%	24.6%	23.9%	32.5%	55.6%
Royal Air Force	11.9%	12.2%	13.6%	13.1%	12.6%	10.9%	19.1%	21.8%

Notes:

(1) Excludes those either preparing for, or recovering from, deployments. Percentages shown are quarterly averages. A list of Military Tasks can be found on the Department's website (<http://www.mod.uk>).

(2) 2001/02 figures include personnel on Exercise SAIF SAREEA II.

Figure 3: Average Proportion of Trained Strength Deployed on Operations and Other Military Tasks



Activity Levels

What these figures tell us (and what they don't)

Tracking the number and proportion of personnel deployed on operations and other Military Tasks gives us a good indication of how busy our Armed Forces personnel are. It is one of the measures that enable the Department to gauge how much we are asking of our people: whether they are likely to be away from their families for too long and whether they have sufficient time for training and recuperation between deployments. Spending too long on deployments reduces morale, which leads both to retention problems and makes people less effective.

What the figures do not indicate, however, is what further, additional operations or deployments we could undertake (known as 'residual capability'): that is as much about transport, training and logistics as it is about the number of available personnel. Also, depending on the type and number of operations underway, there might be a particular strain on certain specialists, such as logisticians or airfield personnel, which is not identified in the overall activity levels.

What is included in the figures?

The activity levels we track include not just those personnel deployed on operations, but also those on other Military Tasks. A full list of these tasks can be found on the MOD website (<http://www.mod.uk>) but they include such on-going commitments as counter-drugs operations and military aid to the civil power in Northern Ireland (see paragraphs 32-36). Personnel are often apart from their families whilst undertaking these tasks and so, in that regard, are under as much of a strain as those on operations. Also, they cannot train for other types of activity, which impacts on their readiness. As well as the personnel actually deployed on Military Tasks, there will also be a proportion who are committed to those tasks but not deployed (for example, they might be undertaking specific training in anticipation of deployment or recuperating after returning from deployment).

How does the UK compare?

Different nations have different ways of organising their Armed Forces and reporting their activities and for that reason it is not a straightforward matter to compare activity levels. With that in mind, in the summer of 2003 just over 35% of the US Army and under 6% of the US Air Force were deployed abroad without their families. This roughly compares to over 50% of the British Army and about 22% of the Royal Air Force (see Table 1, although some of them will have been with their families whilst on deployment). Similarly, as at the end of 2002/03 just under 16% of the French Army were deployed, including those undertaking military tasks in France (such as fighting forest fires). Although a far-from-perfect comparison, this gives a feel for just how busy our Armed Forces are.

Effectiveness

Objective:

To be ready to respond to what might arise.

Performance Measures:

- a) Ability of Armed Forces to meet specified readiness targets (*90% of those planned to be held at high and medium readiness are to be at the required states of readiness*).
- b) Ability to deploy, sustain and recover Armed Forces on operations.
- c) *Achievement of Phase 2 (Operational Capability) of the Joint Rapid Reaction Forces, by March 2003.*

Performance Assessment:

- a) *The Royal Navy (91%) and Royal Air Force (94%) continued to exceed the readiness target, and the Army improved from 81% to 84%.*
- b) A number of shortfalls in our ability to sustain forces on operations have been identified and are being addressed.
- c) *The Phase 2 target was largely met, but there were some weaknesses. It would not be possible to generate and sustain some Force Elements for medium-scale warfighting within planned timescales.*

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

39. Despite heavy commitments to operations, the Royal Navy and Royal Air Force continued to exceed readiness targets and the Army's performance continued to improve. New performance management systems are being put in place to measure our ability to deploy, sustain and recover forces on operations. The development of the Joint Rapid Reaction Forces was generally satisfactory.

Readiness

40. The Armed Forces must be prepared to undertake operations and other Military Tasks, but not all Force Elements (defined as, for example, an Army brigade, Royal Navy ship, or Royal Air Force aircraft and crew) need to be at high readiness all the time. A system of graduated readiness ensures that the right Force Elements are ready to deploy when they are needed. Each Force Element is therefore set a 'readiness target', and performance against these targets is used as a measure of military capability. Performance against the Spending Review 2000 PSA readiness target remained strong (see Table 2).

41. Work continued throughout the year to improve our ability accurately to assess performance against readiness targets. However, there are limitations in reporting only on rapidly deployable Force Elements. For that reason, reporting against the Spending Review 2002 target from 1 April 2003 will cover **all** Force Elements, giving a more accurate picture of overall military capability.

42. During the year, the **Royal Navy** made a major contribution to operations in the Gulf, with nineteen ships and submarines and fourteen Royal Fleet Auxiliaries deployed, whilst also providing forces for Afghanistan and for emergency fire-fighting cover, and meeting its key standing commitments. Readiness performance remained strong at 91%. However, it was down from 93% in 2001/02, reflecting the high number of personnel committed to operations. In particular, commitment of personnel to fire-fighting duties meant that some ships were under-manned and not available for other tasks. A shortage of trained personnel, mitigated in part by the use of Full Time Reservists, posed further challenges to the readiness of the Royal Navy and Royal Marines.

Table 2: Readiness of Rapidly Available Force Elements¹

	2000/01	2001/02	2002/03
Royal Navy/Royal Marines	95%	93%	91%
Army	72%	81%	84%
Royal Air Force	90%	90%	94%

Note:

(1) Percentage of those Force Elements intended to be rapidly available (i.e. those held at very high, high or medium readiness) that were at medium readiness or above. The PSA target is 90% for all three Services.

Equipment defects (particularly in the submarine fleet) and the shortage of some helicopter spares also limited fleet availability.

43. The **Army** successfully fulfilled all its operational tasks in 2002/03, including two large and demanding Operations: in the Gulf (where it deployed over 28,000 personnel and their equipment, including over 100 Challenger 2 main battle tanks) and fire-fighting. It also improved its performance of rapidly available units at the required states of readiness to 84% (against the PSA target of 90%) from 81% in 2001/02, despite under-manning and continuing specific sustainability challenges.

44. The **Royal Air Force** continued to meet all of its Out of Area commitments and enduring Military Tasks in 2002/03. It, too, was heavily committed in the Gulf region where it had 8,000 personnel and 150 aircraft. Nonetheless, its overall readiness performance was some 94%, an improvement on 2001/02 performance of 90%. Concerns remain, however, over equipment shortfalls and manning shortages in some critical branches and trades. Work continues to address these issues and there have been a number of successes, especially in the areas of personnel recruitment and retention.

Sustainability and Deployability

45. The Armed Forces' ability to meet readiness targets, however, does not offer a complete picture of whether those forces could in practice be deployed and sustained on operations. For this reason, work

was undertaken during the year to develop a process that assesses our ability to generate, deploy, train-in-theatre, sustain and ultimately recover those forces required to undertake a range of operations, from peacekeeping to combat. This is a challenging task but an embryonic system is now in place, which we will continue to develop, and these assessments are captured under a Sustainability and Deployability Measure.

46. During 2002/03, several major work programmes were initiated which focused on better identifying the requirements to mount and sustain operations. Our operations in Bosnia, Afghanistan and Iraq show how important such work is. As a result, the Department was able to address some of the identified shortfalls, particularly those relating to operational stocks. But the demands placed on Defence vary over time, so the Department continued to improve the processes to better forecast sustainability needs in order to plan to meet future requirements.

Joint Rapid Reaction Forces (JRRF)

47. JRRF development was generally satisfactory and the PSA target, Phase 2 (Operational Capability) of the JRRF by March 2003, was largely met. However, there were some weaknesses and it was judged that it would not be possible to generate and sustain some Force Elements for medium-scale warfighting within the planned timescales. Operation TELIC underlined deficiencies in operational stocks and equipment support and lessons identified from the Operation will inform the continuing review of the JRRF balance and structures.

Policy

Objective:

To help build a safer world.

Performance Measures:

- a) Shaping NATO and the EU in accordance with wider UK interests, including by:
 - i. *Creating a more effective and efficient NATO, including through the implementation of the measures agreed at the Washington Summit.*
 - ii. *Ensuring NATO enlargement is in line with UK interests.*
- b) Appropriate UK military contribution to NATO and the EU, specifically:
 - i. *By 2003, EU able to deploy forces of up to Corps level (60,000 personnel) within sixty days, capable of undertaking the full range of Petersberg tasks.*
 - ii. *Effective EU relationships with NATO acceptable to all members.*
- c) Improved effectiveness of the UK contribution to conflict prevention and management, including, *in all countries and regions in which activities are funded by resources from the joint pools, a reduced rate in: the incidence or likelihood of new conflicts, incidence of conflict-related displacement, and incidence of war-related casualties. Joint target with the Foreign and Commonwealth Office and Department for International Development.*
- d) Formulation of UK Defence policy for the Department's role against international terrorism.

Performance Assessment:

- a) NATO and the EU continued to develop in line with wider UK interests:
 - i. *In November 2002 NATO leaders approved development of a new streamlined NATO Command Structure and committed to transform the Alliance to meet new threats, including terrorism and Weapons of Mass Destruction. NATO has approved the comprehensive concept for the NATO Response Force.*
 - ii. *Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia signed Accession Protocols in March 2003. The UK continued to provide them with assistance.*
- b) The EU Corps PSA target was partly met. Much other progress has been made:
 - i. *The first EU crisis management exercise was held in May 2002. The EU initiated its first military Operation in March 2003 in Macedonia. In May 2003 the European Council concluded the EU had operational capability across the full range of Petersberg tasks, although constrained by recognised shortfalls.*
 - ii. *NATO and the EU agreed arrangements for EU access to NATO resources and assets.*
- c) *The cross-Whitehall initiative for conflict prevention continued to develop and expand, but details on the number of people affected by violent conflict in 2002/03 will not be available before the end of 2003.*
- d) In July 2002 the Department published the White Paper 'A New Chapter to the Strategic Defence Review'. In October 2002, the Department announced implementation of measures to enhance the Armed Forces' ability to support civil authorities in Home Security.

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

48. Security and defence policy development work during the year focused primarily on two continuing themes: evolution of Europe's security arrangements through the complementary improvement of NATO and the EU's capabilities; and developing a multi-faceted response to emerging security challenges, particularly from international terrorism and the spread of Weapons of Mass Destruction. Although there is much yet to achieve, the year saw significant developments for European security including agreement on the ways in which the EU will have access to NATO's resources, the invitation of seven more states to join NATO, and the launch of the first live EU military operation.

49. The Department set out a comprehensive response to the emerging security challenges in 'A New Chapter to the Strategic Defence Review' in July 2002. The Spending Review 2002 settlement enabled further investment in 'network-enabled capability' to provide better-controlled, precise military effect when military action is required. We have continued to take forward work on missile defences, and to enhance the Armed Forces' ability to support the civil authorities in the UK. We continued to work with other Departments and through Defence Diplomacy to prevent and resolve conflict around the world, address the causes and symptoms of international terrorism, implement the Government's commitment to arms control, and prevent the spread of Weapons of Mass Destruction.

NATO

50. MOD and the Foreign and Commonwealth Office (FCO), working closely together, made significant progress in strengthening European security. In 2002/03, decisions were taken by NATO to: invite Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia to join the Alliance; improve NATO military capabilities; streamline NATO Command structures; create a NATO Response Force; and enhance NATO's relations with its partners. The Department and the FCO were at the forefront in developing these policy initiatives, in finding solutions acceptable to all, and in delivering consensus.

51. Alliance operations continued in the Balkans, with the UK at the forefront: during the year an average of nearly 3,000 members of the UK Armed Forces were committed (although the commitment by

the end of the year was considerably below that). At the Prague Summit in November 2002, NATO leaders made a commitment to transform the Alliance to meet the new threats and security challenges of the 21st century, including terrorism and Weapons of Mass Destruction, and to do so wherever they arise. This paved the way for NATO to take the lead role in the International Security Assistance Force in Kabul and provide support to Poland in Iraq.

52. The seven invited nations signed Accession Protocols in March 2003 and effectively commenced the process of integration. The UK has played a leading role, through a targeted programme of Defence assistance (the 'Outreach' programme), in helping them to prepare for membership. The NATO-Russia Council (NRC), created in May 2002, provides a new and effective way of engaging with Russia at the political and military level. It is now working on such issues as terrorism, countering Weapons of Mass Destruction proliferation, civil emergencies, Defence reform, and improving military interoperability. The UK was active within the NRC throughout the year.

53. The Prague Summit also saw the launch of the Prague Capabilities Commitment with Allies making political commitments to improve significantly their military capabilities. NATO approved the concept of the NATO Response Force, which in terms of speed of reaction will be a marked departure for NATO and on which progress was ahead of schedule. In June 2003, NATO Defence Ministers also approved a streamlined Command Structure. This will be more flexible and efficient, and better able to conduct post-Cold War military operations as well as provide the essential command underpinning for the NATO Response Force. The UK played a leading role in driving forward these changes, which were agreed very much in line with UK objectives.

European Defence

54. Significant progress was made in the security and Defence dimensions of the EU. The UK continued to play a leading role in initiatives to improve European military capabilities and steady progress was made against the targets detailed in the European Capabilities Action Plan. A key milestone was achieved when the first EU crisis management exercise was held in May 2002, successfully practising and testing the EU's operational procedures.

55. UK ideas were influential in the design of the new NATO/EU relationship, including NATO's support to the EU for military operations. This process came to fruition in late 2002 with agreement between NATO and the EU on 'Berlin Plus' to give the EU ready access to NATO's planning resources and other key assets. In March 2003 the two organisations completed the final negotiations on the detailed arrangements to underpin Alliance support for EU-led operations. After a EU police mission in Bosnia in January 2003, these were almost immediately put into operational use with the launch of the EU's Operation CONCORDIA in the Former Yugoslav Republic of Macedonia, following on from NATO's successful Operation ALLIED HARMONY. In June 2003, the EU undertook its first Operation outside Europe, Operation ARTEMIS, in the Democratic Republic of Congo. This Operation did not use NATO assets.

