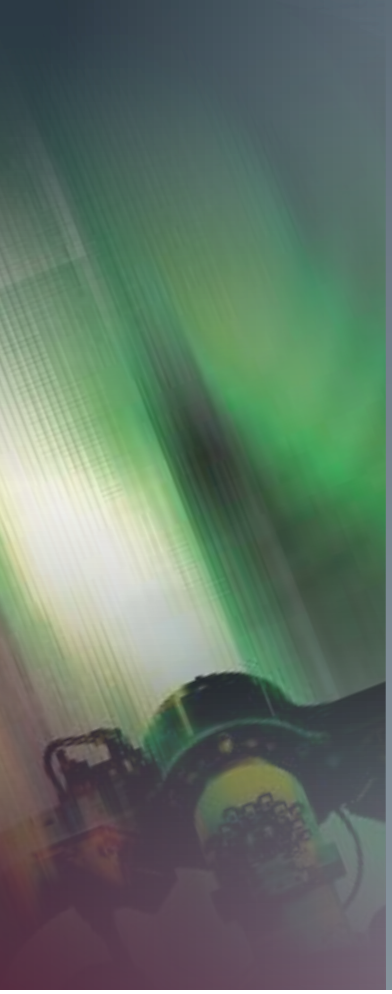


MINISTRY OF DEFENCE

Ministry of Defence

Asset Management Strategy

Introduction

This document describes the MOD's capital asset base and explains how and why the Department plans to manage its assets. It has four sections:

1. **Capital Stock Survey** - A summary of the composition and condition of the asset base, and how this contributes to achieving Public Service Agreements and efficiency targets.

2. **Asset Disposal Plan** - sets out the history and plans for disposal of surplus assets from 2004/05 to 2010/11 and how opportunities for further disposals are identified.

3. **Forward Investment Plans** - details our investment plans over the Comprehensive Spending Review (CSR) period and how they link to our objectives, together with the impact on the Department's asset base.

4. **Asset Management Practices** - describes the framework and corporate governance within which we manage and maintain our asset base to ensure value for money.

1. CAPITAL STOCK SURVEY

The diversity of the Department's commitments is reflected in its size as one of the largest government departments and in the number, variety and complexity of its assets. Its responsibilities range from research into new technologies, through equipment procurement, to full scale military operations with concomitant training and logistic support facilities; its locations number several thousand and are spread throughout the world.

Structure & Categorisation of Assets

The Department categorises Tangible fixed Assets as follows:

- Single Use Military Equipment (SUME) – This is defined as military equipment for which there is no equivalent civilian role, covering weapons and the equipment which supports and delivers such weapons (e.g. warships, submarines, fighter aircraft, tanks, missile launchers).
- Land & Buildings – Includes offices, warehouses, hospitals, barracks, hangars, runways, car parks, and any associated holdings. Dwellings (primary residences, garages, parking areas, Single Living Accommodation (SLA) within barracks) are categorised separately.
- Assets under construction (AUC) – This represents the accumulated costs of tangible fixed assets being constructed e.g. equipment procurement projects[1] for which stage payments are contractually payable.
- Transport Equipment – Categorised as equipment for moving people and/or objects, e.g. lorries, trains, ambulances and aircraft. All vehicles that are not considered to be SUME are included in this category.
- Plant & Machinery – Includes assets considered fixed or moveable equipment used in the repair, maintenance and ongoing support of Departmental assets, or for administrative purposes.
- Information Technology (IT) and Communications – All IT systems and hardware, including mainframe computers, stand-alone personal computers, non SUME communications and satellite systems, dedicated peripherals and networks. In addition, this includes software that has been procured for internal business use by the Department[2].

Intangible fixed assets are defined as a fixed asset which is without physical substance but identified and controlled by the Department, for example – development costs, Intellectual

1 Development costs associated with equipment procurement projects are normally accounted for separately to the costs of the tangible fixed assets themselves.

2 Software under licence and software owned by the Department that is used in connection with a product or service supplied by an outside body are classified as intangible fixed assets.

Property Rights (IPR), software and software licences, greenhouse gas emission allowances[3].

As set out in the Departmental Resource Accounts (DRAc) 2006-07, the value of fixed assets[4] held by the Department at 31 March 2007 was:

Net Fixed Assets	Value (£m)
SUME	34,244
Land & Buildings	15,463
AUC	13,793
Transport	4,347
Dwellings	2,970
Plant & Machinery	2,649
IT & Communications Equipment	1,134
Intangibles	24,163
Total	98,763

A **detailed list of the Department's assets can be found in the National Asset Register, available from HM Treasury website.**

Condition of Assets

The condition of assets categorised as SUME has the greatest impact on the capability available to our Armed Forces. The majority of investment over the CSR period is maintenance of key aging capabilities and in areas where our Armed Forces equipment is no longer suitable (through age or role) for the tasks they currently undertake.

Contribution to Achieving Departmental Strategic Objectives

The priorities for investment reflect the three overarching Departmental Strategic Objectives (DSOs), we have agreed for the CSR:

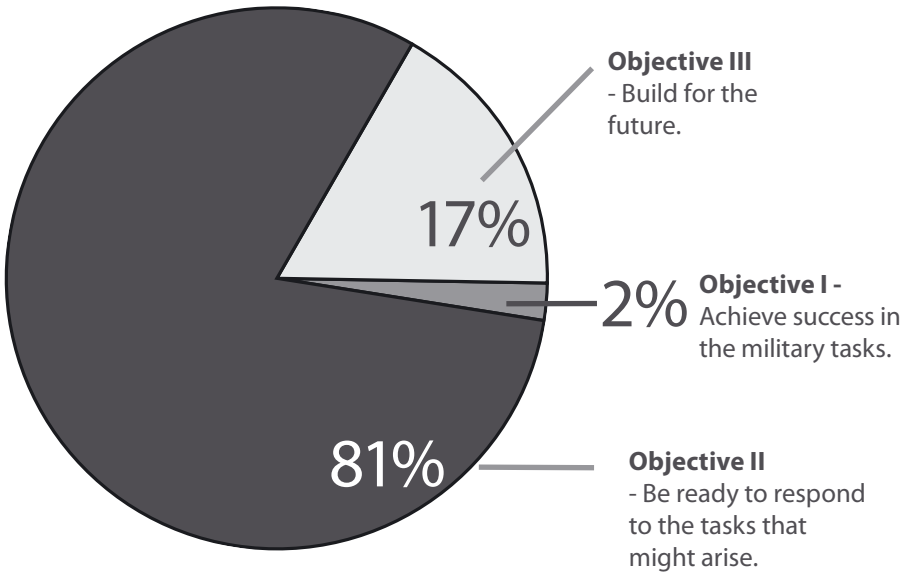
- Objective I: Achieve Success in the military tasks we undertake at home and abroad.
- Objective II: Be ready to respond to tasks that might arise.
- Objective III: Build for the future.

3 EU Emissions Trading Scheme (ETS) (Directive 2003/87/EC, 25 Oct 2005) sets allowable limits on emissions for participating establishments. In MOD these are received as tradable emission allowances from DEFRA on an annual basis.

4 Net Book Values (NBV).

Activity under Objective I consists of operations funded from HM Treasury Reserve, the Conflict Prevention Pooled budgets or, for tasks in support of other Government Departments, on a repayment basis. £2,208M[5] of net assets are attributable to tasks within Objective I.

Figure 1 – Net Assets Attributed to DSOs[6]



Our capital investment is therefore directed mainly towards Objectives II and III, which provide the force structures, equipment and supporting physical infrastructure upon which the achievement of Objective I depends.

Investment under Objective II is focused on the provision of properly-manned and supported Armed Forces at required states of readiness. It thus includes expenditure on infrastructure to support the recruitment, training, motivation and retention of our people, on the provision of non-equipment assets essential to readiness and operational effectiveness in the short term (e.g. logistic support), on the estate in which our people live and work, and on the IT systems essential to our day-to-day business. Net assets totalling £76,629M support the military capability required to meet Objective II.

Investment under Objective III is focused on the acquisition of military equipment that our Forces will require in the future, with constant adjustment to reflect developments in technology and changes in the strategic environment within which we will have to operate. Intangible assets, assets related to equipment procurement, fighting equipment and other assets under construction totalling £15,988M contribute to Objective III.