56. In May 2003, the European Council concluded that the EU had an operational capability across the full range of Petersberg tasks, from peacekeeping to war-fighting. This was however limited and constrained by recognised shortfalls, which particularly affect speed of deployment and level of risk for larger, higher-intensity tasks. Work to address these continues. The challenging PSA target, which is also the agreed Headline Goal of EU capability, for the EU to be able to deploy forces of up to Corps level within sixty days and undertake the full range of Petersberg tasks by 2003, was therefore partly met.

57. The Department also worked to shape the Defence-related proposals in the Convention on the Future of Europe. In particular, we proposed establishment of a new Agency focusing on European Defence capability development to help to embed the approach begun with the Headline Goal.

Conflict Prevention

58. The cross-Whitehall initiative for conflict prevention continued to expand its geographical scope and develop its range of activities. During 2002/03 the Department worked to support conflict prevention initiatives across Africa, the Middle East, Europe, Central America and Asia as well as undertaking wider-ranging conflict prevention work under the Defence Diplomacy programme.

59. The Defence Advisory Team was heavily engaged providing security sector and Defence reform advice and assistance to Afghanistan, Uganda, Sierra Leone, Indonesia, Sri Lanka, Serbia and Montenegro, Ghana and Uzbekistan. UK military training teams worked to enhance the ability of African nations to conduct peace support operations, in line with the G8 commitment announced at the Kananaskis summit in June 2002. As well as undertaking activities to promote good governance and democratic accountability of Armed Forces around the world, the Department supported the establishment of the Kofi Annan International Peacekeeping Training Centre in Accra, Ghana, and the Jordanian Peace Operations Centre, which provides Arabic-based training for nations in that region. Additionally, during the year our Defence Academy ran a number of seven-week post-graduate diploma courses in 'Managing Defence in a Democracy' for targeted military and civilian personnel from the security sectors of around forty countries.

60. Through these and other conflict prevention activities, the UK is beginning to make an impact in meeting the PSA target although details on the number of people affected by violent conflict in 2002/03 will not be available before the end of 2003. The overall assessment of progress against the PSA will be based on this data but will also take into account other factors beyond UK control, either in-country or within the wider international system.

61. The Outreach programme, which aims to prepare nations for membership of NATO, also provided effective support and assistance to the Defence reform process in Central and Eastern Europe, Russia, the Caucasus and Central Asia. A variety of activities were undertaken, including individual, collective and specialist training, and the provision of military and civilian special advisers. UK support to the resettlement of military officers was extended from Russia (where over 17,000 have been retrained through the UK's resettlement project) to Ukraine, Georgia and Moldova.

Counter-Terrorism Policy

62. In July 2002 the Department published the White Paper 'A New Chapter to the Strategic Defence Review'. This was the Department's part of the Government's comprehensive examination of its

strategies, preparedness and contingency planning in the wake of the terrorist attacks in the US on 11 September 2001. The New Chapter confirmed that Armed Forces have an important contribution to make, but the Government does not believe that there is a specific military solution to international terrorism.

63. The Government is prepared to use armed force against terrorism overseas when non-military tools fail. The New Chapter concluded that this required a series of adjustments and refinements to existing military means, not a step change in capability or concept of operations. The 2002 Spending Review settlement allowed the Department to invest in further development of 'network-enabled capability' (linking sensors, decision-makers and weapon systems so that information is shared, and action taken, as quickly as possible), providing better-controlled and precise military effect.

64. Part of the New Chapter focused on enhancing the Armed Forces' ability to support the civil authorities in Home Security. On 31 October 2002 the Department announced the implementation of measures to reinforce our regional command structure to take part in civil emergency planning and round-the-clock operations when necessary; and to establish fourteen regionally-based Civil Contingency Reaction Forces (CCRFs) to increase our capacity to meet requests for assistance. Each CCRF will ultimately comprise some 500 volunteers drawn from existing Volunteer Reserve Forces. Implementation has progressed well with Initial Operating Capability achieved by the target date of December 2002 and Full Operating Capability is expected in December 2003. Overall, some 700 new Reserve posts have been created and over 130,000 additional man-training days provided. The Department also aims to acquire new communications equipment to ensure compatibility with the emergency services by 2006.

Other Activities

Missile Defence

65. In November 2002, the Department published a public discussion document intended to promote debate about the major issues involved in our consideration of whether to participate in a programme to develop a missile defence system. There have been a number of Parliamentary and public discussions on missile

defence, following a formal request from the US in December 2002 for UK agreement to an upgrade of the ballistic missile early warning radar at RAF Fylingdales as part of the US missile defence test bed, and as an emergency operational capability. The Secretary of State announced the Government's agreement to this request on 5 February 2003. In June 2003, the Secretary of State and US Defence Secretary Donald Rumsfeld signed a UK/US Memorandum of Understanding setting out the framework for future co-operation on missile defence activities, including closer technical and industrial co-operation.

66. On Theatre Ballistic Missile Defence, the UK continued to monitor developments in the threat. In parallel, studies were undertaken to scope the extent of the capability gap in this area and identify potential solutions. The UK also retained a strong interest in international fora considering how the capability may be met by an alliance, in particular the NATO feasibility study that examined an active layered ballistic missile defence capability. The report from this study is in production and its implications for the UK will be considered over the coming year.

Arms Control and Counter Proliferation

67. The Department continued to take active measures to implement its commitment to arms control and countering proliferation. These initiatives make a major contribution to international peace and security by helping to counter the threat from the proliferation of Weapons of Mass Destruction.

68. Significant progress has been made in assisting Russia with destruction of its chemical weapons and the first UK project begun in June 2002 was completed and formally handed over in early 2003. We contributed to the successful outcome of the meetings of the Preparatory Committee for the Nuclear Non-Proliferation Treaty Review Conference and furthered negotiations for a new protocol to the Convention on Certain Conventional Weapons, designed to reduce the risk to civilians from explosive remnants of war.

69. The Department has taken a leading role in strengthening export control regimes, including through the Missile Technology Control Regime and Nuclear Suppliers Group and provided both high-level guidance and practical support to the United Nations Monitoring and Verification Commission (UNMOVIC).

Support to UK Defence Exports

70. The Department ensures the highest levels of responsibility and accountability in its export control and non-proliferation policy, whilst at the same time supporting legitimate Defence exports and a strong UK Defence industry. In 2002 the UK won Defence orders worth £5Bn. These included the sale of Jernas air-defence systems to Malaysia, Hawk aircraft to Bahrain, aero-engine development work related to

the Joint Strike Fighter to the US and Type 22 Frigates to Romania. Vosper Thornycroft was selected by Greece to build in partnership a new corvette for the Greek Navy and BAE SYSTEMS RO won a contract to supply the Ultralightweight Field Howitzer to the US Marine Corps. These orders represent a considerable achievement in a very competitive global Defence export market, giving the UK a market share of 22%, above the average for the last five years and up from 19% last year.

Resource Management

Annual Budget

Objective:

To control actual net financial resource expenditure within budgeted limits (-1% to 0%).

Performance Measures:

- a) Expenditure to be within Departmental Expenditure Limits; Defence budget not overspent.
- b) *Disposal of surplus estate and equipment worth over £600M by March 2004.*

Performance Assessment:

- a) The Department met its target, being within 0.3% of expenditure limits at the end of the year.
- b) *On course. The in-year asset disposal target of £210M was exceeded by nearly 50% (£307M), bringing the total to £419M since April 2001.*

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

71. Resource consumption on non-operational activities was within Voted Provision. Operational expenditure, including expenditure on Operation TELIC to the end of the financial year, was 20% below the amount provided for in the Spring Supplementary Estimates 2002/03.

Accounting and Budgeting regime with Departmental Expenditure Limits covering capital expenditure and the majority of the Department's operating costs, but excluding a number of non-cash costs such as depreciation and Cost of Capital Charges. Performance against the Voted Provision is set out in Table 3. The total underspend of £63M against the Departmental Expenditure Limits – less than 0.3% of the budget – represented a position well within performance measurement parameters. This underspend has been carried forward to 2003/04 under agreed end-year flexibility rules.

Defence Budget and Spending

72. 2002/03 was the second year of managing the Defence budget under Stage 1 of the Resource

Table 3: Defence Budget Outturn against Departmental Expenditure Limits (DEL) 2002/03 (£M)

	DEL	Outturn	Variation
Resource DEL ¹	19,058	18,946	-112 ³
Capital DEL ²	5,836	5,885	+49 ³

Notes:

- (1) Includes all operating costs and cash expenditure provisions, less non-cash items such as depreciation and interest on capital. Excludes expenditure on Conflict Prevention activities (see Table 4).
- (2) Includes all expenditure on fixed assets, less the income from the sale of such assets. Excludes expenditure on Conflict Prevention activities (see Table 4).
- (3) The Department has flexibility to move resources from Resource DEL to Capital DEL.

Table 4: Net Additional Costs of Operations against Spring Supplementary Estimates (SSE) 2002/03 (£M)

	DEL	Outturn	Variation
Resource DEL	1,120	998	-122
Capital DEL	524	319	-205

Table 5: 2002/03 Parliamentary Controls (£M)

	Final Voted Provision	Departmental Resource Accounts	Variation
Net Resources ¹	44,489	42,014	-2,475
Net Cash Requirement	28,303	26,991	-1,312

Note:

(1) Includes Resource Departmental Expenditure Limit and Annually Managed Expenditure (e.g. depreciation and Cost of Capital), less Resource Appropriation-in-Aid (e.g. profit/loss on disposal of capital items and stock) and cash expenditure on provisions.

73. The net additional costs of Operations were also recorded on a resource basis and are set out against the Estimates provision in Table 4. No formal budget is set for Operations as military requirements drive expenditure.

74. The resources authorised by Parliament for 2002/03 also include Annually Managed Expenditure (such as provisions, depreciation and Cost of Capital) not covered in the Resource and Capital Departmental Expenditure Limits set out above. They are, however, included in the figures set out in Table 5 comparing performance against the full provision authorised by Parliament. The underspend this shows was mainly caused by the impact on Depreciation and Cost of Capital Charges of the Quinquennial Review of the Department's Fixed Assets that took place in 2002/03. This Review resulted in significant variations in asset values and assumed remaining lives, but fewer than expected asset write-downs and impairments.

75. Outturn against the Net Cash Requirement, also shown in Table 5, was well within the final provision. This was due to a combination of factors, including higher than expected accrued expenditure, primarily on Operations.

76. Further information on the financial performance of the Department, including a breakdown of the principal categories of operating costs for 2002/03, is contained in the Departmental Resource Accounts at Section 2 of this publication.

Asset Disposals

Estate

77. Disposal receipts in 2002/03 amounted to £278M gross on an accrued basis, some 50% higher than the target of £185M. Major sites sold during the year included RAF Burtonwood, ABRO Ashford, Peel Circus Corsham, Arras Lines Catterick and Pease Hill Development Site in Scotland.

Equipment

78. The Disposal Services Agency (DSA) had a successful year in which it achieved nearly £29M in gross cash receipts, exceeding its in-year target of £25M. Combined with estates disposals of £278M this gives a total annual Departmental figure of £307M. Major capital disposals, including regeneration and modernisation work by UK industry, included: the sale of two Type 22 frigates to Romania (HMS London and HMS Coventry); the sale of one Type 22 frigate to Chile (HMS Sheffield); the sale of five Offshore Patrol Craft to Bangladesh; the sale of three C-130 aircraft to Austria, with overhaul business, including upgrades to communications and navigational systems; and the transfer of the Challenger 1 tank fleet to The Hashemite Kingdom of Jordan, which is proceeding successfully with technical and logistic support through a number of British companies.

Manning Levels

Objective:

To achieve broad manning balance within each Service and recruit and retain sufficient MOD Civil Servants.

Performance Measures:

- a) *The Royal Navy and Royal Air Force to achieve full manning, and the Army to meet 97% of its manning requirement, by March 2004.*
- b) Reduce percentage variance from the trained requirement in key areas of shortfall, for all three Services.
- c) 5% of all Armed Forces recruits to be from UK ethnic minorities. Progress towards ethnic minority, gender and disability targets for the Civil Service.
- d) Reduce loss to trained strength due to illness and injury, including *average number of days lost per civilian staff year to sickness absence.*

Performance Assessment:

- a) *Good progress has been made towards achieving manpower targets (see Figure 4). At 1 April 2003, the Royal Air Force had achieved manning balance with 98.5% of the requirement, the Royal Navy had cut its deficit to just 910 personnel (achieving 97.6% of the requirement) and the Army was on course with 95.5% of the requirement, up from 93.9% in April 2002.*
- b) Areas of critical shortage remained, particularly in the medical specialisations. A range of initiatives, including financial incentives, is being used to target key specialisations.
- c) There continues to be year-on-year increase in the proportion of UK ethnic minority recruits to the Armed Forces. Provisional 2002/03 figures were 2.8% of officer and 2.4% of other ranks recruits to the Army, 2% of recruits to the Royal Navy and 2.5% to the Royal Air Force were from UK ethnic minorities. Civil Service diversity figures improved in all target grades, but fell short of the targets.
- d) A number of Service personnel health initiatives were launched covering better awareness of risks, and quicker and better diagnosis, treatment and rehabilitation. *Civilian sickness absence reduced from the PSA baseline figure of 8.0 working days lost per staff year to 7.6 days.*

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

79. 2002/03 was the best recruiting year for the Services for a decade, and we are on course to meet our PSA manning target by March 2004 (see Figure 4). There continued, however, to be significant shortfalls in some specialist categories, including medical personnel. Operations in Iraq saw the biggest call up of Reserves since the 1950s, and demonstrated their very high quality. We have made progress towards our diversity objectives, in both the Armed Forces and the MOD Civil Service, but the trend nevertheless has been slower than required to meet most of the targets in this area. Significant work has taken place to implement the recommendations of the Medical Quinquennial Review for the Armed

Forces, which should lead to a reduction in losses to trained strength. Civil Service sickness absences continued to reduce.

Service Manning Levels

80. Tables 6, 7 and 8 show the inflow to UK Regular forces (i.e. recruitment performance), the outflow from UK Regular forces (i.e. retention performance) and the overall strength of the Armed Forces. This was our best recruiting year for a decade. In 2002/03, the total intake from civil life to the Armed Forces was 26,280 personnel, 103% of the overall recruitment target (compared with 95% in 2001/02). The Royal Navy, Army and Royal Air Force achieved 103%, 108% and 89% respectively, although

Table 6: Intake to UK Regular Forces¹

	Royal Navy/Royal Marines			Army			Royal Air Force		
	2000/01	2001/02	2002/03	2000/01	2001/02	2002/03	2000/01	2001/02	2002/03
Officer intake	450	410	420	870	820	900	440	450	460
Other rank intake	4,180	4,600	4,800	13,900	14,030	15,710	3,190	3,340 ²	3,990
Total intake	4,620	5,010	5,220	14,770	14,850	16,610	3,630	3,780	4,450

Notes:

(1) Figures are individually rounded to the nearest ten and may not sum precisely to the totals shown. They do not include Full Time Reserve personnel, Gurkhas, the Home Service battalions of the Royal Irish Regiment, or inter-Service manpower transfers.

(2) Corrected figure from last year's Departmental Performance Report.

Table 7: Outflow of UK Regular Forces¹

	Royal Navy/Royal Marines			Army			Royal Air Force		
	2000/01	2001/02	2002/03	2000/01	2001/02	2002/03	2000/01	2001/02	2002/03
Officer outflow	480	530	510	1,140	1,070	970	660	670	580
Other rank outflow	4,550	5,270	4,780	14,080	13,290	13,580	4,020	3,860	3,670
Total outflow	5,040	5,800	5,300	15,210	14,360	14,550	4,680	4,530	4,250

Note:

(1) Figures are individually rounded to the nearest ten and may not sum precisely to the totals shown. These figures include outflow from the untrained strength. They do not include Full Time Reserve personnel, Gurkhas or the Home Service battalions of the Royal Irish Regiment.

all three Services experienced recruitment shortfalls in specific areas. A total of 24,090 Service personnel (trained and untrained) left the Armed Forces in 2002/03, 500 fewer than last year.

81. At the end of 2002/03 the **Royal Navy and Royal Marines** had a shortfall of some 910 personnel against the trained strength requirement (a deficit of 2.4%). This is a significant improvement on the position at the beginning of the year when the deficit was 4.3%. This was achieved by a planned reduction of the manning requirement together with a strong recruiting performance and a number of retention initiatives. Manpower shortages remain a particular problem in some specialisations, however, including engineers, submarine warfare officers and in the Royal Marines.

82. As at 1 April 2003 the **Army** had a shortfall of 4,850 against the requirement (a deficit of 4.5%). This improvement on last year's position (where the deficit was 6.1%) was mainly due to continued buoyant recruiting figures (see Table 6). Premature Voluntary Retirement (PVR) rates for non-commissioned ranks dropped from 6.0% to 5.5%, and Officers decreased from 4.2% to 3.4%. Significant shortages remained, though, within the Royal Signals, Royal

Logistics Corps, Royal Army Medical Corps, Royal Electrical and Mechanical Engineers and Queen Alexandra's Royal Army Nursing Corps.

83. The manning position in the **Royal Air Force** improved again during 2002/03 with the overall manning deficit dropping from 1.6% to 1.5%, well within the range of the PSA target. Nevertheless, shortages in certain branches and trades, such as junior officer pilots, navigators, medical officers and some ground personnel, remained of concern. The exit rate from the Service by PVR remained fairly constant at 2.1% for officers and 4.7% for airmen. Improving retention remains a high priority for the Royal Air Force.



The RAF achieved manning balance, with a deficit of just 750 personnel.

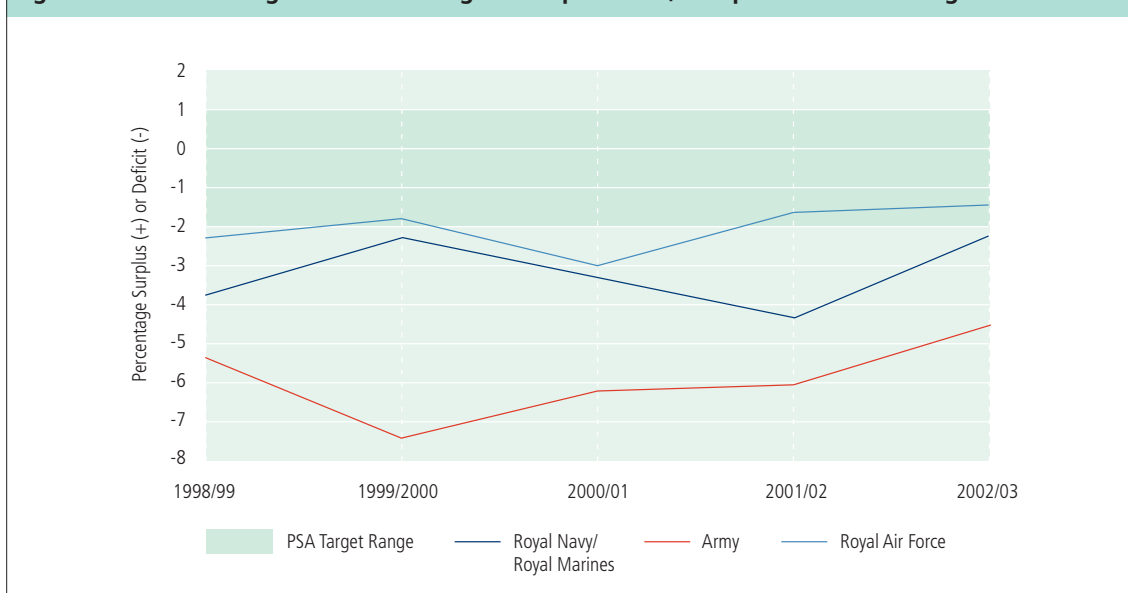
Table 8: Strength and Requirement of UK Regular Forces¹

	Royal Navy/Royal Marines			Army			Royal Air Force		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
Trained Requirement	39,900	39,180	38,510	106,970 ²	106,970 ³	106,980³	51,590	49,990	49,640
Trained Strength	38,540	37,490	37,600	100,380	100,420 ⁴	102,120	50,110	49,200	48,900
Variation	-1,360	-1,690	-910	-6,600	-6,560	-4,850	-1,490	-790	-750
Untrained Strength	4,400	4,860	4,960	13,580	14,380	14,880	3,850	4,120	4,700
Total UK Regular Forces	42,940	42,350	42,560	113,960	114,790	117,000	53,960	53,320	53,600

Notes:

- (1) As at 1 April. Figures are individually rounded to the nearest ten and may not sum precisely to the totals shown. Figures include UK Regular forces, trained Gurkhas, Full Time Reserve Personnel and Nursing Services Personnel.
- (2) Corrected figure from last year's Departmental Performance Report.
- (3) Regular Army Liability Baseline (reviewed annually).
- (4) Revised following the discovery of a coding error in the allocation of soldiers to the trained and untrained strengths.

Figure 4: Trained Strength as a Percentage of Requirement, Compared with PSA Target



Defence Medical Services (DMS)

84. Recruitment and retention of medical manpower within the DMS continue to pose serious challenges. As at 1 January 2003, the overall manning shortfall across the DMS was 24%. Of particular concern are shortfalls in key specialities including general surgeons, orthopaedic surgeons, and anaesthetists. Nevertheless, during the year DMS personnel deployed on Operations to Iraq, Kosovo, Bosnia, Afghanistan, Sierra Leone and Northern Ireland. At its peak, over 2,000 Regular medical personnel and over 750 medical Reservists were deployed on Operation TELIC.

85. The outcome of the Medical Manning and Retention Review (MMRR), undertaken to address the manning problem, was announced in November

2002. The new pay structure it recommended, which aimed to provide improved comparability with the NHS, was implemented in April 2003. Other recommendations of the MMRR are also being implemented. The response to the 'Golden Hello' scheme, under which a payment of £50,000 is made available to attract trained medical officers in critical shortage specialities, has been encouraging.

Reserves

86. Reserve forces continued to play a vital role both in overseas operations, where they consistently provided 10-15% of the total UK force, and in the defence of the UK. During 2002/03, Reservists were called-out for Operations in Iraq; in support of the campaign against international terrorism, including

deployments with the International Security Assistance Force in Afghanistan; and on Operations in the former Yugoslavia. Smaller numbers of the Reserve Forces were also called-out to support Operations in Sierra Leone and the Democratic Republic of Congo. A breakdown of Reserve manpower strengths is shown in Table 9. (See paragraph 64 on the role of Reserves in supporting civil authorities in Home Security.)

87. The recent combat operations in Iraq were the biggest call-out of Reservists since the 1950s. Over 5,000 Reservists deployed to the region before the start of hostilities. They provided individuals to augment Regular units, a traditional role for Reservists, as well as providing specialist units in such areas as logistics, signals, medicine and engineering. The call-out procedures worked well and the Reserve Forces produced the necessary manpower and skills. Their contribution was essential to the success of the Operation.

88. The Department recognises that the effectiveness of the Reserves depends on the three-way relationship between the MOD, the Reservists themselves and their employers. Our SaBRE (Supporting Britain's Reservists and Employers) campaign continued to offer advice and support to employers throughout the mobilisation process. Where possible, the Department took employers' requirements into consideration when mobilising Reservists. This will continue.

Sponsored Reserves (SRs)

89. SRs are civilian contractors who provide specialist support to the Armed Forces in peacetime, and continue to provide the same support on Operations but as mobilised members of a Reserve force. In 2002/03, the Royal Air Force made use of SRs from the Mobile Meteorological Unit to support operations, including Operation TELIC. In addition, work was begun to place a contract with SERCo Aerospace for the provision of SRs to provide

engineering support for aircraft of 32 (The Royal) Squadron. Recruitment and training of the SRs for the Heavy Equipment Transporter programme progressed well and remained on schedule. In addition, the Royal Navy mobilised 64 SRs to serve on the Strategic Service Ships in support of Operation TELIC.

Civilian Manning Levels

90. The Department employed 92,124 UK-based civilian staff on 1 April 2003 (including those in Trading Funds), down from 92,985 on 1 April 2002. All recruitment (see Table 10) is based on fair and open competition and selection on merit, in accordance with the guidelines laid down by the Civil Service Commissioners. Compliance with this guidance is subject to internal check and external audit by independent consultants acting on behalf of the Commissioners. A breakdown of Senior Civil Service Salaries is available on the MOD website at <http://www.mod.uk>.

Race Equality Scheme

91. The Department's Race Equality Scheme was published in May 2002 and confirmed the Department's on-going commitment to equality of opportunity. It recorded how the Department intends to fulfil its obligations under the Race Relations (Amendment) Act 2000, covering the Armed Forces, the MOD Civil Service and MOD Police.

92. In 2002/03 the Department began a series of activities aimed at full implementation and working towards building on existing best practice. Particular achievements and initiatives included Gold Awards under Business in the Community Race for Opportunity scheme; the work of the Multi Faith Working Group for the Armed Forces; and building relevant race-equality considerations into the procurement process.

Table 9: Reserve Manpower Levels¹

	Regular Reserves			Volunteer Reserves		
	2001	2002	2003	2001	2002	2003
Total manpower	234,940	224,910	212,600	47,630	46,620	44,940
Of which mobilised	220	270	420	400	620	5,330

Note:
 (1) On 1 April, rounded to the nearest ten. Figures include Officer Training Corps and Non-Regular Permanent Staff.

Table 10: Civilian Recruitment ¹						
	2000/01		2001/02		2002/03	
	Non-Industrial	Industrial	Non-Industrial	Industrial	Non-Industrial	Industrial
Total number of staff recruited ²	4,662	2,220	4,754	1,848	4,399	1,119
Number and percentage of women recruited	2,398 (51%)	659 (30%)	2,473 (52%)	455 (25%)	1,979 (45%)	256 (23%)
Number and percentage of ethnic minorities recruited ³	144 (3%)	29 (1%)	165 (3%)	20 (1%)	145 (3%)	21 (2%)
Number and percentage of people with disabilities recruited ³	78 (2%)	32 (1%)	116 (2%)	21 (1%)	68 (2%)	20 (2%)
Number of casual appointments extended beyond twelve months ⁴	0	0	9	29	15	4
Number of re-appointments	98	17	88	17	102	35
Number of short term appointments with highly specialised skills required ⁵	9	12	3	13	0	0
Number of fixed term appointments of over twelve months where open competition has been waived due to the highly specialised skills of the post ⁶	0	2	200	0	0	0
Number of casual or fixed term appointments converted to permanency that were not originally advertised, through open competition, as having opportunities for permanency	9	12	3	13	18	0
Number of fixed term appointments extended beyond the period originally advertised, where the possibility of extension was not stated	7	1	3	1	14	7
Number of appointments (casual or fixed term) of under twelve months where open competition has been waived and which have been extended to 24 months on fixed term appointment contracts	16	22	4	1	12	9
Number of transfers of staff without work ⁷	4	0	13	0	38	2
Number of inward loans ⁸	9	0	11	0	13	1
Number of extended inward loans	0	0	3	0	2	0
Number of disabled candidates appointed under modified selection arrangements	8	7	4	1	17	0
Number of appointments under the Government's Welfare to Work – New Deal programme to assist the long term unemployed ⁹	7	9	4	0	8	0

Notes:

- (1) Figures in this table differ from those published in UK Defence Statistics 2003 because of definitional differences including those outlined in the notes below.
- (2) Figures for 2002/03 include recruitment to Trading Fund Agencies.
- (3) Figures are compiled from questionnaires returned by individual recruits.
- (4) The majority of these extensions were to meet short-term requirements whilst permanent replacements were sought. Two extensions were in support of operations in Iraq. Fair and open competition has been used wherever possible.
- (5) This shows the number of staff recruited where the requirement was short term and required specialist skills and where holding an open competition would not have identified any further candidates.
- (6) Figures for 2001/02 include Retired Officers whose fixed term appointments were extended.
- (7) This excludes transfers from public bodies staffed exclusively by Civil Servants. Figures for 2002/03 include 32 MOD Police officers transferred from Home Office Police Forces.
- (8) Excludes other Government departments, but includes for example, local authorities, hospitals, etc.
- (9) An exception approved by the Commissioners following the launch of the Governments Welfare to Work – New Deal Programme. Figures exclude those New Deal candidates recruited through normal open and fair competition.