The role, planning and utilisation of our assets and future investment is structured to ensure we meet our key objective – to achieve success in military tasks we undertake at home and abroad. Balance sheet assets are not necessarily categorised as single

5 Against the 2006-07 Balance Sheet

6 DRAc 2006-07 – Assets on Balance Sheet at 31st March 2007. Note, percentages originate from Capital Employed figures and include both the Department's Fixed and Current Assets.

entities during this planning process, but rather the 'effect' an asset or collection of assets will deliver for a given military task. For example, a Type 23 Frigate or a Light Infantry Battalion are both considered as 'Force Elements' for the purposes of planning against military tasks.

Force Elements will utilise the Balance Sheet asset(s) in a variety of ways and to various degrees depending on the role within a given task. There are more than 150 Force Elements for which military assets are attributed. Studies on Contingent Operations Overseas have shown that our future Force Elements have very high utility across the spectrum of operations: over 80% of the force structure is attributed to the achievement of at least 50% of the Military Tasks.

In broad terms, the process of determining our asset requirements is bounded by the Scale of Effort in conjunction with assumptions surrounding concurrency, endurance, recuperation and readiness for the Military Tasks that can be undertaken at any one time.

2. ASSET DISPOSAL PLANS 2004/05 – 2010/11

Summary of Asset Disposals

In line with Government Accounting rules, the Department's Resource Accounting and Budgeting system encourages Budget Holders to improve the use of assets, by levying a cost of capital charge of 3.5%. This creates a financial incentive to ensure the value of the asset base is minimised; this can include disposal of surplus assets. Opportunities for asset disposals are identified through the asset verification exercise, detailed in section 4.

In contributing to the Government's target to dispose of £30Bn of surplus assets by 2010/11 and maximising the release of surplus land for housing, the Department's principle focus for asset disposals is Land, Buildings and Dwellings.

Land, Building & Dwellings

The Department has estate across the world and is one of the largest landowners in the United Kingdom, with an estate of some 240,000 hectares. Changes in operational requirement, military doctrine, force structures, organisation, management and technology lead to changes in the configuration of the Department's estate requirements. It is therefore essential that we have a rolling programme to review our holdings to ensure they are kept to the minimum necessary to deliver military capability.

Within MOD, Defence Estates (DE), in conjunction with Budget holders, is the organisation responsible for ensuring that the Department's holding of land and buildings is limited to the minimum needed to meet both present and future requirements. To ensure that this presents a coherent approach across defence, and as recommended by the National Audit Office (NAO), DE is currently developing a long-term costed programme for the estate. This will enable the Department to match our plans for the rationalisation of the estate with available funding.

To protect and enhance the planning potential, and therefore the value, of the estate, DE is consulted on all plans to rationalise and dispose of sites across the estate. This includes the proposed inclusion of any part of the estate within potential Public Private Partnership (PPP)/ Private Finance Initiative (PFI) arrangements. Where sites are identified as surplus to requirements, DE conduct assessments to ensure that no alternative uses are available before any site is passed for disposal.

A large proportion of the Department's disposals across both SR04 and the CSR years consist of individual sites that generate disposal proceeds of less than £1M, such as brownfield sites suitable for housing development. This is the primary development use at the point of disposal and in some cases is subject to planning approval. In 2005/06 around 365 hectares was made available, with a further 735 hectares for mixed use. In 2006/07 around 80 hectares was sold for housing and 500 hectares for mixed use. Between 2007/08 and 2010/2011 around 1,000 hectares will be released for residential development, again subject to planning consent.

At the 31st March 2007, the Department held net assets worth some £18.4bn under Land, Building and Dwellings. Nevertheless we do look

beyond this for other disposal opportunities, for example, through the Disposals Services Agency.

Surplus Equipment

The Disposal Services Authority (DSA), part of Defence Equipment & Support (DE&S) within the MOD, is the sole authority for the disposal of surplus equipment (with the exception of nuclear equipment and land & buildings). It provides best practice policy advice, authoritative guidance and a full disposal service for all surplus equipment and materials - ships, aircraft, armoured vehicles, non-armoured vehicles, all other capital equipment spares and all non-capital equipment and consumables. The aim is to achieve the maximum return for the taxpayer.

Major Asset Disposals

As a major capital asset reaches its out of service date, DSA will begin marketing activities with the assistance of the Foreign and Commonwealth Office (FCO) and Defence Export Services Organisation (DESO)[7] to explore the possibility of sales overseas on a Government-to-Government basis. Government-to-Government sales of major assets generate an income for the MOD but also contribute to the defence industrial base. Other assets are sold by competitive tender or through a network of specialist contractors.

Type 23 Frigates:

Three ex-Royal Navy Type 23 Frigates (HMS NORFOLK, HMS GRAFTON and HMS MARLBOROUGH) were sold to Chile following the signing of a sales agreement in September 2005. Total contract value of £134M included; the sale of the assets, regeneration work and training, managed through BAE Systems as Prime Contractor.

Marketing Agreements

To maximise sales returns, the DSA has a variety of incentivised commodity and regional-based commercial storage and marketing agreements with Industry. These arrangements have been specifically designed to promote the speedy removal of surplus material from holding units and depots and to maximise resale potential through the use of specialist commodity dealers who have the relevant marketing expertise.

Withams Ltd:

Surplus vehicles are sold via Withams (Specialist Vehicles) Ltd. In Financial year 2006/07, they sold some 3000 vehicles creating a net return to the DSA of almost £5M.

Wider Markets

DSA has offered its services to Other Government Departments, and in 2006/7 generated gross income of £5M on behalf of OGDs. DSA is currently conducting a market testing study to assess the scope to take on further OGD work, using its expertise, established market position and volume to generate greater receipts than OGDs could achieve individually.

Department of Work and Pensions

The DSA has disposed of over 100,000 units of Information Communication Technology (ICT) for the Department for Work and Pensions generating a net income for DWP of £170,000. DWP had previously disposed of ICT at cost.

7 The functions performed by DESO will transfer to UK Trade and Investment during 2008.

Sustainable

The DSA also has a major role in contributing towards the MOD's sustainable development targets. Not all major assets can be re-sold, in these cases recycling is the most realistic option, in 2006/7 DSA land-filled just 3% of the total volume of assets it handled.

HMS INTREPID and HMS FEARLESS:

DSA recently completed the tender for the recycling of HMS INTREPID and HMS FEARLESS. Leavesley (based in UK) has been announced as preferred bidder for INTREPID and Van Heglan (based in Belgium) for FEARLESS. DSA has been able to generate a positive return from both tenders despite expectations that this work would have to be completed at cost to the Department.

DSA is currently working with the Environment Agency and industry to develop a means to recycle surplus ships in line with the latest environmental legislation and at minimum cost to Government.

Since its formation in 1994, the DSA has generated a gross income of over £730M and expects to generate some £71M gross income in the current financial year.

3. FORWARD INVESTMENT PLANS 2008/09 – 2010/11

The CSR settlement for the MOD was announced on 25th July 2007. It set the Defence budget for the financial years 2008/09 to 2010/11.

£ Million	Baseline 2007/08	New Plans 2008/09	2009/10	20010/18
Resource Departmental Expenditure Limit	32,618	33,579	35,142	36,679
Capital Departmental Expenditure Limit	7,404	7,871	8,187	8,871
Total Departmental Expenditure Limit[8]	32,579	34,034	35,342	36,890

Our Capital Investment plans over the CSR years seek to deliver a range of capability enhancements for future contingent operations, to ensure Defence can continue to respond to the challenges of tomorrow, as well as our immediate operational threats. We also plan major investment in our Estate, notably improving accommodation for Service personnel.

Force Capability Changes

To meet the operational challenges of the future, we continue to transform Defence to provide more versatile and flexible Armed Forces with a supporting Defence organisation that is as efficient as possible. The programme of transformation is underpinned by three main themes: improving military effectiveness (concentrating on the effect our Armed Forces and military systems deliver rather than the number of systems involved); delivering efficiency and modernisation improvements (to resource front line capabilities better); and investing in new equipment (to exploit technological advances in communications and enhance our strike capability on land, in the air and at sea).