93. More detail is contained in the Race Equality Scheme progress report on the Department's website (<http://www.mod.uk>).

Service Equal Opportunities/Diversity

94. Good progress was made in this area and the successful five-year partnership agreement with the Commission for Racial Equality (CRE) that ended on 28 March 2003 was succeeded by a second agreement, signed by the Chief of the Defence Staff and the CRE Chair, Trevor Phillips, in July.

95. The representation of ethnic minorities in the Armed Forces continued to increase, with provisional figures at the end of March 2003 showing an average of 4.4% across the three Services. This figure includes Commonwealth nationals. There remains a need to increase the proportion of UK ethnic-minority recruits. Consequently, a specific target for the next three years is for each Service to increase the proportion of ethnic minority recruits from the UK by at least 0.5% a year. Provisional 2002/03 figures show 2.8% of officer and 2.4% of other ranks recruits to the Army, 2% of recruits to the Royal Navy and 2.5% to the Royal Air Force were from UK ethnic minorities.

96. As at 1 April 2003, women made up nearly 8.6% (17,910) of Armed Forces personnel, up from 8.3% (17,038) in April 2002. The Armed Forces recruited 3,230 women in 2002/03, an increase of 540 over the previous year and representing 12.3% of the total intake.

Civilian Equal Opportunities/Diversity

97. Progress against targets was mixed. The Department exceeded the target for women at Band B (the grade below Senior Civil Service), and further increased ethnic-minority representation, but still generally lagged behind increasingly demanding targets. The improvements that have been made reflect the success of initiatives put in place over a number of years, and the increasing representation of women at Band B and D (the entry level for most graduates) should in time contribute to a better position in the Senior Civil Service. Nevertheless, more needs to be done and a new strategic approach to diversity will be launched in the coming year with the intention of further raising awareness and generating new initiatives to increase representation of minority groups.

98. A Disability Steering Committee was set up in December 2002. It comprised representatives from most business areas, for both industrial and non-industrial personnel with disabilities. Through their work it is envisaged that the Department will become a more disability friendly and aware organisation.

99. The Department was also involved in schemes to help the development of people from ethnic minorities. For example, a pilot scheme for junior grades, New Horizons, started in September 2002 and, for those with potential for the Senior Civil Service, the Department continued to participate in the Cabinet Office Pathway development programme.

Table 11: Women, Ethnic Minorities and Disabled Percentage of Total Senior Civil Servants in the MOD

	2001/02 Target	2001/02 Achievement	2002/03 Target	2002/03 Achievement ¹	2005 Target
Women	9	7.9	11	8	15
Ethnic Minorities	2.7	0.8	2.9	1.5	3.2
Disabled	1	1.5	1.7	1.5	2

Note:

(1) Following a change in reporting, 2002/03 statistics include all permanent Senior Civil Servant staff, including analogue grades e.g. medical consultants.

Table 12: Women, Ethnic Minorities and Disabled Percentage of Band B Civil Servants in the MOD

	2001/02 Target	2001/02 Achievement	2002/03 Target	2002/03 Achievement	2005 Target
Women	13	12.6	14	14.3	16
Ethnic Minorities	2.2	1.8	2.4	1.8	3
Disabled	2.8	2.2	3.2	2.1	4

Table 13: Women, Ethnic Minorities and Disabled Percentage of Band D Civil Servants in the MOD

	2001/02 Target	2001/02 Achievement	2002/03 Target	2002/03 Achievement	2005 Target
Women	34	33	36	34.3	40
Ethnic Minorities	2.5	1.7	3	2.3	4
Disabled	5.3	5	5.6	4.7	6

Diversity

What is diversity?

It is something of a truism to say that British society is becoming more diverse, bringing together people of different races, genders, cultures, abilities, ages, sexual orientations, family structures, lifestyles, and backgrounds. This is as true for the MOD as anywhere else, and for us includes also the different perspectives, skills and experiences of both Service personnel and Civil Servants. Diversity embodies the principle of equality of opportunity. Ethically, it reflects the view that it is right for everyone in a fair society to have the opportunity to contribute according to their ability, and to be fairly rewarded for the contribution they make – large or small – regardless of their background. And it reflects an understanding that variety of input improves our output. It therefore consciously goes beyond simply implementing our statutory equal opportunities obligations as an employer, and seeks to value, draw on and expand the full range of the different perspectives, experience and approaches available to Defence from the people we employ. And it is not simply about challenging the Department's management. It is, equally importantly, a challenge to every individual member of staff, military or civilian and at every level, to be the best they can. At the same time, our diversity policy recognises that the Armed Forces exist to conduct operations on behalf of the nation, if necessary by engaging in battle; it is that function that distinguishes us from all other employers. In order to deliver operational capability, the Armed Forces employ people who meet specific standards of health and fitness and certain nationality criteria. Certain posts are also closed to women on combat effectiveness or health and safety grounds.

Why does diversity matter?

Proper recognition and successful management of diversity has several very real benefits for Defence. From a pragmatic management perspective, an organisation with an ethos that recognises and values difference, and treats its people as individuals, is more likely to have staff who feel valued. They in return will be more creative and productive, and more likely to maximise the contribution they make to Defence. Successful diversity management will also create the conditions to attract and retain the very best people. In the round, therefore, good diversity management will enable us to make the most out of the single most important resource available to us: our own people. By so doing it will ensure that we are as flexible and astute as we can be in our responses to a rapidly changing world.

From a wider perspective, it is important that in pursuit of the general goal of national defence and international security the Services and the Department are open to, and are seen to be open to and draw on, all parts of British society, without unfair prejudice or favour. If we are to retain the British people's support over the long term for what we do and how we do it, we must be seen to reflect the society we work within and serve.

What are we doing about it?

The key challenge is to embed diversity into the way we think and act on a day-to-day basis. All the various parts of the Department, whether Service or civilian, are working to develop specialised expertise and initiatives to make diversity work. Progress is set out in paragraphs 91-98.

Service Personnel Health

100. The health of Service personnel is of great importance to the Department and the outcome of a major review of the issue, the Medical Quinquennial Review (MQR), was announced in April 2002. It recommended a much clearer focus on the delivery of the two key Defence medical outputs – deployable medical operational capability, and timely appropriate healthcare for Service personnel. This focus will be achieved through the Defence Health Programme, which aims to modernise the delivery of medical support to operational capability.

101. The MQR recommended that the Defence Medical Services (DMS) should be re-structured to focus more effectively on its key medical outputs. Such restructuring included the launching of the Defence Medical Education and Training Agency, the establishment of a Healthcare Directorate, the transfer of the Medical Supplies Agency to the Defence Logistics Organisation, and the disestablishment of the Defence Secondary Care Agency. A two-person partnership has been established at the head of the DMS, with a new Deputy Chief of Defence Staff for Health working closely with the Surgeon General. These changes will modernise the delivery of medical support to military Operations, and improve the health and healthcare of Service personnel.

102. The MQR further recommended that a stronger partnership should be established with the NHS and a 'Concordat' was signed in September 2002 between the MOD and the Department of Health. This describes a cross-cutting partnership aimed at enabling the DMS and NHS to work better together offering continuing high standards of care for all patients, both civilian and military, support to military capability, and value for money for the taxpayer. Planning and delivering these benefits is the work of an MOD/ Department of Health Partnership Board, which also includes representatives from the Health Departments of Scotland, Wales and Northern Ireland.

103. The Department continued to make progress to reduce the number of military personnel medically downgraded because of injury. Initiatives focused on improving data collection and analysis, better awareness of risks, and quicker and better diagnosis, treatment and rehabilitation. Fast-tracking schemes are being developed to accelerate access to appropriate medical care for Service personnel who are temporarily downgraded. Better information on the causes of initial downgrading will allow appropriate risk mitigation strategies to be put in place. The Defence Medical Information Capability Programme, with a planned in-service date of 2005, will provide medical personnel with more rapid access to medical information in line with developments in the NHS. Moreover, the delivery of mental health care to military patients is also being modernised in line with the NHS.

Civilian Sickness Absence

104. As at 1 April 2003, sickness absence for non-industrial civilian staff had reduced from the 1998 PSA baseline figure of 8.0 working days lost per staff year, to 7.6 days. The Department now has a revised PSA target of 7.0 days, to be reached by the end of December 2003. We estimate that we shall narrowly miss this, achieving 7.2 days. The Department's Managing Attendance initiative continues to spread best practice and new ideas in the handling of sick absence.

105. A new, more reliable and accurate methodology for the compilation of civilian sick absence statistics was devised, although work to improve further the quality of the data continues. Revised figures based on the new methodology are available for December 1999 and 2000 (8.1 days and 7.9 days respectively). At the time of going to press, figures for 1 April, the date recorded in previous Departmental Performance Reports, were not available.

Defence Estate

Objective:

To have an estate of the right size and quality, effectively and efficiently managed.

Performance Measures:

- a) Continued improvement in the condition of the estate, *including improving Service Family Accommodation in Great Britain to Standard 1 for Condition.*
- b) *Identify by 2002 those core sites required for continued use by the Department and Armed Forces and increase the proportion of personnel employed on them.*
- c) Reduction of through-life costs of infrastructure acquisition.

Performance Assessment:

- a) *1,440 Service Family houses were upgraded to Standard 1 for Condition in 2002/03, against a target of 1,200 (see Figure 5); a contract to provide an upgrade to approximately 16,000 Single Living bed spaces over the next five to seven years was let in December 2002.*
- b) *The categorisation of Defence Estate sites was completed on time; strategic work to study the potential relocation of the functions currently based on non-core sites was begun.*
- c) The first Regional Prime Contract, designed to ensure improved value for money and faster progress with property management, was awarded.

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

106. The Department continued to invest in rationalising and improving the quality of the Defence Estate. In particular, the Defence Housing Executive and Defence Estates made significant progress towards improving the quality of Service family and Single Living accommodation. Defence Estates completed a Core Sites Review to identify the estate needed over the long term to support Defence objectives. It has also begun to implement improved estate acquisition and management processes, including the signing of the first of five major regional prime contracts to provide routine estate management work and minor capital investment.

Service Accommodation

Service Family Accommodation

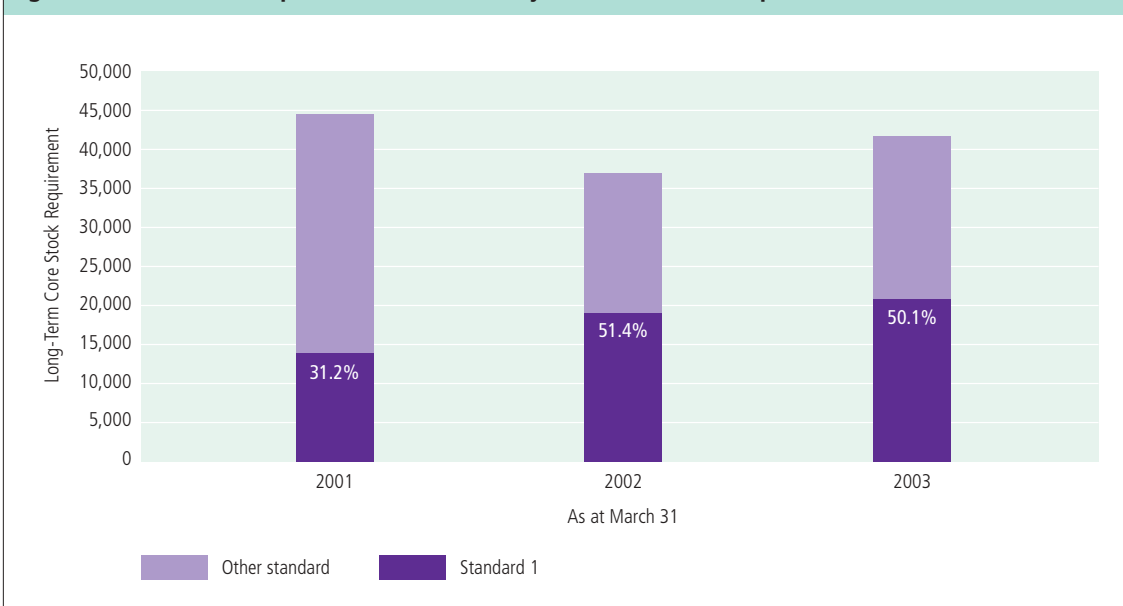
107. The Defence Housing Executive (DHE) continued its housing modernisation programme, upgrading 1,440 Service family houses against an in-year target of 1,200 upgrades. Since gaining Agency status in

1999, DHE has consistently met or exceeded its annual upgrade targets and now has about 21,000 properties at Standard 1 for Condition, which is about half the estimated long-term (i.e. required until at least 2008) core stock requirement (see Figure 5). This requirement is estimated annually. Over 90% of families are now housed in properties at Standard 1 or 2. DHE's total upgrade programme expenditure in 2002/03 was £53.5M.

Single Living Accommodation

108. The Secretary of State announced in 2001 that £1Bn would be made available over the following ten years to upgrade Single Living Accommodation, comprising new build and refurbishment works to deliver single room en suite accommodation. This is known as Project SLAM. Debut Services Ltd, a consortium of Bovis Lend Leases and Babcock, were selected as the Preferred Bidder in September 2002 and were subsequently awarded the Prime Contract in December 2002. The contract will provide upgrades to approximately 16,000 bed spaces over the next

Figure 5: Number and Proportion of Service Family Accommodation Properties at Standard 1 for Condition



five to seven years, with a number of projects due to be delivered in 2003/04. In April 2003 work began on two sites: Middle Wallop (82 Army bed spaces) and Coningsby (552 Royal Air Force bed spaces).

109. Separately from Project SLAM, the Department upgraded over 2,500 bed spaces in 2002/03 and plans to upgrade a further 16,500 over the next five years.

Defence Estates

110. Defence Estates was re-launched as an Executive Agency of the MOD on 1 April 2003. Its mission is to deliver estate solutions to Defence needs and the organisation exists solely to provide estate management services to support the delivery of Defence capability. This is an important element of the wider Defence Change Programme (see paragraph 175). New targets have been agreed for the next five years, which, among other things, cover improving the condition of the Defence Estate to ensure fitness for purpose and producing and gaining agreement to a Core Sites Implementation Plan. These targets reflect the fundamental changes to Defence Estates' business and will enable the Agency's performance and the improvements to the estate to be demonstrated in a consistent way.

Core Sites

111. The Department achieved the PSA target of identifying those sites that currently make up the core and non-core mainland UK Defence Estate by 31 December 2002. The whole project concluded in March 2003 and the Department now has a comprehensive understanding of the nature, extent and value of its estate assets, how well they meet Defence requirements and the scope that exists for development and informed rationalisation. This 'supply' baseline information forms the basis of work now underway to design a strategy to achieve an estate of the right size, shape and quality to meet current and perceived future Defence requirements.

112. Early work shows that there is scope for improving efficiency through using the existing estate better. The Department will, where appropriate, take the opportunity to release high-value sites and those with high maintenance and running costs. Those functions based in the London travel-to-work area and the Southeast more generally are being looked at in light of the initiative being led by Sir Michael Lyons, who is conducting a review into moving Central Government functions and offices out of London and the Southeast.

Regional Prime Contracting

113. To ensure better value for money and faster progress with property management across the Defence Estate, maintenance needs will in future be placed through a small number of 'Regional Prime Contracts'. These will bring improvements in supply chain management, collaborative working with industry, and a reduction in management overheads. The target to award the contract for Scotland by 31 March 2003 was achieved and it is planned that all regions will have contracts awarded by the end of October 2005.

Project AQUATRINE

114. Project AQUATRINE is a major Private Finance Initiative project, which transfers the responsibility for the operation and maintenance of all MOD water and wastewater systems in England, Wales and Scotland to the private sector for a 25-year period. The contract for Package A, which covers the south-west of England and all of Wales, was let in April 2003 and is due to commence in late 2003. Packages B and C, which cover the rest of mainland UK, are due for contract award before the end of 2003/04.

Reputation

Objective:

To enhance our reputation among the UK public and within the MOD and Armed Forces.

Performance Measures:

- a) Public opinion of MOD and Armed Forces.
- b) Opinion of MOD and Armed Forces among Service and civilian personnel.

Performance Assessment:

- a) The MOD and Armed Forces continued to enjoy a mainly positive profile with the public.
- b) Within the Department, there continued to be support for the work of the MOD and the Armed Forces.

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

115. The Department worked hard to maintain and improve the public's understanding of the work of the Armed Forces and the MOD. This is of increasing importance as the proportion of British citizens with personal experience of military service or direct contact with the Armed Forces continues to decline. The public continued to have a high view of the capability and professionalism of the Armed Forces.

Communicating the Work of the Department to the Public

116. As well as the Press Office, the Department used a wide variety of mechanisms to get our messages across. More people than ever learnt about Defence

on-line, for example, and by March 2003 there were over twenty million page views per month on the MOD websites. We also continued to take our messages directly to the public and the Defence Tourer exhibition, which travelled around the UK raising the public's awareness of the MOD and Armed Forces, was visited by over 100,000 people.

117. The Department successfully launched the Defence Schools Initiative, with the pilot Defence Schools Presentation Team visiting over 35 schools across the country using the National Curriculum to help raise the profile of the Armed Forces and the MOD amongst young people. Funding has been identified to enable the team to expand and visit more than 500 schools in the next academic year.

MOD and Armed Forces Reputation

118. In 2002/03 the MOD and Armed Forces were once again at the heart of public debate, with the conflict in Iraq dominating the year. Opinion polls consistently showed very high levels of public support for the capability and professionalism of the Armed Forces (see Table 14 below). 85% of people agreed that the work of the Armed Forces is important and around 76% said they believed the Armed Forces

make the world safer. A less favourable response was recorded on the numbers who believed the Armed Forces are well-equipped (44%). Opinion among Service personnel and MOD Civil Servants was broadly consistent with public opinion. Separately, in a survey conducted by Mori, the MOD was found to be the second most highly regarded Government department, after the Department of Health.

Question	Percentage of Positive Replies	
	As at end 2002/03 ¹	Change since end 2001/02
UK needs strong Armed Forces	85%	-3%
Confidence in the ability of UK Armed Forces to defend UK	80%	-1%
UK Armed Forces make the world a safer place	76%	-8%
Confidence in the ability of UK Armed Forces to defend overseas territories	78%	0%
UK Armed Forces have the highest professional standards	74%	+1%
Confidence in the ability of UK Armed Forces to protect UK citizens overseas	60%	-2%
MOD and UK Armed Forces look after their people	59%	-10%
Confidence in the ability of UK Armed Forces to protect UK overseas economic interests	55%	+4%
MOD is as open as it can be about its activities	47%	-2%
UK Armed Forces are well equipped	44%	-3%
MOD and UK Armed Forces promote their best people regardless of race, gender, religion or sexual orientation	54%	0%
UK Armed Forces make a positive contribution to local communities	42%	+6%
MOD should support British industry's efforts to export military equipment	39%	-5%
MOD and UK Armed Forces carry out their activities with due regard to the environment	36%	-7%
MOD spends taxpayers money wisely	24%	-5%
Average	57%	-4%

Note:
 (1) Survey conducted in May 2003 of 1,872 adults aged fifteen and over in 185 sample points across Great Britain.

Enabling Processes

Training

Objective:

To provide improved individual training and education to support changing operational and business needs.

Performance Measure:

- a) Progress on the implementation of the Defence Training Review, and development of a policy framework for Defence Training.

Performance Assessment:

- a) 91 of some 200 Defence Training Review recommendations have been implemented, including the formation of the Directorate General Training and Education. The Training and Education change agenda has been broadened to include other key non-Defence Training Review activities, including implementation of the wider Government directive on Basic Skills and the rationalisation of Training Support.

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

119. Steady progress was made with implementation of the Defence Training Review's recommendations. By the end of the year a further 39 had been implemented. Major steps included establishment of the Defence Academy in April 2002, the entry of the Defence Training Rationalisation Programme into formal assessment on passing its Initial Gate in August 2002, and formation of the Directorate General Training and Education in October 2002.

Defence Training

120. Training is crucial to the continuing operational success of the Armed Forces, as well as to the efficient conduct of the MOD. The Defence Training Review, which reported in March 2001, concluded that overall our individual training and education was of a high quality but that improvements were required. It made a comprehensive set of some 200 recommendations to deliver an individual training and education system that is better integrated, more closely aligned to operational and business needs, responsive to change,

and cost-effective. Reflecting the importance of this task, implementation is overseen by a Ministerial Steering Group.



The MOD has now implemented 91 out of the 200 recommendations of the Defence Training Review.

121. Steady progress was made on the implementation of the Review in 2002/03. A further 39 recommendations were implemented, bringing the total to 91. One key recommendation was the formation of the Directorate General Training and Education to provide the central focus for individual training and education policy within Defence, including the progress of two key modernisation projects – the rationalisation of specialist training, and the development of e-learning. This happened in October 2002.

122. The Rationalisation Programme remained the highest priority Defence Training programme. This is aimed at delivering a significant proportion of specialist training in joint Defence Schools rather than on a single-Service basis. A Public Private Partnership approach has been adopted. Following Initial Gate approval the programme entered its formal assessment phase in August 2002. A pre-qualification process has been undertaken with potential bidders from industry.

123. Progress continued on implementation of the e-Learning Strategy, including on establishment of the Defence-wide E-Learning Delivery and Management Capability. This aims to use a managed service over the Department's IT infrastructure to significantly expand access to learning.

124. Other key training achievements in 2002/03 included:

- formation of the Defence Academy on 1 April 2002. During the year the Defence Academy awarded the contract for the establishment of the Defence Sixth Form College, developed the Technical Officers entry scheme and held the first Defence Leadership Centre courses;
- establishment of a Defence Accreditation Cell in July 2002 to set and co-ordinate the Department's accreditation policy across the board;
- production of Department-wide induction training guidelines;
- introduction of an electronic Performance and Development Report for civilian personnel;
- introduction of an Enhanced Learning Credits Scheme, which has already attracted over 14,000 registrations;
- completion of negotiations on a Funding Agreement between the Learning and Skills Council and MOD establishments that receive Learning and Skills Council funding, significantly adding to what MOD funds alone can achieve; and
- launching of a new network of professionally qualified Learning and Development Advisers in March 2003, to improve the advice available to managers throughout the Department on civilian training.

Procurement

Objective:

To improve the procurement of equipment.

Performance Measures:

- a) *97% of the Defence Procurement Agency customers' key requirements to be met.*
- b) *In-service date slippage to be within target band.*
- c) *On average, no increase in major project costs.*
- d) *Deliver £750M Smart Acquisition savings between April 2002 and March 2004.*

Performance Assessment:

- a) *99.5% of customers' key requirements estimated to be met.*
- b) *Average estimated in-year in-service date slippage of 7.2 months (target 0.4 months).*
- c) *In-year increase of 5.4% in estimated major project costs (target 0%).*
- d) *Reductions through Smart Acquisition of some £2Bn to the cost of MOD's planned equipment programme between 1998 and 2008.*

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

125. The Defence Procurement Agency (DPA) continued to improve on the delivery of project core requirements and customer satisfaction ratings also increased. However, significant problems with a number of major projects, and in particular with the Nimrod MRA4 aircraft and Astute nuclear attack submarine programmes, meant that average cumulative project in-service dates slipped and average cumulative costs increased substantially. Significant milestones during the year included selection of the future carrier design and the aircraft to be operated from it, contract award for the multinational Meteor missile programme, the maiden flight of Typhoon (Eurofighter) production aircraft, and contract signature for Roll-on Roll-off ferries. Smart Acquisition continued to make progress, improving the Department's acquisition practices and processes. Contracts for several further major Private Finance Initiative projects were signed.

Procurement Performance

126. Table 15 below summarises the DPA's performance against its project management and operating cost targets. The DPA continued to improve in meeting customers' key requirements (Key Target 1) and customer satisfaction rating (Key Target 4), meeting both these targets. However, the average forecast in year programme slippage (Key Target 2) increased to 7.2 months, and the average in-year cost increased to 5.4% (Key Target 3). Both these targets were missed. This was mainly due to delays in the Astute, Typhoon (Eurofighter), Brimstone, Nimrod MRA4, and A400M projects, and cost increases to Astute and Nimrod. These two latter programmes were subject to revised structuring and re-negotiation with BAE SYSTEMS, announced in February 2003. The impact of agreed improvements to processes and practices will take some time to improve results but their management is being closely monitored. Further details on the DPA's performance can be found in the Major Projects Report, published annually by the National Audit Office.

Table 15: Defence Procurement Agency – Key Targets and Achievements								
No.	Efficiency	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
1 ¹	Predicted achievement of projects' core requirements	91%	97%	97%	98%	98%	98%	98%
	Outturn	95.8%	98.6%	99.5%				
2 ¹	Average cumulative slippage of in-service dates not to exceed (in-year slippage not to exceed)	23.1 ² months (0.6)	11.9 ² months (0.4)	12.3² months (0.4)	0.5 ³ months	0.3 months	0.3 months	0.2 months
	Outturn (of which in-year slippage)	23.6 (1.8)	12.5 (1.1)	19.0 (7.2)				
3 ¹	Average cumulative cost variation not to exceed (in-year cost variation not to exceed)	4.6% ² (0%)	2.8% ² (0%)	2.7%² (0%)	0% ³	0%	0%	0%
	Outturn (of which in-year)	3.4% (-0.2%)	2.4% (-0.3%)	8.1% (5.4%)				
5	Excess against Resource Control Totals (excludes nuclear RCT) ⁴	4	4	0	0	0	0	0
	Outturn			0				
No.	Quality	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
4	Customer satisfaction rating	65%	70%	70%	74%	76%	78%	80%
	Outturn	65.4%	66.7%	72.5%				

Notes:

(1) Covers all equipment projects in the development and manufacture phase included in the Major Projects Report.

(2) Following the National Audit Office review of the Major Projects Report data, the baseline in-service dates and costs were amended, leading to revised targets.

(3) For 2003/04 onwards only the in-year, rather than cumulative, performance will be measured and reported. This is consistent with PSA targets.

(4) This measure was agreed for 2002/03 onwards, the target is to have no excess against Resource Control Totals.

Defence Equipment Programme

127. The Equipment Programme, which includes projects that harness new technologies and concepts, is rigorously reviewed every year, ensuring that the Department makes best use of the available resources and provides the Armed Forces with the capabilities required today and anticipated for the future. The 2003 Equipment Programme was dominated by the outcome of the 2002 Spending Review, which enabled significant new investment in the types of equipment identified in 'A New Chapter to the Strategic Defence Review' (see paragraphs 62-64). Equipment deliveries, reported by capability areas, are at Annex E.