Army

The scale and nature of current commitments, as well as the changing nature of the threat, has created new demands, most notably for Counter Insurgency (COIN) capability, but also for Battlefield Helicopters (BH), Protected Mobility (PM) and Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR). Planned investment includes key capability programmes focused on the delivery of a coherent range of armoured fighting vehicles, rotor craft and enhanced precision strike capability.

The Army is undergoing an extensive programme of reorganisation, investment in modern infrastructure and re-equipping to deliver the Future Army Structures concept announced in 2004. There is a major programme of investment in living and working accommodation for service personnel and their families.

8 Full resource budgeting basis. Calculated by subtracting depreciation from the sum of the Resource and Capital DELs.

Navy

The Royal Navy continues to meet a demanding range of commitments, not just its significant contribution in Afghanistan and Iraq but further afield in its mandated deployments around the world. Improving military effectiveness is founded upon expanding the joint utility of maritime capability, especially rotary and ISTAR capabilities, into the land environment to ensure maximum available resource is deployed to the challenges of current operations. Sustaining this high level of operational output requires reinvestment to arrest the deteriorating material state and overall quality of the current Fleet, generated as a consequence of departmental decisions to reassign elements of maritime support funding to higher priority operational requirements.

The Navy is continuing to champion a substantial transformation programme to reflect evolving defence priorities and continuing global uncertainties. This will see an increased focus on effect: Astute, Type 45 Destroyer, Maritime Afloat Replenishment ships, the Future Aircraft Carrier (CVF) and the weapons and aircraft they will be equipped with represent a step change compared to the current generation of platforms and embed truly expeditionary capabilities. This realignment of operational capability will only be delivered by the wide-ranging overhaul of the Fleet organisation currently underway, which builds upon the recent success of the single unified Headquarters in Portsmouth and through personnel change programmes and significant changes to the Navy's approach to equipment support, including reviews of Naval Base capacity, to release resources for subsequent re-investment.

Air Force

At a time of high levels of commitment to current operations and the consequent significant pressures on personnel and equipment, the Royal Air Force (RAF) continues to ensure that it can meet both present and new threats and environments, and deploys forces worldwide to provide and maintain air superiority, support to ground forces, airlift and ISTAR capabilities. Restructuring, with the collocation of the headquarters of RAF Personnel and Training Command with Strike Command, and the formation of the Joint Harrier Force, together with establishing nine Expeditionary Air Wings, has created a clear focus for formed units and supporting elements to develop a common ethos and identity that will enhance their collective effectiveness.

In parallel, RAF modernisation is driving forward rationalisation of the RAF estate, the planned drawdown in RAF manpower, and significant efficiencies in logistics and engineering support in partnership with DE&S and industry. Equipment programmes are planned to provide replacement multi-role platforms in the form of Typhoon and the Joint Combat Aircraft, strategic and tactical airlift platforms and maritime patrol aircraft. These programmes are vital to replace the ageing existing platforms as they reach the end of their service life and to rationalise equipment types, whilst preserving a flexible, agile and relevant Air Force, equipped with capable multi-role aircraft, advanced stand-off precision weapons and, increasingly able to exploit networked capabilities.

Command & Battlespace Management

The Development, Concepts and Doctrine Centre (DCDC) is conducting studies of how we will perform command and control and joint battlespace management in the future. The Command and Battlespace Management programme, established in March 2001, aims to achieve a winning tempo in the conduct of operations by the development of decision superiority. It is an integral component of our efforts to enhance military capability and a tool for driving forward and managing the changes necessary to develop more integrated command, control and management on operations of joint military capabilities.

NEC

Network Enabled Capability (NEC) is an approach to optimise the use of our assets to deliver effects-based operations, through the exploitation of information. This approach to operations requires the integration of technology, equipment and culture change.

Effective networks allow the Armed Forces, Other Government Departments and agencies, allies and coalition partners to operate in a

timely and co-ordinated manner. The benefits realised through an NEC approach is supported by lessons from operational deployments in Iraq and Afghanistan.

We are working to achieve an initial NEC capability in 2009. This involves connecting sensors, decision-makers, weapon systems and support capabilities more effectively. Our ability to collect, process, disseminate and use information and intelligence better is also being taken forward within the Defence Intelligence Modernisation Programme.

Equipment Plan (EP) – Future Investments

Procurement of new assets within the EP replaces obsolescent platforms, upgrades existing capabilities and introduces new capabilities; because of current and future threats from our existing or potential adversaries. This applies across the EP, even new areas of investment (such as Network Enabled Capability) where focus is about the integration and use of information. Indeed, for these reasons expenditure on SUME is not considered as CDEL for National Accounts purposes.

The Department is currently conducting a Planning Round (PR08) to determine a Balance of Investment to match the EP with Defence priorities. Until PR08 is completed and receives Ministerial approval, the exact level of future investment in the overall Defence Programme (which includes the programmes listed below) may be subject to change.

The EP contains programmes which are organised into three distinct equipment capability areas, under Capability Managers (CM), which in turn are focused on the wider strategic environments. This section details some significant investment programmes, over the CSR period, for each CM.

- **Battlespace Manoeuvre**
- **Precision Attack**
- **Information Superiority**

Battlespace Manoeuvre (BM)

The Battlespace Manoeuvre area incorporates capabilities designed to provide direct battlefield engagement, theatre airspace, tactical mobility, expeditionary logistics support, nuclear, biological and chemical defence, battlefield engineering, special projects and combat service support. While most of the equipment will be utilised by the Army, it also covers significant capabilities used by other services and joint organisations, for example the RAF's Typhoon and assets that will belong to the Joint Helicopter Command.

A400M

The 1998 Strategic Defence Review (SDR) identified a requirement for increased airlift capability, to support the deployment of the Joint Rapid Reaction Force. This requirement will be met by a mixed fleet of Boeing C-17 strategic, heavy airlifters, C-130J Hercules tactical transport aircraft and the A400M.

The A400M is a new transport aircraft, providing both tactical (intra-theatre) and strategic (inter-theatre) airlift capabilities. A400M would replace Hercules C130K which entered service with the RAF in 1967. It will have significantly greater range and payload performance than the C-130K it replaces.

The capabilities required of the A400M include: the ability to operate from well- established airfields and semi-prepared rough landing areas in extreme climates and all weather by day and night; to carry a variety of vehicles and other equipment, freight, and troops over extended ranges; to be capable of air dropping paratroops and equipment; and to be capable of being unloaded with the minimum of ground handling equipment.

The programme is a European collaborative venture: OCCAR (Organisation Conjointe de Coopération en matière d'Armament), on behalf of Germany, France, Spain, UK, Turkey, Belgium and Luxembourg, let a Development and Production Phase contract for 180 aircraft with Airbus Military Sociedad Limitada (AMSL) in 2003. The UK is considering buying up to 25 aircraft with the first A400M due for delivery in 2010.

C-17 Airlifter

To fill the strategic airlift capability gap identified in SDR 1998, pending the introduction of the A400M, the UK required an interim large strategic airlift capability. C-17 was judged to offer the best solution overall. To fulfil the requirement, the UK leased four C-17s from Boeing. Subsequently it was decided to procure the current four RAF C-17 aircraft on expiry of their lease in 2008 as it provides the most immediate, operationally capable and cost-effective solution for addressing our UK strategic airlift capability needs. We are on contract to purchase a 6th UK C-17, planned for delivery in mid-2008, to boost significantly the UK's strategic airlift capability

The C-17 is a key element of the deployment ability of Medium Weight Capability. Since its entry into service in 2001, the C-17 fleet has provided outstanding performance in RAF service; both in support of operations, humanitarian relief and routine tasks.

Support Vehicles (SV)

The programme is procuring a tri-service fleet of vehicles consisting of 42 variants but effectively based around the Light, Medium and Heavy Cargo Vehicles (6, 9 and 15 tonne respectively), the 7000 litre Unit Support Tanker, the Recovery Vehicle and the Recovery trailer. These vehicles will replace the in-service 4, 8 and 14 tonne cargo vehicles including unit bulk refuelling equipments and the 2 in-service recovery vehicle types.