128. Significant project milestones during the year included:

- selection in September 2002 of the Future Joint Combat Aircraft variant to operate from our future aircraft carriers and the design of those carriers, and the announcement in January 2003 of an alliance approach as our intended way forward for building the carriers;
- signature of the Roll-on Roll-off ferries Private Finance Initiative contract, with delivery of all six ships now complete;
- contract award for Javelin anti-tank missiles;
- maiden flight of the Typhoon (Eurofighter) Series Production Aircraft;
- extension of the Bowman contract to encompass a Common Battlefield Application Toolset, Infrastructure and Platform Battlefield Information System and connectivity with Apache Attack Helicopters.

- selection of two prime contractors for the next stage of the Watchkeeper unmanned air vehicle programme; and
- contract signature for the Meteor Beyond Visual Range Air-to-Air Missile.

Taken together, these represent considerable progress in moving forward key programmes to modernise our equipment capabilities.

Smart Acquisition Programme

129. Smart Acquisition improvements are estimated to have produced reductions of some £2Bn in the cost of MOD's planned equipment programme between 1998 and 2008. Smart Acquisition is now an integral part of MOD business and it is no longer possible to attribute savings directly to Smart Acquisition. Examples of Smart Acquisition best practice in 2002/03 included:

- in-service support for Nimrod aircraft generated 20% operating savings from the prime partner, through radical changes to business processes and contract setting;
- the repair project team for the Challenger 2 main battle tank delivered savings of £28M through the implementation of a whole-life approach to the equipment; and
- Project SLAM, to upgrade £1.3Bn of Service single accommodation, has designed and developed a business tool known as the Project Value Tree. This is recognised as the global benchmark for all single-living accommodation projects.

Acquisition Leadership Development Scheme (ALDS)

130. The ALDS aims to develop future leaders in Smart Acquisition. Its intake is selected from all three Services, the Civil Service and Industry.

During 2002/03 it reached 418 members, which included an in-year intake of 117 new members and sabbatical returns.

Private Finance Initiatives (PFIs)

131. The MOD continues to investigate innovative ways of acquiring quality and value for money services through Public Private Partnership agreements, including those taken forward under PFI arrangements. In 2002/03 three new PFI deals were signed (see Table 16), bringing £258M further private sector investment into Defence.

132. The Department remains committed to using PFI wherever this delivers best value and does not compromise operational effectiveness. Some projects will provide support close to the front line as demonstrated by the Joint Rapid Reaction Forces Strategic Sealift (Roll-on Roll-off ferries). A robust and diverse programme continues to be taken forward (see Table 17).

Table 16: PFI Deals Signed in 2002/03

Project Name	Estimated Capital Value ¹ (£M)
Materials Handling Equipment	23
Joint Rapid Reaction Forces Strategic Sealift	175
Field Electrical Power Supplies	60

Note:

(1) Based on private sector partner's capital investment where known (or otherwise the capital value of the Public Sector Comparator).

Table 17: Major PFI Projects Underway or Under Consideration, as at 31 March 2003

Airfield Support Services Project
 Allenby/Connaught¹
 Armoured Vehicle Training Service
 C Vehicles²
 Colchester Garrison
 Combined Aerial Target System
 Future Strategic Tanker Aircraft
 Main Building Redevelopment
 MOD-Wide Water and Waste Water (Project AQUATRINE)
 Search and Rescue
 Skynet 5³
 UK Military Flying Training System

Notes:

- (1) Redevelopment of barracks in Aldershot and Salisbury Plain areas, and long-term provision of associated support services.
- (2) Earthmoving and Specialist Plant, Engineer Contractors and Materials Handling services.
- (3) Satellite communications services.

Logistic support

Objective:

To provide more responsive, integrated and efficient logistic support.

Performance Measures:

- a) Proportion of logistic support outputs delivered by the Defence Logistics Organisation.
- b) *800 Field Hospital beds at increased readiness.*

Performance Assessment:

- a) The Defence Logistics Organisation delivered 97.4% of the logistic support outputs identified in its Customer Supplier Agreements, narrowly missing the 98% target. It continued to address remaining areas of weakness.
- b) *Operation TELIC saw the deployment of 700 hospital beds.*

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

133. The Defence Logistics Organisation (DLO) met all of its customers' operational demands in what was a demanding year. It provided the support required to maintain operations in Iraq and elsewhere, and successfully demonstrated the new Joint Force Logistic Component arrangements. Work continued towards meeting targets for provision of field hospital beds. Progress also continued on reducing DLO stockholdings, and making the required efficiency improvements to ensure that we get the best value for our logistic investment.

Defence Logistics Organisation – Performance and Developments

134. The DLO maintained its operational focus throughout the year and met all of its customers' operational demands. During Operation TELIC there was much media reporting that there were shortages of equipment. While the Department accepts that not all units had their kit and supplies when they first arrived in theatre, all key operational supplies were in place by the start of hostilities. Indeed, the first indications from Operation TELIC are that the overall logistics support went well, and that the DLO should be congratulated on the speed of deployment and

overall performance in a very challenging and hostile environment. Progress on the DLO's Business Change Programme to achieve required output efficiencies is set out in paragraphs 146-147 below.

Customer Supplier Agreements (CSAs)

135. CSAs are contracts between the Chief of Defence Logistics and each of the other ten MOD Top Level Budget Holders. They provide a clear specification of required DLO outputs and their resource costs, which informs Defence-wide decisions on provision of logistic support underpinning the delivery of military capability. In 2002/03, the DLO delivered 97.4% of the logistic support outputs identified in its CSAs. This only narrowly missed its target of 98%, and was an improvement from 96% in 2001/02.

Specific Operational Achievements

136. The DLO Logistic Operations Centre (DLOC) was formed in February 2003 at Andover, to provide more effective co-ordination of strategic movement and the delivery of logistics from the home base to the operational theatres. It proved very successful. The DLO also successfully bought significant amounts of equipment directly from industry specifically for use in Operation TELIC that, given the speed of deployment, had to be delivered directly to units in theatre.

Joint Force Logistic Component

137. The Joint Force Logistic Component is a new, task organised, joint, logistic Headquarters. Its role is to deliver coherent and co-ordinated theatre-level support to a deployed joint force. Its exact composition is determined by the Permanent Joint Headquarters to meet the needs of a specific Operation. It achieved considerable success in support of operations in Iraq, but these and other recent deployments have highlighted areas where improvements and investment are required to develop its full capability.

Medical Support

138. Progress has been made towards the Comprehensive Spending Review 1998 PSA target of 800 Field Hospital beds at increased readiness. Operation TELIC saw the deployment of 700 beds (600 Land and 100 Maritime). The requirement, however, is now being reviewed in the Deployable Medical Capability Study against the types of Operations envisaged in 'A New Chapter to the Strategic Defence Review' (see paragraphs 62-64). Further information on Service personnel health issues is set out in paragraphs 100-103 above.

Reduction in Stockholdings

139. The DLO's stock and Capital Spares holdings reduced by £483M in 2002/03. Acceleration of existing review programmes (including Lean Support) and application of a range of other improvements, many of which were identified in the report on Defence Logistics produced by the consultants McKinsey's, will enable further asset rationalisation opportunities to be taken.

End-to-End (E2E) Logistics Review

140. The E2E Review, whose findings were reported to Parliament on 10 September 2003, considered the effectiveness and efficiency of logistic support to Air and Land forces, including Naval Air and the Royal Marines. It looked at the logistic support provided across organisational boundaries, from industry to the front line, both in peace and war, deployed and non-deployed, and proposed a future support strategy. This strategy recognises that small and medium scale operations outside Europe are now the norm and such operations require logistic support that is Joint, flexible, rapidly deployable and robust. The implications that the changes proposed in the Review will have for Service and civilian personnel will be addressed in detail during the next phase of work.

Customer Supplier Agreements

What are Customer Supplier Agreements?

A Customer Supplier Agreement (CSA) is an agreement defining the output required from a supplier organisation to enable its customer organisation to meet its Defence outputs. It sets out the working relationship between the organisations, the resources involved, and the performance targets against which delivery will be judged.

Why do we have them?

CSAs have been introduced to support the principle of management by output. They are a key element of the Department's financial planning and management processes, as they are the mechanism by which the demands placed on a supplier by a customer, to satisfy an intermediate output, are specified. They should make costs visible and facilitate the continuing drive for greater efficiency. They provide a framework for agreeing, and a process for formalising relationships, between a customer and a supplier. In the longer term we also expect them to help establish better organisational structures and boundaries.

How do we use them?

A CSA is a management tool, which enables both parties to consider carefully what services or activities they require (in the case of customers) or can provide (in the case of the supplier). They form an integral part of the Department's financial planning process. A CSA defines, in terms of quantity, quality, timeliness and cost, the output required from a supplier in order to enable the customer to meet its Defence outputs. Resources are allocated to budget holders in accordance with the outputs those budget holders have undertaken to deliver; and budget holders' in-year objectives (and hence the performance reporting system) are primarily framed with reference to the outputs they have been resourced to deliver. In principle, all Departmental activity should be explicitly tasked either through CSAs or directly in management plans. If a Customer does not require an output, the Supplier will need to provide some other justification for incurring the related expenditure.

CSAs are not there for a Customer to manage a Supplier's business. Rather, a CSA is used to manage the *relationship* between the Customer and Supplier and stipulate what output is required. The level of output agreed in the CSA then becomes the 'Target' against which the Supplier's performance is aimed and subsequently measured. The Customer proposes appropriate performance indicators, which are then used to monitor and report upon the Supplier's performance in delivering the agreed outputs.

Management

Objective:

To improve management, accountability and efficiency across the Department.

Performance Measures:

- a) Improve the quality of resource-based financial information.
- b) *Implementation and performance of the new output-based approach to efficiency, achieving year-on-year output efficiency gains of 25% a year between 2002/03 and 2005/06, including through reducing the output costs of the Defence Logistics Organisation by 20%.*
- c) Meet requirements on safety, health, the environment and fire.

Performance Assessment:

- a) The National Audit Office has judged that the Department continued to improve the reliability and accuracy of its financial accounting information.
- b) *2.7% efficiency gains were made in 2002/03. Within this, the Defence Logistic Organisation realised 3.5% savings. The Department remains on track to achieve an average of 2.5% per annum over four years.*
- c) The Department participated actively in the Government's Revitalising Health and Safety agenda and played a full part in the development of targets and strategies that make up the Framework for Sustainable Development on the Government Estate. See also Annex D.

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

141. 2002/03 saw significant further improvement of the MOD's management tools and processes, helping to deliver significant efficiency gains. Implementation of Resource Accounting and Budgeting was completed across all the Department's activities. We introduced a sustainable development strategy. Defence Internal Audit confirmed that the Department was successfully using the Balanced Scorecard approach for improved strategic management. Corporate governance and risk management arrangements were further strengthened.

Resource Accounting and Budgeting (RAB)

142. Although the Departmental Resource Accounts for 2001/02 were qualified by the National Audit Office, the Comptroller and Auditor General congratulated the MOD on encouraging RAB progress to date. The qualification was in respect of two remaining specific supply system issues (MOD assets held by industry and stock); and a £602M overspend against resources voted by Parliament due in part to the decision made late in the year to take Sea Harrier out of service earlier

than planned. This was a considerable improvement compared to previous years. The Department has continued its strenuous efforts to further improve the Accounts, enabling the Comptroller and Auditor General to remove one of the previous qualifications. However, despite significant improvements in the accuracy and reliability of our stock management information, further progress is still required in this area before this, the only remaining qualification in the Accounts, can be lifted. We expect to achieve this in the Accounts for 2003/04. (See also the Comptroller and Auditor General's Report in Section 2 of this publication). With the introduction of RAB for the Equipment Plan and as the financial basis for project approvals, the Department effectively completed during the year the transition to operating on a RAB basis for all its day-to-day activities.

Efficiency

143. The Department's new efficiency reporting mechanism, designed to capture output gains from efficiency as well as input savings, began in 2002/03. It seeks to analyse each of the key business processes that support the delivery of military capability and

Efficiency Target	Weighting	Target	Outturn	Cumulative Trajectory		
		2002/03	2002/03	2003/04	2004/05	2005/06
1. To reduce the per capita cost of training a successful military recruit by an average of 6% by 31 March 2006	9	2%	1.7%	4%	5%	6%
2. Achieve 0% average annual cost growth (or better) against all major equipment procurement projects while meeting customer requirements	6	0%	4.8% ²	0%	0%	0%
3. Reduce by 20% the output costs of the Defence Logistics Organisation, whilst maintaining support to the Front Line ³	68	2%	3.5%	6%	10%	14%
4. Reduce MOD's Head Office and other management support costs by 13%	5	5%	6.3%	9%	12%	13%
5. Identify for disposal land and buildings with a Net Book Value of over £300M	12	£84M	£135M	£134M	£258M	£300M
Total	100	2%	2.7%	5%	8%	10%

Notes:

(1) Figures are subject to final checking and validation.

(2) Cost increase was due to Astute, Brimstone, Typhoon (Eurofighter) and Nimrod. The Astute and Nimrod increases reflect assessment of Resource Accounting impact of BAE settlement (see paragraph 126).

(3) Over the period April 2000 to March 2006. Taking into account achievements in the first two years of the period, a 14% reduction in output costs remained to be achieved in the next four years (see paragraphs 146-147).

identify appropriate targets against them in order to drive improvements in their efficiency and effectiveness. Targets have been set against five key processes, and performance against the PSA target is measured by a weighted average (based on the resource costs of the processes concerned) of performance against these targets.