Support Vehicle will enhance the carriage and distribution of a variety of military loads and the recovery of both wheeled and tracked vehicle casualties in varying operational environments. Current in-service vehicles are approaching the end of their planned lives and fail to satisfy current and future requirements in terms of agility, mobility and load carrying capability and some aspects of current UK and EU vehicle legislation. A comprehensive investment appraisal demonstrated it is considerably cheaper to buy new vehicles rather than run on the best of the in-service fleet.
The total Support Vehicle Programme is committed to procuring 6,928 Cargo Vehicles, 288 Recovery Vehicles and 69 Recovery trailers. Efficiencies achieved in employing Whole Fleet Management (WFM) will allow the number of in-service vehicles to be halved from over 14,000 to 7,285, whilst maintaining the required levels of readiness.

The first tranche of 161 Cargo Vehicles entered service in June 2007, one month ahead of schedule. The Recovery Vehicle is set to enter service in February 2008.

Future Rapid Effect System (FRES)

The Future Rapid Effect System (FRES) is at the heart of the British Army's equipment programme and will underpin the development of a capable and highly deployable medium weight force; it is the Army's top priority after equipment support to operations. FRES will deliver a new, medium weight armoured vehicle fleet with higher levels of deployability and survivability than the current fleet, and the potential to grow its capability as new technology becomes available.

A fleet of wheeled and tracked armoured vehicles will be delivered, capable of operating across the spectrum of operations and protected against the most likely threats. They will be designed to operate more freely than heavy armour forces in theatres with poor infrastructure. On current plans the aim is to deliver a fleet of vehicles which will replace the Army's Saxon and FV 430 armoured personnel carriers and CVR(T) reconnaissance vehicles.

FRES will be part of a balanced force consisting of heavy, medium and light brigades giving the ability to deploy forces rapidly with higher levels of firepower, protection and mobility than Light Forces can achieve, but with deployability and agility that cannot be achieved by Heavy Forces.

Warrior Mid-Life improvement

Warrior is the Infantry Fighting Vehicle (IFV) that has provided the mainstay of operations in the Balkans and Iraq and has been in service in the British Army since 1987. The Warrior Infantry Fighting Vehicle is a key component of the Land Environment's Heavy and Medium Forces; it equips the Army's seven Armoured Infantry Battle Groups. Warrior has utility at all scales

and in all types of operation, including Peace Keeping, Peace Enforcement and Warfighting.

To maintain operational capability and survivability, a number of subsystems need to be upgraded to overcome obsolescence. The key output of the Mid Life Improvement programme will be to sustain capability of the platform through focussed upgrades of the turret and other essential sub-systems to enable the platform to meet an extended Out of Service Date (OSD). Implementation of the programme would see the life of Warrior extended for up to 30 years.

The Warrior Infantry Fighting Vehicle is a key component of the Land Environment's Heavy and Medium Forces; it equips the Army's seven Armoured Infantry Battle Groups. Warrior has utility at all scales and in all types of operation, including Peace Keeping, Peace Enforcement and Warfighting. The key output of the programme therefore will be to sustain capability of the platform through focussed upgrades of the turret and other essential sub-systems to enable the platform to meet a 2035 Out of Service Date (OSD).

TERRIER

TERRIER is an armoured, highly mobile, general support engineer vehicle optimised for battlefield preparation. Its primary role is a 'combat digger' for counter–mobility and survivability tasks. It offers vast improvements in mobility, special-to-role performance and crew survivability over the current in service Combat Engineer Tractor which it will replace. Additional capabilities offered by TERRIER are: clearance of scatterable mines, route marking, and being able to operate under remote control during hazardous operations.

A single contract is in place for Demonstration, Manufacture and Contractor Logistic Support (CLS) for the 30-year life of TERRIER.

Meteor - Beyond Visual Range Air-to-Air Missile (BVRAAM)

Meteor is a six nation collaborative programme (UK, Germany, Italy, Spain, France and Sweden) to develop a revolutionary beyond-visual-range, air-to-air missile (BVRAAM), with the operational capability to dominate the air environment, excelling in all future combat scenarios and capable of being integrated on Europe's major platforms: Eurofighter Typhoon, Gripen and Rafale. It is planned to enter service with Typhoon in the next decade and is currently over half way through its Development phase.

Meteor is a highly flexible, agile, air-to-air weapon that will provide a significant capability in the most complex air-combat scenarios. The missile is allocated targets from the launch aircraft radar and is capable of engaging air targets autonomously by night or day, in all weather.

Conventional air-to-air missiles, such as Advanced Medium Range Air to Air Missile (AMRAAM), employ a short-duration boost motor to accelerate the missile to supersonic speed, but then coast to their target. Meteor replaces AMRAAM and uses ramjet technology to sustain propulsion throughout the missile's flight and enables it to defeat fast, highly manoeuvrable targets.

Meteor will represent a step-change in capability and will be capable of combating emergent airborne air defence threats beyond 2015

Typhoon Tranche 2 Production

Typhoon will replace the Tornado F3 in the Air Defence (ADX) role and Jaguar in the Air to Surface (A-S) role which have been in-service with the RAF for between 30-40 years. Control of the air will continue to be a pre-requisite for domestic and deployed operations; policing of UK airspace post-9/11 remains an enduring, high priority commitment. In addition, despite the acceptance of increased risk against ADX for deployed operations there is a clear requirement for the UK to be able to contribute to coalition ADX and force protection.

Typhoon offers an advanced aerodynamic design, High thrust EJ200 engines, advanced sensor fusion, a Defensive Aids Suite that enhances survivability of the aircraft and a significant weapons carriage capacity both air-to-air and air-to-surface. It is a world-class, agile, single-seat, twin-engine multi-role combat aircraft that will serve as a cornerstone of the RAF's fighting capability for the next 25-30 years.

Tranche 2 aircraft include replacements for obsolescent components and more capable computers which will enable the aircraft to be enhanced through the planned Future Capability Programme.

Typhoon Future Capability Programme

The capability of Typhoon will progressively increase as part of our incremental Future Capability Programme (FCP). Future weapon systems will be integrated onto the platform, as they become available, using smart acquisition principles. This approach will ensure that Typhoon remains able to exploit developing weapons technology and continue to ensure full operational benefit from Typhoon.

FCP Phase 1 will provide Typhoon Tranche 2 with significantly enhanced operational capability from 2011. These enhancements will create a more versatile multi-role capability to succeed the single-role aircraft currently in operation. The contract delivers precision air-to-surface capability through the integration of Paveway IV bomb and the Litening III Laser Designator Pod. Furthermore, it will provide the Human Machine Interface for Multi-Role operations in non-permissive environments with the current, planned and projected weapons.

Further FCP Phases are planned over the life of the aircraft which will deliver further enhancements to Typhoon's capability both in air-to-air and the air-to-surface roles.

Chemical, Biological, Radiological and Nuclear (CBRN) - Sustain Cluster Group

Sustain cluster group is a range of capabilities that enables rapid regeneration of a force after a CBRN event to its pre-event level of effectiveness. The area consists of five sub capability areas, these are; decontamination, collective protection, recce and survey, chemical monitoring, biological monitoring and radiological monitoring.

Studies are underway which will identify the most effective way to meet a continually changing threat. Particular attention is being paid to integration with other capabilities, such as aircraft, ships, vehicles and accommodation, to ensure maximum effectiveness. An incremental approach will be adopted to ensure the benefits of developing technology are included at the earliest opportunity. Specific projects are likely to commence in detail around the end of the decade.

CBRN - Maritime Biological Detection System (MBDS)

MBDS will provide an automated Biological Warfare (BW) detection and identification capability for installation on Royal Naval and Royal Fleet Auxiliary platforms. MBDS will replace the Interim Naval Biological Detection System (INBDS), procured as an Urgent Operational Requirement (UOR).

Attack Helicopter (AH) Support Reappraisal Programme

Modernised Target Acquisition Designation Sight / Pilots Night Vision (M-TADS).will replace existing equipment with a 2nd Generation Forward Looking Infra-Red system with increased range and multi-target tracking and an improved helmet and display sighting system. MTADS is also set to reduce Whole Life Cost by improving reliability and maintainability and removing obsolescence issues whilst also delivering improved piloting and targeting capability. Expected In-Service Date (ISD) is Jan 09.

Future Rotor Craft (FRC)

The FRC programme is charged with determining future helicopter requirements through the Lift Advanced Concept Phase and procuring platforms in an incremental manner as each sub element matures. This will include upgrades to four platforms; Lynx, Sea King, Puma and Chinook which have seen a service life spanning almost 40 years.

The programme seeks to replace capability across three classes of battlefield helicopter: Small, Medium Support Helicopters and Large for intra-theatre lift together with the Search and Rescue and medium lift capability Non-Signatory Rotary Wing (NSRW).

Rotary wing assets are a key element of our operational capability and delivering further rotary wing remains a top priority.

Precision Attack

The Precision Attack area covers the above-water and underwater battlespaces, and deep target attack.

Future Carrier (CVF)

We announced in July 07 we will place orders for two 65,000-tonne aircraft carriers. Successive expeditionary operations have demonstrated that aircraft carriers play a key role in force protection; contributing to peace support; and intervention. Our current Invincible Class aircraft carriers, which entered service between 1977and 1981, have limited air group capability and therefore are unable to fulfil the increasingly challenging demands of the new strategic environment.

The future carriers, combined with future generation aircraft, represent a step-change in capability for the Armed Forces, enabling us to deliver increased strategic effect and influence around the world at a time and place of our choosing. They will be the most capable carrier force outside the US Navy.

The carrier programme will sustain some 10,000 jobs across the United Kingdom, and requires significant change in the maritime industry. The Defence Industrial Strategy (DIS) sets out efficiency improvements in this sector to maximise value for money.

VT Group and BAE Systems intend to form a joint venture in naval shipbuilding and support to ensure that the UK maritime industry is of the size and shape to deliver the infrastructure that the Royal Navy will need to support the fleet in the future.

Type 45 Air Defence Destroyer

T45 replaces T42 to provide the mainstay of Royal Navy Maritime Area Air Defence capability to meet emergent technological threats in future maritime operations. The ship will carry the world leading Principle Anti Air Missile System (PAAMS) and the Sampson multi-function radar, capable of defending the host ship and ships in its company from multiple attacks by even the most sophisticated anti-ship missiles.

The Type 45 class will be the largest and most powerful air defence destroyers ever operated by the Royal Navy, providing the fleet with an air defence capability that is several orders of magnitude greater than that provided by the existing force of Type 42 destroyers it replaces. In addition to its air defence role, the Type 45 will be able to support land operations, conduct counter terrorist and counter drug operations, protect maritime trade and respond rapidly to humanitarian disaster.

To achieve this wide range of tasks, the Type 45 will be fitted with a suite of weapons and equipment. As well as the Sampson radar, the associated command and control system, long-range radar, vertical launch system and the highly capable Aster missiles, the ship will be fitted with a 4.5" gun for shore bombardment and is capable of operating with Lynx, Merlin and Chinook. The ship will also be able to embark a force of up to 60 Royal Marine Commandos or other troops and use its aircraft and boats to support them on operations. With a design life of 25 years, the Type 45 has been designed with growth capacity to enable future capability enhancements.

Six Type 45 Destroyers have been ordered and all are at various stages of build/fit/trials, with the first of class, HMS DARING recently completing initial sea trials and due to enter service in 2010.

Astute Class Submarine

The ASTUTE class nuclear-powered attack submarine will be the largest and most powerful attack submarine ever to serve with the Royal Navy. It will replace the Swiftsure and Trafalgar classes progressively over the next 15 years.

Astute possesses a number of advantages over its predecessors, including: enhanced weaponry; the ability to operate with fewer crew; enhanced stealth; and, unlike previous SSNs, Astute is 'cored for life' and will not require re-fuelling during its 25 year life.

It will provide the Royal Navy with a range of enhanced capabilities, including the ability to: gather strategic intelligence; conduct anti-submarine and anti-ship warfare; and to attack targets on land up to 1,000km away with the latest version of the Tomahawk Land Attack

Missile (TLAM). In the era of expeditionary warfare, set out by the 1998 SDR, these roles make Astute a vital part of the UK's future military arsenal.

HMS Astute, the first of class, was launched on 8th June 2007 and is undergoing initial testing and trials before completing the final stages of construction next year.

Merlin Mk1 Capability Sustainment Programme

The Merlin Mk1 entered service in 1999 and provides a significant contribution to force protection and surveillance in the maritime environment, particularly with respect to Anti Submarine Warfare (ASW) and Anti Surface Warfare (ASuW). It also offers considerable flexibility and utility to the Joint Force Cdr for Secondary role tasks such as Transportation (personnel & stores), Search and Rescue (SAR), Casualty evacuation (CASEVAC) and wider utilities such as counter-terrorism and counter-narcotics.

The Capability Sustainment Programme intended to address obsolescence issues for between 30-38 aircraft. Further Operational Analysis is currently being undertaken to assess the feasibility of higher flying rates from fewer aircraft.

Nimrod MRA4

The Nimrod Maritime Reconnaissance and Attack Mk 4 (MRA4) will replace the ageing Nimrod MR2 as the UK's new maritime patrol aircraft. The Nimrod Maritime Reconnaissance and Attack MK 4 (MRA4) will replace the ageing Nimrod MR2 as the new maritime patrol aircraft Nimrod MRA4 will provide significantly enhanced Anti-Submarine and Anti-Surface Ship capability through improved aircraft and sensor performance, a greater degree of system integration, and a substantial improvement in availability and supportability, but with significantly fewer aircraft.

The multi-role long range and endurance surveillance and attack capability provided by maritime patrol aircraft facilitates and supports the world wide deployment of UK forces. Their capability is used to provide support to other government departments, and is often a key asset in Search and Rescue missions.

MRA4 will build on the impressive range of capabilities of the Nimrod MR2 aircraft which it will replace. It is an inherently flexible aircraft capable of being adapted to a wide range of tasks, including overland roles, if the requirement arises. The first production aircraft is expected to enter service in late 2010.

Joint Combat Aircraft (JCA)

The Strategic Defence Review confirmed the requirement to provide a multi-role fighter/attack aircraft to replace both the Harrier and the Tornado. A key element of the UK's defence policy is to maintain credible, flexible, expeditionary combat power within striking range of an adversary.

Joint Strike Fighter (JSF) is the planned solution to the UK's JCA requirement. The JSF will be a lethal, highly survivable, all weather, multi-role, expeditionary aircraft. JSF is a US-led nine-nation programme within which we are the primary partner.

We are currently planning to acquire the Short Take-Off Vertical Landing (STOVL) variant to meet our requirement for a new carrier-borne aircraft. However, we continue to monitor the relative potential of the Carrier Variant (CV). Both variants are assessed against a comprehensive set of criteria that include capability and cost. A decision on which variant to procure will be made later in the development phase.

UK aerospace technology and expertise is being used within the JSF programme to ensure the JSF remains effective against envisaged threats for future decades.

Tactical Information Exchange Capability (TIEC)

There is a requirement is to provide Tornado GR4/4A and Harrier GR9 with the capability to seamlessly, automatically and securely exchange specified tactical information with national and coalition participants to enhance combat identification, improve survivability, enable the prosecution of time-sensitive targets and improve aircrew's situation awareness

TIEC is a tactical datalink programme to fill this capability gap and contribute to Networked Enabled Capability (NEC). It will allow greater effectiveness and interoperability during periods of intense activity in high threat environments

TIEC allows digital messages to be passed from suitably equipped ground and air forces, thus enabling rapid reaction to situations requiring delivery of effect from the air such as Emergency Close Air Support (ECAS). Operational Analysis suggests that the embodiment of such a capability has the potential to double overall mission effectiveness of CAS platforms.

Information Superiority

This capability area covers intelligence, surveillance, target acquisition and reconnaissance (ISTAR), and command, control and information infrastructure. Most projects are inherently tri-service in nature.

Joint Command & Control Support Systems

JC2SP seeks to overcome the current operational Command & Control (2C) limitations imposed by single service systems, identified during initial operations in Iraq. It will surmount technical obsolescence, provide co-ordinated and coherent capability management, and deliver the operational element of NEC through four inter-related and interdependent projects. The programme includes both joint and coalition/ allied interoperability requirements.

The project is using an incremental acquisition strategy to deliver capability to the front line as soon as possible. JC2SP will be further enhanced as the project progresses to enable greater interoperability and integration with the Defence Information Infrastructure (Future Deployed).