144. Overall, the Department remains on track to achieve an average of 2.5% per annum efficiency gains over the four years to 2005/06, with 2.7% achieved in 2002/03. Performance against the overall target for each of the processes (personnel and training, acquisition, operational and logistic support, management support and infrastructure) is shown in Table 18.

145. There are also efficiency achievements that fall outside the system. For example, an initiative by the Defence Logistics Organisation to develop a common gearbox build standard across the Challenger tank fleet improved the reliability and sustainability of existing gearboxes and will thus reduce the need for new purchases. Also, it is estimated that implementing suggestions made to the award-winning staff suggestion scheme – GEMS – in 2002/03 will achieve efficiency savings worth around £9.5M per annum.

Defence Logistics Organisation (DLO)

146. The DLO's Business Change Programme is an important element of the overall Defence Change Programme (see paragraph 175 below). Between April 2000 and March 2002, the DLO achieved 5.6% of the required 20% Business Change Programme savings. The Treasury has now agreed that the balance of the strategic goal to be achieved by March 2006 can be regarded as a further 14% output efficiency against a revised baseline of planned expenditure in 2002/03. The revised baseline makes the tracking of future efficiency gains simpler and more reliable. The 14% target reflects the change in the Cost of Capital rate from 6% to 3.5% from April 2003, which makes it harder for the DLO to achieve savings from asset reductions. The overall efficiency challenge for the DLO is unchanged.

147. The acceleration of existing improvement programmes (including reduced costs for warship maintenance, the restructuring of the Tornado aircraft maintenance programme and stock and asset disposal programmes) enabled the DLO to make 3.5% savings in 2002/03 against an in-year target of 2%. This leaves a balance of 10.5% to be achieved by March 2006.

Safety, Health, Environment and Fire

148. The Department continued to ensure the occupational health and safety of Service and civilian personnel and others affected by the Department's activities. We participated in the Government's Revitalising Health and Safety agenda and played a full part in the development of targets and strategies that make up the Framework for Sustainable Development on the Government Estate. The Government has set priorities for social progress, effective protection of the environment, prudent use of resources and the maintenance of high and stable levels of economic growth. These have become known as the UK's Sustainable Development objectives. Based on the Government model, the MOD developed a sustainable development strategy, overseen by the new Sustainable Development Steering Group (SDSG). More details on Health and Safety, Environment and Fire Safety issues and activities can be found at Annex D.

Performance Management

149. Development of the MOD's performance management regime, using the Defence Balanced Scorecard, continued during 2002/03. The Scorecard was further adapted to meet the Defence Management Board's priorities for the year and again formed the framework for the annual Departmental Plan. All eleven Top Level Budget Holders, including the single Services, and an increasing number of lower-level organisations continued to improve their performance by actively using scorecards for strategic management. And the process for providing performance data to the Defence Management Board was given 'Substantial Assurance' by Defence Internal Audit in September 2002. Subsequently, the Defence Management Board's focus has shifted from reviewing historical trends to a more forward-looking perspective with assessments now covering the four years of the annual planning round, allowing for longer term issues to be identified and tackled earlier in a more programmed manner.

150. The MOD employs a wide range of data validation arrangements and, in accordance with good corporate governance practice, much of the internal validation of MOD's own systems – including Operational Capability Audits and Internal Audit Reviews – is managerially independent of the organisations being assessed or else is subject to wider scrutiny through, for example, the National Audit Office or the House of Commons Defence Committee. Certain data systems are also subject to National Statistics benchmarks as the Defence Analytical Services Agency is part of the Government Statistical Service.

Corporate Governance

151. During the year, the Department continued to develop its system of internal control to achieve compliance with Treasury requirements for Central Government. In particular, risk management was successfully integrated into the Department's performance management system, with performance monitored and discussed quarterly at Defence Management Board meetings, including consideration of key risks. Mechanisms were developed to strengthen the management of scientific risks, particularly to Service personnel health, and in safety and environmental matters. The system was fully operational by 31 March 2003.

152. The roles of the Defence Audit Committee and Defence Internal Audit continued to be refined. The Defence Audit Committee sits at the heart of the assurance process, considering inputs from a range of sources across the span of the Department's activities, and the programme of Internal Audit moved to a risk-based approach. In addition, assurance measures were developed to ensure that the important projects and programmes carried out by the Department do not suffer from any of the common causes of failure identified by the Office of Government Commerce and the National Audit Office. These activities, combined with major audit and assurance work, enabled the Department to produce its first fully compliant Statement of Internal Control for 2002/03 (as set out in Section 2 of this document).

Building for the Future

Personnel Strategy

Objective:

To invest in personnel and develop them for the future.

Performance Measures:

- a) *Implementation of the Armed Forces Overarching Personnel Strategy.*
- b) *Royal Navy, Army and Royal Air Force to achieve the single-Service guidelines for deployed service.*
- c) Development and implementation of the Corporate Civilian Personnel Strategy.
- d) Improvements in the results of Service and civilian attitude surveys.

Performance Assessment:

- a) Steady progress was made, including on implementation of Joint Personnel Administration.
- b) *New systems mean that it is not yet possible to give performance against Navy or Army separated service targets. The Royal Air Force narrowly missed its target (3.3% in the last quarter of 2002/03 against a target of 2.5%) for the percentage of personnel exceeding 140 days of separation in a 12-month period.*
- c) A new strategy for civilians in Defence was introduced in 2002.
- d) Levels of satisfaction across all three Services remained high. Most Civil Servants were satisfied or very satisfied with the MOD as an employer.

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

153. Overall performance was encouraging, even though operational commitments meant that Service personnel remained very busy. An Operational Welfare Package was successfully deployed worldwide during the year. Implementation of improved pay arrangements across the Services continued, and work to review Service pension and compensation arrangements continued. Accurate systems recording the time Service personnel spend away from their families are now in place for all three Services. A new Strategy for civilians in Defence was introduced. The results of attitude surveys for all three Services and Civil Servants were generally good. Significant further work was taken forward to improve services to veterans.

Service Personnel Developments

154. The end-year performance report for the 2002/03 Armed Forces Overarching Personnel Strategy (AFOPS) Action Plan was encouraging. Operational commitments meant that Service personnel remained very busy, but steady progress was made over the year, including on implementation of Joint Personnel Administration (see paragraph 180). The AFOPS is now being replaced by the new Service Personnel Plan, which will inform, and be informed by, the Department's wider planning process, to provide a ten-year investment profile and a four-year delivery plan.

Operational Welfare Package (OWP)

155. The OWP was introduced in 2001 and proved successful in worldwide deployments throughout 2002/03. During Operation TELIC the communications package (the welfare telephone allowance, Internet and e-mail facilities, Forces free aerogrammes (Blueys) and electronic free aerogrammes (e-blueys)) was widely used by deployed personnel and their families. Other initiatives introduced during Operation TELIC included an enhanced postal service, allowing free packets to be delivered to deployed personnel in-theatre, and an expansion of the DILFOR (Dangerously Ill Forwarding of Relatives Overseas) Scheme to enable relatives to visit, at public expense, injured Service personnel who were repatriated to hospitals in the UK. Other elements of the OWP include British Forces Broadcasting Service TV and radio, newspapers, magazines, books, videos, DVDs, Combined Services Entertainment shows and the ability to purchase personal items through the Naval Canteen Service and the Expeditionary Forces Institute.

Pay 2000

156. Implementation of Pay 2000 continued. It was extended in November 2002 to the majority of the Reserve Forces, and work was taken forward to enable other groups – Veterinary Officers, Chaplains and Officers Commissioned from the Ranks – in the Regular and Reserve Forces to transfer to new pay structures by 1 October 2003. This will complete the transition process for Service personnel moving to Pay 2000. Medical and dental officers continue to have separate pay arrangements and, as a result of recommendations in the Medical Manning and Retention Review, new pay structures were developed for this group and completed in April 2003. In its 2002 Report, the Armed Forces Pay Review Body noted that MOD and the Services had been largely successful in achieving a smooth transition to Pay 2000 and that it would provide a sound basis to reward individuals fairly and to meet the needs of the Services. The Department will carry out a review of Pay 2000 in time for the Review Body's 2004 Report.

Pension and Compensation Review

157. Following public consultation in 2001 on the initial findings of the reviews of Armed Forces pension and compensation arrangements, proposals

have now been finalised, taking account of responses received. This process had been extended by the need for further detailed discussions with the ex-Service community and to respond to the House of Commons Defence Committee, who had expressed far-reaching reservations about the initial proposals, and to take account of the Government Green Paper on pensions and Inland Revenue proposals for pensions tax simplification. A new pension and a new compensation scheme were announced to Parliament on 15 September 2003 and both should be introduced in 2005.

Separated Service Targets

158. Accurate systems recording the time Service personnel spend away from their families are now in place for all three Services, but meaningful data across all the Services will not be available for some time. Roll out of the TOPMAST system for junior sailors, which aims to ensure that naval personnel spend no more than 660 days in three years away from home, is on track. Early anecdotal evidence suggests that it is working successfully, but the first detailed report is not due until later this year. Army units began recording separated service in January 2003 but meaningful data will not be available until the autumn of 2004, by which time a 12-18 month trend will have been established. The Royal Air Force has seen a small increase in the percentage of personnel (3.3% in the last quarter of 2002/03) exceeding its target of 140 days of separation in any twelve-month period.



Accurate systems recording the time Service personnel spend away from their families are now in place for all three Services.

Civilian Personnel Developments

159. A new strategy for civilians in Defence was introduced in 2002. This aims to provide a long-term strategy for integrating the management of civilians with business management and radically to improve the quality of the Department's civilian personnel services. The new strategy also emphasises stronger corporate personnel leadership; better forward planning for people requirements, including skills planning; and a focus on performance, reflected in new performance management arrangements and greater priority given to development of employees.

Personnel Attitude Surveys

Royal Navy

160. Personnel Attitude Surveys were conducted every six months. The results consistently reflected satisfaction with the Royal Navy and the nature of its business. Security of employment had highest ratings, followed by kit replacement and medical and dental facilities. The three areas of greatest dissatisfaction continue to be the inability to plan one's life over the long term, the degree of recognition and reward for long hours (other than pay) and separation from family and friends. As recent Operations draw down, the Navy is committed to periods of leave to allow personnel time with their families and to recuperate after a busy year.

Army

161. Most officers and soldiers said that they felt proud to be in the Army. Job satisfaction and job security were top of the list. Levels of satisfaction for officers increased; levels of satisfaction for soldiers remained stable. The main areas of dissatisfaction for all ranks were the level of operational commitments and the impact of Army lifestyle on personal domestic life. However, the levels of satisfaction with tour frequency and tour length did not change greatly between the reports in April and December 2002.

Royal Air Force

162. The results from the Royal Air Force Continuous General Attitude Surveys for November 2001 and February 2002 were published in September 2002. 87% of personnel were satisfied with their life in the Service and their present jobs. Some, however,

expressed concerns about the effects of the burden of operational commitments and the impact of Service life on family life (36%), including children's education and spouse/partner's employment.

Civilian

163. Results for the first year of the rolling Civilian Corporate Attitude Survey were generally positive. Overall, 70% of staff were satisfied or very satisfied with the MOD as an employer, up 4% from the start of the year. 88% were aware of how their job contributed to the Department's aims and objectives, 84% regarded the Department as an equal opportunities employer, 76% judged they were treated fairly at work. Encouragingly, over the year the number of individuals talked to about their personal performance, progress and development in the previous six months grew from 75% to 79%.

Investors in People

164. By 31 March 2003, all MOD staff, apart from those in newly formed units, were working in organisations that had achieved Investors in People recognition. The majority of Top Level Budget areas have now embarked on a programme to achieve recognition at that level. The next, and final, stage will be for the Department to undergo an assessment leading to recognition as a single organisation.

Veterans

165. In March 2003 the Department published a new Strategy for Veterans and submitted a report to the Prime Minister outlining the progress made on the Veterans Initiative within Government, the veterans community and the wider public. To improve delivery of services to veterans further, the Department is now reviewing the current collaborative Working Group arrangements in co-operation with partners from other Government departments and the Confederation of British Service and Ex-Service Organisations.

Gulf Veterans' Illnesses

166. In July 2002, the Department asked the Medical Research Council (MRC) to undertake an independent scientific review of all the UK research work that has been carried out into Gulf veterans' illnesses world-wide and to advise on whether there were any

appropriate areas for future research. The MRC published their report in May 2003 and made a number of recommendations for further research. We are consulting with the MRC on how this research might be taken forward and will consult with veterans and other stakeholders in due course.

167. During 2002/03, 68 patients attended the MOD's Gulf Veterans' Medical Assessment Programme (GVMAP), including at the clinic held in Northallerton, Yorkshire. Of those who responded to a patient questionnaire, 97% were satisfied with the Programme. In October 2002, a paper was published in the Journal of the Royal Society of Medicine describing the clinical findings for 3,000 Service and ex-Service patients who had been seen at the GVMAP.

168. On 12 December 2002, the Department provided the House of Commons Defence Committee with a Memorandum on Veterans Issues (including Gulf Veterans' Illnesses issues) followed up by Oral evidence later that month. We also published the fourth edition of the newsletter 'Gulf Update', and the latest Gulf veteran mortality data was published in July 2002 and January 2003.

Depleted Uranium (DU)

169. Following a successful pilot study to identify a suitable DU screening test for retrospective exposures, tenders for the main testing programme are now being assessed. Voluntary testing for veterans of the Balkans and the 1990/91 Gulf conflicts is due to start in late 2003. A policy for biological monitoring for DU in current and future conflicts was established in August 2002 and was implemented for Operation TELIC. Personnel were offered a simpler test to determine levels of uranium in urine.

170. A report on the analysis of projectiles recovered in Kosovo was published on the MOD website in June 2003. The full results from the 2001 surveys of DU sites in the UK sector of Kosovo have now been reported and will be available on the MOD website in due course. Results from the 2002 survey in Bosnia are planned to be published before the end of 2003.

171. A preliminary environmental assessment of DU strike sites in the UK's area of operations in Iraq was completed in June 2003. Further assessments may be undertaken later this year, and are likely to be co-ordinated with the United Nations Environmental Programme surveys.

Porton Down Volunteers

172. The independent Medical Assessment Programme at St Thomas' Hospital in London continued to be available to former Porton Down Volunteers. The Department is also funding independent epidemiological research to examine whether former volunteers suffer from excess morbidity/mortality or patterns of ill health and is conducting a comprehensive historical survey of the Service Volunteer programme, from 1939 to 1989. The results of this study will be published in due course.

173. In July 2003, the Crown Prosecution Service (CPS) announced their decision that, in all but one case, there is insufficient evidence to prosecute former Porton Down scientists involved in the testing of chemical agents on human volunteers between 1939 and 1989. The remaining case is still being investigated by the Wiltshire Police. The CPS will announce a decision on this case when those enquiries are complete.

Modernising Defence

Objective:

To modernise Defence to meet future military requirements.

Performance Measure:

- a) Progress of the Defence Change Programme.

Performance Assessment:

- a) All major projects in the Defence Change Programme are on track.

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

174. Work on Defence modernisation continued throughout the year, given greater coherence and strategic emphasis by the creation of the Defence Change Programme. Its key elements are the Defence Information Strategy, the Head Office Modern Environment programme, Joint Personnel Administration, the Defence Logistics Organisation Change Programme, and the modernisation of estates services. Progress was made on all these during the year. In particular the Defence Information Infrastructure Programme passed several major project milestones, and refurbishment of the MOD's Main Building in Whitehall was ahead of schedule. The Department also further developed delivery of services electronically, and worked with other Government departments on a number of major programmes to ensure a joined-up approach across Government.

Defence Change Programme

175. The Defence Change Programme pulled together the top forty change initiatives in Defence into a consistent programme aligned with the Department's key strategic priorities. Each initiative was tested against common criteria to make sure it will deliver firm benefits and that there is clear senior ownership. Delivery is driven by the Change Delivery Group, led by the Secretary of State, which ensures that each initiative has good governance arrangements and a skilled and experienced project team. The Senior Responsible Owners of the key change initiatives also meet collectively as the Defence Change Programme Board to manage the Defence Change Programme, direct the priorities for the Change Delivery Group,

and seek out additional initiatives to incorporate into the Programme. The Board will also manage projects approved by Treasury for funding through the £578M Defence Modernisation Fund, secured through Spending Review 2002. The Defence Modernisation Fund was established to ensure that modernisation in Logistics and Defence Information Infrastructure was delivered and achieved savings during the spending period. This new approach to delivering change within the Department continues to develop. It applies Office of Government Commerce best practice guidance on large Government projects, and will deliver a complex and demanding programme.

Defence Information Strategy

176. The Defence Information Strategy programme aims to ensure that the information needs of Defence are met in a coherent, efficient and effective manner. Good progress has been made. A key element is the Defence Information Infrastructure (DII) programme. The DII's Initial Gate Business Case was approved in July 2002, enabling its entry into Assessment. This is now underway. The next key milestone, Ministerial approval of the DII Procurement Strategy, was reached at the end of March 2003. DII remains on track for Main Gate approval in mid-2004 and contract let in early 2005.

177. In July 2003, Treasury approval was given for the Defence Modernisation Fund to support, in part, the procurement of DII Head Office (DII(HO)). This will enable the implementation of the system in preparation for the reoccupation of Main Building (see HOME, below). DII(HO) will provide Head Office with the next generation of Information and Communication

Technology, able to access all information services required, from the Internet to highly classified material, as well as video-streaming TV channels.

Head Office Modern Environment (HOME)

178. The HOME programme is a comprehensive modernisation package using the redevelopment of MOD's Main Building as a catalyst for greater organisational and cultural change. As well as the refurbishment of the Main Building to transform it from a structure with a closed, cellular layout to open-plan, HOME involves a more streamlined organisation, and introducing the new Defence Information Infrastructure technology and improved working practices. It aims to make the MOD Head Office a better place to work and enable it to provide more effective support and leadership for the UK Defence capability. Only those functions that have to be carried out centrally will remain in the Head Office. Around 600 posts will be moved out (including more than 300 staff who had been selected for either early retirement or severance). Better processes and working practices are being developed to enable us to work more flexibly, efficiently and effectively. Construction work on Main Building continued throughout the year and is progressing ahead of schedule.

Improved Planning Process

179. A team has been set up to look at how we can improve our budgeting and planning processes. The aim is to provide better support to the Defence Management Board and other decision makers in taking strategic balance-of-investment decisions in the short and longer term.



Construction work on MOD's Main Building is progressing ahead of schedule.

Joint Personnel Administration (JPA)

180. JPA will provide the Department with radically improved management information about Service manpower. The project is progressing satisfactorily. In particular, good progress is being made on harmonisation and simplification of personnel policies and processes.

DLO Business Change Programme

181. The Defence Logistics Organisation's change programme is a significant element of the overall Defence Change Programme. Details are set out in paragraphs 146-147 above.

Modernising Estates Delivery

182. Modernising the delivery of the MOD's estate requirements is the final major element of the Defence Change Programme. Details are set out in paragraph 110 above.

Information Age Government

183. The Department continued to increase the number of public services available electronically: 87% of appropriate services are now available online and the Department remained on course to achieve 100% by the target date of 2005. The volume of transactions conducted electronically increased rapidly throughout the year, as did the number of industrial trading partners committed to the process. By March 2003, 122 industrial trading partners had signed up on a proportion of their contracts. The Department remains committed to gaining significant benefits from implementing electronic purchasing.

Defence in the Wider Community

The role of the Services and the MOD is to defend the UK and its interests. But in so doing Defence has a major impact in the wider UK community. We provide employment, directly or indirectly, to over 500,000 people in the Armed Forces, the Defence Civil Service and Defence industry. We recruit and train about 25,000 new Service and 8,000 civilian personnel every year, and return a similar number to the civilian economy with a wide range of acquired skills and qualifications. Some 250,000 people have a Reserve liability, including over 45,000 volunteer Reserves. Over 250,000 veterans and their dependants receive pensions. There are over 130,000 cadets. Defence contracts are worth over £12Bn each year. The MOD owns or has access to land across the country from the Outer Hebrides to the centre of London, covering an overall area about the size of Cornwall. (Further details can be found in UK Defence Statistics 2003, available at <http://www.mod.uk>). Military ties and traditions are an important strand in the identity of many local communities. These wide ranging connections and responsibilities, together with the capabilities provided by the Armed Forces, mean that Defence makes an important contribution to the wider community over and above its main role. This essentially falls into two different categories: the direct use of Defence resources, particularly military personnel, to support non-Defence objectives (known as Military Aid to the Civil Authority, or MACA); and the contribution to the wider Government agenda.

Military Aid to the Civil Authority (MACA)

MACA embraces a very wide range of activities. It includes assistance in emergencies, such as maintenance of essential supplies and services in a national emergency (for instance, the provision of fire cover when negotiations between the Fire Brigades Union and the local government employers broke down – see paragraphs 29-31); short-term routine assistance to special projects of significant value to the civil community; and full time attachment of volunteers to social services (or similar organisations) for specific periods. It also includes support to the police in the performance of their duties, in particular to the Police Service of Northern Ireland (paragraph 32) and to the civil authorities in providing Home Security across the UK (paragraph 64), support to Customs and Excise on counter-drugs operations (paragraph 33), and such activity as provision of Bomb Disposal experts when needed (paragraph 28). Additionally, the Armed Forces provide the majority of the UK's search and rescue helicopter service and other assets when needed for civil search and rescue operations, as well as fisheries protection in British waters.

The Defence contribution to the wider Government agenda

Defence makes a major contribution to the Government's wider agenda well beyond the MOD's obligations as an employer and landowner. This includes:

- supporting conflict prevention goals (paragraphs 58-61);
- work on conservation and sustainable development (paragraph 148);
- developing the Government's Strategy for Veterans (paragraph 165);
- a wide range of other initiatives (paragraph 184) with other Departments and the wider community to take forward the Government's diversity and social responsibility objectives (paragraphs 94-99 and separate box), including individual volunteering of Service and MOD civilian personnel and programmes such as Skill Force in over 100 secondary schools; and
- taking forward the Government's Defence Industrial Policy (paragraph 189) with the Department of Trade and Industry and with industry.

Joined-up Government

184. In addition to the assistance routinely provided by the Services to Home Departments, such as search and rescue and fisheries protection, the Department continued to expand its work with other Government departments, devolved administrations and agencies. For example:

- In partnership with the Department for Education and Skills, the Skill Force Initiative has doubled in size over the past year. Exclusions from schools involved have been reduced by 70% in the first two schemes, and attendance maintained at 90%.
- With the Department for Trade and Industry, a new Defence Industrial Policy was launched in October 2002. It seeks to enhance the competitiveness of the UK Defence industry, maximising the economic benefit to the UK from Defence expenditure, while ensuring that the Armed Forces are provided with the equipment that they need.
- We have signed a concordat with the Department of Health aimed at modernising the provision of medical support. This co-operation was put to the test during Operation TELIC, with Reception Arrangements for Military Patients (RAMP) working well.

- We are working with the Department of Constitutional Affairs on more joined-up and customer-focused policy-making on advice and guidance for veterans.
- The MOD worked with the Department for the Environment, Farming and Rural Affairs on our approach to Sustainable Development.

185. The Department is committed to ensuring the effect of its decisions on the regions is taken into account. We have already relocated a significant amount of Defence activity from London and the Southeast to the other regions, notably to the Southwest. We will further slim down our London Head Office by over 15% (see paragraph 178 above) and are working closely with the Lyons Review to identify opportunities to reduce our presence in the Southeast still further.

Technology and Equipment

Objective:

To invest in technology and develop equipment capability for the future.

Performance Measures:

- a) Ensure that the Department has access to the technology it needs in order to support its capability requirements.
- b) Ensure that the Equipment Plan is coherent, balanced and affordable.
- c) *Subject to value for money considerations, complete the Defence Evaluation and Research Agency Public Private Partnership by April 2002.*

Performance Assessment:

- a) The Defence Industrial Policy emphasised the importance of fostering and sustaining the UK Defence research and technology base. The move to managing research outputs, along with initiatives such as Defence Technology Centres, Towers of Excellence and increased competition will ensure that the Department continues to have access to technology. MOD placed research contracts worth over £400M.
- b) The 2003 Equipment Plan represented a balanced programme in capability terms, reflecting the priorities associated with the additional funding made available by Spending Review 2002.
- c) *Given market conditions, the initial QinetiQ transaction was delayed to the end of 2002. The agreement was signed on schedule in December 2002 and completed in February 2003.*

On-going PSA targets are in italics. See Annex B for a complete table.

Summary

186. The Government's Defence Industrial Policy, published in October 2002, emphasised the importance of fostering and sustaining the UK Defence research and technology base. Work continued to ensure that the Department has access to technology, including through implementation of Defence Technology Centres and Towers of Excellence. The MOD placed contracts worth over £400M under the Applied and Corporate Research Programmes, including 6% by open competition. The 2003 Equipment Plan was judged to represent a balanced Programme in capability terms. The Carlyle Group became the MOD's Strategic Partner to assist in the development of QinetiQ.

Technology in Support of Capability Requirements

187. The central scientific staff continued to provide Ministers with coherent and timely advice on science and research issues. Operational Analysis provided by the Department's scientific staffs made a significant

contribution to the Department's activities throughout the year. Initiatives such as Defence Technology Centres, Towers of Excellence and increased competition ensure that the Department continued to have access to technology to meet high-level Defence capability requirements. The Department is putting performance measurement systems in place based on the achievement of output owners' critical success factors and will undertake a customer survey by April 2004. The science and technology community is now moving to an output-driven and costed approach to delivering science and technology. This should both improve the impact of the investment in science and technology and provide better value for money.

188. The Department placed contracts worth over £400M under the Applied and Corporate Research Programmes. The majority of this work continues to be placed with Dstl and QinetiQ, but the proportion open to competition is expanding, reaching 6% by the end of the year. Significant advances in technology have resulted from the research undertaken.

These include improvements in stealth materials, processes to produce composite materials at 30% lower cost, and advanced lightweight armour for future fighting vehicles.

189. The Government's Defence Industrial Policy, published in October 2002, emphasised the importance of fostering and sustaining the UK Defence research and technology base. Work to deliver the research and technology part of the policy is being taken forward in partnership with industry under the auspices of the National Defence Industries Council.

Coherence, Balance and Affordability of the Equipment Plan

190. The 2003 Equipment Plan (EP) represented a balanced programme in capability terms, reflecting the priorities associated with the additional funding made available by Spending Review 2002. The Equipment Capability Customer made increasing use of Decision Conferencing to help inform the choices available for shaping the forward EP. In addition, the EP for 2003 was costed in Resource terms for the first

time, which will increasingly highlight the true – resource – cost of holding assets and therefore the importance of timely delivery of equipment to the Front Line Commands. In parallel, work is underway on the use of Whole Life Costs in the EP process to ensure that EP decision-making takes full account of the resource implications of different courses of action.

DERA Public Private Partnership

191. The scientific and technical expertise developed under the Defence programme is a national asset and the Public Private Partnership for the Defence Evaluation and Research Agency (DERA) is designed to make the most of this expertise and exploit it for wider UK benefit. In December 2002, the MOD and The Carlyle Group agreed terms under which The Carlyle Group became its Strategic Partner to assist in the future development of QinetiQ, formerly part of DERA. Carlyle acquired a minority economic interest in QinetiQ, a small amount was made available to employees and the MOD retained the major economic interest (62%). The transaction was finally completed on the 28 February 2003.