FALCON

FALCON will provide a tactical, formation-level, secure communications system for the UK and the Allied Rapid Reaction Core (ARRC) and will allow for the disposal of obsolescent systems. It will interoperate with other deployed systems (e.g. BOWMAN, CORMORANT and SKYNET 5) to ensure that there is sufficient communications capacity to enable NEC.

FALCON will be the high-capacity system that binds together tactical communications in a theatre of operation. It will provide local area voice and data distribution and significantly greater capacity than current systems coupled with manpower savings.

WATCHKEEPER

The Watchkeeper tactical Unmanned Aerial Vehicle (UAV) system is a new capability in response to the aims in the New Chapter of the Strategic Defence Review 2002; to enhance the capability of the Armed Forces to undertake ISTAR tasks and to move towards NEC

Watchkeeper will provide UK commanders with accurate, timely and high quality information, including imagery. It will be fully integrated into the wider command and control digitised network, passing data quickly to those who need it. The demonstration and manufacture contract was awarded in 2005 to Thales UK who are developing the capability and will begin to deliver to the Armed Forces from the end of the decade.

EAGLE – Air Battle Management

Project EAGLE will sustain the UK Airborne Early Warning (AEW) capability currently provided by the Sentry AEW1 aircraft and provide an Air Battle Management (ABM) and Combat Identification (CID) enabling capability with the ability to co-ordinate air operations and to direct forces during Medium Scale (MS) Power Projection (PP), Peace Keeping (PK) and Focused Intervention (FI) scenarios whilst maximising inter-operability and inter-changeability in theatre of operation world-wide.

Urgent Operational Requirements

The Urgent Operational Requirement (UOR) process allows MOD to rapidly tailor capabilities to the evolving operational need or procure additional equipment capability. It provides speedy and flexible procurement, using a streamlined version of the Department's normal procurement procedures. UORs make a significant contribution to today's operations.

To date we have approved over £2.6Bn of UORs for current operations. Up to 85% of UORs

approved for operations since 2003 are related to force protection measures, in response to the specific conditions and changing threats in theatre. The vast majority of these have been fully funded from the Treasury Reserve – not the Defence budget.

90% of UORs procured for operations in Iraq since 2003, and reported on, were assessed as effective or highly effective by the troops in theatre. 100% of UORs delivered to Afghanistan since the British move to the South, and reported on, have been rated by troops in theatre as either highly effective or effective.

Notable UOR successes include the provision of High Frequency communication systems in just four months, ensuring that British troops could safely oversee the Iraqi elections; and the rapid procurement of Mastiff protected vehicles, delivered in just twenty three weeks.

In June 2005 the House of Commons Public Accounts Committee 26th Report Ministry of Defence: The Rapid Procurement of Capability to Support Operations complimented the MOD on the flexibility, speed and ingenuity shown in its approach to Urgent Operational Requirements. The Report concluded with recommendations on how to improve the smooth and effective procurement of UORs. The most significant included the implementation of a single UOR register that tracks every requirement from initial submission through to delivery and assessment of effectiveness. This tool has ensured that all UORs can now be tracked, managed and audited with ease.

Non-Equipment Investment Plan

The Department invests heavily in strategic infrastructure to support Defence outputs. In recent years, MOD has focused on consolidating and modernising the estate into fewer sites, and improving the stock and divesting in surplus assets – effectively maintaining a coherent infrastructure with greater benefits for defence.

Central to this is the NEIP, which draws together major Information System (IS) projects; estate maintenance projects and estate rationalisation and modernisation programmes and represents the planning and programming tool for prioritising investment in infrastructure.

The most significant programmes within the NEIP are managed by the Defence Change Programme. Some of which are detailed below.

Defence Change Programme

The purpose of the Defence Change Programme (DCP) is to modernise Departmental business processes to improve efficiency and effectiveness, maximising our investment in front-line operational capability. Launched in 2002, it joins and prioritises major change programmes across Defence, to produce a single, coherent portfolio, including the programmes listed below. In prioritising between the various change initiatives across the Department, the Change Programme ensures that resources are directed to the most important and productive areas.

Defence Training Review Transformation

Defence Recruitment and Individual Training Management

UK Military Flying Training System

Whole Fleet Management

Business Management System

Defence Information Infrastructure

People Programme

Estates Modernisation

Joint Helicopter Command Rationalisation (BELVEDERE)

Defence Intelligence Modernisation Programme

Germany Basing (BORONA)

Joint Personnel Administration

FLEET Transformation

Defence Health Change Programme

Defence Logistics Transformation

Defence e-Commerce

Command HQ Collocations

Defence Travel Modernisation

The Defence Change Programme represents a long term commitment to improved delivery. It is constantly reviewed to ensure that it encapsulates those business change programmes which are the highest priority to Defence.

The Defence Estate

Allenby-Connaught

The Allenby/Connaught PFI (Private Finance Initiative) Project is planned to redevelop the Army barracks in Aldershot and around Salisbury Plain, It is the largest accommodation PFI Project across Government. There are currently seven sites around Salisbury Plain; two of these sites, Larkhill and Warminster, also have a significant training role. Aldershot Garrison has a mixture of field force units, training schools and a Divisional HQ. In total there are some 17,000 military personnel (excluding dependants) based on the sites as well as around 2,100 civilians.

Many of the sites have been in use since the early 1900s and much of the built estate dates back to that time. There has been some new building on all the sites since then, particularly of Single Living Accommodation (SLA) in the mid 1960s. However, over 45% of the buildings within the Project's footprint are beyond their economic life, and incur increasing running costs.

Allenby-Connaught is key to the delivery of the Strategic Defence Review barrack plot and has a particular focus on SLA, delivering nearly 11,000 single room en-suite bed spaces.

SLAM

Project SLAM (Single Living Accommodation Modernisation) is a functional prime contract to upgrade SLA for the UK Armed Services across England, Wales and (to a lesser extent) Scotland. The project is a ten-year programme; the first five-year phase, was awarded to Debut Services Ltd (DSL) in December 2002. Construction work commenced in April 2003.

To date, Project SLAM has delivered 7,026 bed spaces and it is expected that the total will reach 8,325 bed spaces by the end of Phase 1. Project SLAM will also deliver a further 1,575 bed spaces from TLB funding injections.

The CSR Settlement reflects our continued commitment to investment in Armed Forces' accommodation and provides £550M of ring-fenced funding for this purpose. This funding is supplemented by an additional £80M investment announced by the Defence Secretary on 25th September 2007.

Northwood Private Finance Initiative (PFI)

The project objective is to provide a cost-effective and efficient long-term solution to support the delivery of operational outputs and address the current deficiencies of Northwood, the home of the Permanent Joint Headquarters (PJHQ), which runs all UK military operations worldwide. The PFI solution envisages a private sector provider delivering an integrated services, facilities and infrastructure programme for 25 years. Additionally, the provider would deliver new above-ground command facilities, 720 new or refurbished Single Living Accommodation (SLA) spaces and enhanced community and parking facilities.

Command HQ Collocations

Collocation sees the rationalisation of a number of Headquarters and organisation across all three services. In particular, work to merge the Royal Navy's Fleet and 2nd Sea Lord TLB organisations was completed; a single Naval TLB organisation with a unified Headquarters in Portsmouth stood up on 1 April 2006 and is set to generate £15M of efficiencies by March 2010. Similarly, the collocation of the HQ Royal Air Force Strike Command and Personnel and Training Command TLB organisations at RAF High Wycombe, and collocation of HQ Land and HQ Adjutant General, Project Hyperion, will also generate efficiencies totalling £45M.

Corsham 09

Corsham 09 (C09) is an investment programme to provide a state-of-the-art operational facility on the Basil Hill site. It will deliver a centre of excellence for operational Defence Communication Information Services (DCIS). The C09 programme comprises two projects. First, the Corsham Development Project (CDP) that will deliver the 25 year PFI contract for the provision of a new estate development on the Basil Hill site; secondly, the Business Change Project that will

implement the Policies, Procedures and Practices (3Ps), training and transition requirements for staff moving into the new build.

This will enable Director General Information Systems and Services to be more cost-efficient, delivering more effective end-to-end DCIS, contributing to the achievement of Network Enabled Capability (NEC) and improved operational effectiveness. Benefits arise from the economy of scale and cost efficiency benefits that can be driven by the HQ rationalisation on to a single site.

MoDEL (MOD Estates London)

Project MOD Estates London (MoDEL) is a flagship project to combine operations from a number of sites across Greater London at RAF Northolt. This will generate a number of benefits in terms of reduced running costs, improved efficiency and consolidated resources.

MoDEL will re-develop RAF Northolt, delivering world-class facilities and accommodation leading to improved operational outputs and a much improved quality of life for MOD personnel. MoDEL will be funded through disposal receipts from the sale of sites rendered surplus to requirements. These sites are:

- RAF Uxbridge
- RAF Bentley Priory
- RAF Eastcote (former United States Visiting Forces site)
- RAF West Ruislip (former United States Visiting Forces site)
- Inglis Barracks, Mill Hill
- Victoria House, Woolwich

The disposal of these sites releases around 100 hectares of brownfield land within the M25 for redevelopment.

VSM Estates Ltd has been awarded the larger of two contracts that together will deliver Project MoDEL. VSM Estates are responsible for delivering the funding and project managing the construction requirements (primarily at RAF Northolt), the relocation of units, as well as the disposal of surplus sites.

Bovis Lend Lease is delivering the smaller MoDEL contract which involves the construction and relocation of the British Forces Post Office (BFPO) operational facility to RAF Northolt.

Inner London Barracks Project

The purpose of this project is to vacate Chelsea Barracks and Hounslow and relocate London public and state ceremonial duties staff to refurbished Woolwich Barracks.This project allows the disposal of Chelsea Barracks.

Information Systems Investment

The Defence Information Infrastructure (Future) (DII(F)) Programme

The DII(F) programme will deliver a coherent information infrastructure service that will provide connectivity and a common set of user facilities across the Department. The programme progressively rationalises existing fragmented and varied IT infrastructure to deliver the following benefits:

Direct Benefits. The programme will deliver a combination of input and output efficiencies resulting in: increased access to services (particularly HR services), greater resilience and connectivity, and improved information management tools.

Enabled Benefits. The programme is a key enabler for Joint Personnel Administration (JPA) and Human Resources Service Delivery (HRSD), the DLO and DPA Merger, Project Hyperion, Air Movement Operations (AMO), and the Management of Materiel in Transit (MMiT).

Operational Benefits. A wide range of operational benefits will be realised through the delivery of a single coherent and joined up infrastructure providing greater access to information and improved tools. Operational benefits to deployed forces contribute to achieving the goals of Network Enabled Capability and the corresponding uplift in UK Defence capability.

Defence Electronic Commerce Service (E-Purchase) Project

The Defence Electronic Commerce Service (DECS) was established as a 10 year Public Private Partnership (PPP) deal with Cap Gemini to provide a secure trading portal between MOD and Industry and forms the backbone for initiatives to enable collaborative working across defence acquisition and logistics. Expected outputs and benefits of DECS(E-P) include:

- Reduced transaction costs
- Supply Chain Cost Reduction
- Wider access to e-catalogues linked to Procurement Reform
- Benefits contribute to departments efficiency targets

In addition to providing the platform for the MoDs e-Purchasing applications, DECS also hosts other Value Added Services: The move by DE&S towards 'Contracting for Availability' is generating increased requirements for secure information exchange between the Department and Industry. This is facilitated by the DECS Collaborative Programme (DCP); a shared working environment for MOD, Industry and OGD use.

Private Finance Initiative

The Private Finance Initiative (PFI) has become a well-established delivery tool in the provision of innovative and efficient services for Defence. We remain committed to involving the private sector where appropriate, for example, when the requirement is for long-term services based around the provision or refurbishment of a capital asset that can be funded by third-party finance.

During 2005-06, we published new guidance on the PFI procurement process and consulted industry in developing the new MOD project agreement based upon Standardisation of PFI Contracts version 3. Standardisation and improvements made to the procurement process will lead to better value for money and drive down the length of the bidding process and bid cost. At present, the total PFI capital investment in Defence stands at over £5.8 billion.

Further information on the MOD PFI programme can be found on HM Treasury website.

4. ASSET MANAGEMENT PRACTICE

The Department has two main objectives in managing its capital expenditure: to determine the balance of investment in delivering defence priorities; and to conduct effective financial management of its asset holdings.

Capital expenditure forms an integral part of MOD's overall biennial resource allocation and planning process within the business and corporate planning cycle.

MOD Business & Corporate Planning

The Department has a core business and corporate planning framework which underpins the delivery of the Department's aims and objectives, and supports the Defence vision.

At the head of the internal planning framework is the Defence Strategic Guidance. This confidential document provides the Department with a high-level, long-term view against which it can plan. It is produced biennially and endorsed by the Defence Management Board.

The Defence Strategic Guidance describes the broad policy and strategic context within which Defence operates. It establishes key planning parameters and priorities for resource allocation; the development of capabilities over the next 15 years; and informs Spending Reviews and all lower-level strategies and plans.

The Defence Programme

Defence Strategic Guidance provides the basis for the construction of the Department's forward plans, through which the forward Defence Programme is matched to the resources made available to Defence in the Spending Review settlement.

The Enabling Acquisition Change report of 2006 made recommendations including; a move to an overarching system of Through Life Capability Management. This led to the merger of the Defence Procurement Agency (DPA) and Defence Logistics Organisation (DLO) into the Defence Equipment and Support Organisation (DE&S) during 2007 and a biennial planning process, in which, equipment and support plans follow a coherent and holistic plan closely linked to the users achieving Defence outputs on the Front Line.

The Equipment Capability Customer (ECC) is now responsible for programming resources for new equipment and its support over years 1-10 and for in-service equipment over yeas 5-10. Front line Top Level Budget Holders (FL TLBs) are responsible for programming the resources for support to in-service equipment over years 1-4.

Equipment support resources will not be "ring-fenced" from other resources: the ECC will be able to trade between equipment and equipment support resources for all future equipment and for in-service equipment from Year 5 onwards; and FLTLBs will be able to trade between support for in-service equipment over Years 1-4 and other expenditure.

The Non-Equipment Investment Plan (NEIP) looks out over a 10-year period and is the Department's central planning and programming tool for all major estate, business information systems and other change/ modernisation projects and programmes. The

NEIP enables MoD to prioritise its investment in such projects and programmes based on their costs and benefits

The biennial planning round combines all plans into a future Defence Programme for the Defence Management Board and, subsequently, Ministerial agreement. The Defence Programme is reviewed and adjusted every two years. This balancing of resources provides a Defence Programme which is;

- **Coherent** – for example, plans for investment in new equipment are matched by support provision for the training, infrastructure and manpower required when the equipment enters service.

- **Balanced** – so that we have the right balance between spending on all elements required to deliver military capability; such as People, Equipment, Equipment Support, and Infrastructure.

- **Affordable** – so that MOD can live within its overall level of resources.

Departmental Plan and Defence Balanced Scorecard

The Departmental Plan translates Defence Strategy into detailed objectives and targets for each Top Level Budget Holder and a budget, determined during the planning round, within which the targets must be achieved. All objectives and targets clearly identify the owner of the target, and who is responsible for reporting performance.

The Defence Balanced Scorecard (DBS) provides the framework for performance reporting to the Defence Management Board (DMB). Quarterly reports are delivered to the DMB against performance priorities considered key to managing defence. Below the Defence Balanced Scorecard sit a series of scorecards at Service Executive Committee, Top Level Budget and lower levels across the Department, which cascade responsibility for delivery down the organisation.

Corporate Governance and Risk Management

The Defence Audit Committee, chaired by an independent member of the Defence Management Board, is at the heart of the assurance process. It uses a risk-based approach to review the condition of the Department's internal control systems and advise the Permanent Under Secretary (PUS) on his annual Statement on Internal Control in the Departmental Resource Accounts. The system of internal control has a number of dimensions (e.g. efficient organisation and budgetary structures, sound business processes, robust internal audit) but is, in particular, based on an ongoing process designed to identify and prioritise the risks to achievement of Departmental policies, aims and objectives, to evaluate the likelihood of these risks being realised (and the impact this would have) and to manage them efficiently, effectively and economically.

Investment Approval Process

The Investment Appraisal Board (IAB) is responsible for the Approval Process, which provides a framework that enables Ministers and the Accounting Officer (PUS) to discharge their responsibilities to Parliament and the taxpayer. Through non-advocate scrutiny of all investment decisions, the IAB provides the Defence Management Board, PUS and Ministers with sufficient assurance that a particular investment proposal is mature and will deliver value for money over the project's life and be affordable within the department's Resource Accounting and Budgeting frameworks.

In granting approval for a project, usually at two decision points - Initial and Main Gate, the IAB will seek to satisfy themselves that the proposed investment is fully justified and coherent with long term defence investment strategies and plans; appropriately flexible and adaptable to future military tasks; a cost-effective proposal that offers through-life value for money; affordable within existing and foreseeable future budgetary provision; deliverable through effective acquisition management and commercial arrangements; soundly-based, with key risks to performance, cost and timescale identified and actions

planned to monitor, manage and mitigate those risks.

The approval process is commensurate with the scale of the proposed investment; the largest and most significant projects will involve representatives from HM Treasury, Department of Trade and Industry and Ministers from other Government Departments in the decision-making process.

Financial Management

In 2005, an HM Treasury team reporting to the Head of the Government Accountancy Service conducted a review of our financial management. They concluded that the overall picture was one of positive progress and that the Department had, or was putting in place, the processes, systems and standards to deliver an effective strategic financial management function.

As well as finding much to commend in our current arrangements, the review supported our plans for the future, including our strategic determination to shift the focus of the finance function from transactional processing to improved support for decision-making at all levels. Specific recommendations in the report included implementation of the 'Simplify and Improve' programme, the introduction of Biennial Financial Planning to bring greater stability and discipline to the forward Defence Programme and allow for a more measured timetable and approach to the planning round, and the introduction of a new finance information system – the Planning, Budgeting and Forecasting tool – to improve financial planning and forecasting across the Department.

The MOD Finance Director initiated a review of the Finance Function in 2004, to review the Department's internal performance and plans for simplifying and improving financial processes, structures and systems. As a result of this review the "Simplify and Improve" Programme was created, which is being delivered through the Defence Resource Management Programme. The two main changes were:

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

- centralisation of fixed assets onto Single Balance Sheets to place "ownership" with the parts of the Department making the decisions concerning asset management.

Since 2004, the Department has reorganised its financial management of fixed assets by establishing a central Departmental Fixed Asset Register. The Departmental Asset Register includes all Tangible and Intangible fixed assets, which are owned (in financial terms) by Single Balance Sheet Owners (SBSO) based on the category of asset managed:

Single Balance Sheet Owner	Asset Category
Defence Equipment and Support (DE&S)	All Single Use Military Equipment (SUME) assets, Plant & Machinery assets, Guided Weapons, Missiles & Bombs (GWMB), Transport assets and Capital Spares, IT and Communications Equipment, all related development costs and all Equipment Assets Under Construction (AUC). Includes all Government Furnished Equipment (GFE) previously on Defence Procurement Agency and Defence Logistics Organisation balance sheets.
Defence Estates (DE)	Land & Buildings, and building related-Plant & Machinery assets

Fixed Assets Project

A central pillar to the Defence Resource Management Programme has been the Fixed Assets Project which aims to centralise both financial processes and management of the Department's fixed assets – to release Top Level Budget finance staff to support better decision-making.

Since April 2006, the project has established a central Asset Processing element within the newly created Financial Accounting Shared Service Centre to support the Departmental Asset Register.

The responsibilities under these new arrangements are detailed below:

Single Balance Sheet Owners	Fixed Asset Shared Service Centre	Top Level Budget Holder
Produce the Short Term Plan for elements of Indirect Resource DEL (depreciation, impairment and cost of capital charges) and cost Options.	Action changes to the Fixed Asset Register (additions, disposals, location, asset lives, financial impact of impairment).	Provide Asset Change Notices to Fixed Asset Register.
Produce in-year forecasts for elements of Indirect Resource DEL and Annually Managed Expenditure (AME)	Conduct month-end accounting routines (calculating depreciation, producing journals for SBSO accounts)	
Responsible for Asset Verification	Manage annual Asset Verification for SBSOs	Conduct annual Asset Verification.
Produce the elements of Departmental Resource Accounts associated with Fixed Assets.	Assist SBSOs in the production of Fixed Assets associated with Departmental Resource Accounts.	

Asset Verification

For non land and building assets, it is Departmental policy to carry out an annual asset verification exercise. This process includes checking that the Fixed Asset Register (FAR) lists all the assets held by the Department; carrying out impairment reviews; assessing the continuing need for assets; confirming that assets are providing value for

money and whether they should be accounted for as components under the Financial Reporting Standard 15 (FRS15) rules. The annual impairment review includes Intangible Fixed Assets.

- Inventory Holders are required, in this process, to:
- Check the physical existence of all assets on their listing;
- Carry out a sample check of assets held on the Fixed Asset Register;
- Assess assets for impairment through damage, obsolescence or shortening of life; and
- Confirm that assets have a continuing business use.

In accordance with FRS15, land and building asset values are reviewed professionally at least once every five years through a five-year rolling programme of valuations. Other assets are re-valued by applying appropriate indices as permitted by the Financial Reporting Manual.

Asset Utilisation

Under Resource Accounting and Budgeting, budget holders are encouraged to improve the use of assets by the levying of a cost of capital charge of 3.5%. They are also encouraged to work their assets harder through the Public Private Partnership (PPP) programme and the Wider Markets Initiative.

The PPP programme covers a wide range of activities including utilities, logistics, training, communications, Information Systems/ Information Technology, accommodation and housing. The Department is seeking to build upon experience and successes to date to develop new, more innovative ways of partnering with industry. These include making the best use of assets through commercial partnerships and commercial exploitation of physical assets, such as equipment, land and premises and non-physical assets, such as intellectual property, data and skills. Within agreed limits, the Department can recycle savings from asset-related costs (for example, depreciation and cost of capital) to support other elements of the Defence programme.

Wider Markets Initiative

The aim of the Wider Markets Initiative (WMI) is the commercial exploitation of irreducible spare capacity in the Department's asset base- those which need to be retained but are not fully utilised. Subject to certain conditions, the revenue generated can be used to fund Departmental activities.

Bulk Oil Storage:

Surplus bulk oil storage capacity at Campbeltown and Loch Ewe sites in Scotland is leased to Dutch trading company, Trafigura. The revenue generated offsets the total running costs of all four MOD Scottish fuel depots.

Our WMI governance capitalises on the degree of delegation afforded to budget areas for resource management. Resource Accounting and Budgeting (RAB) provides an incentive to budget holders to ensure that assets on their registers are fully "sweated". Income generation from the asset base is encouraged as an efficiency measure.

WMI processes are embedded in our central financial management processes under the Finance Director. MOD's Wider Markets Officer works closely with HM Treasury and Partnerships UK to compare best practice and embody this within Departmental guidance. The discretionary nature of income generation activities is an important consideration. WMI activities must have a defence purpose in addition to generating income, this can include: raising morale; improvement of public relations; and assistance to recruitment and/or retention.

A recent Government-wide report on WMI by the National Audit Office concluded that we had been particularly proactive in improving the overall quality of the management of our commercial activities. The strengthening of our internal processes has improved risk-management through a Departmental insurance scheme which covers the Accounting Officer

against a claim on MOD resources in the course of non-core business, and helps minimise the risk of unfair undercharging for a Wider Markets activity.

The MOD Wider Markets team is the hub of a network of Wider Markets focal points, through which we have provided WMI training for 400 staff. The team also consists of commercial staff, with ready access to advisers on health and safety, legal and other aspects.

WMI includes a number of activities: reorganisation; direct marketing to a third party; commercial partnering; and leasing arrangements. Examples of some WMI activities are listed below:

- DG ISS contract with Arqiva to exploit the Boxer Communication Towers;
- The Royal Navy's contract, in partnership with Flagship, with Network Rail for Engineering Apprentice Training at HMS SULTAN;
- The Services' efforts to protect and exploit the military 'brands';
- Exploitation of our intellectual property;
- Sale of surplus training capacity;
- Letting of land; and
- Making available sites and facilities for filming purposes.