

CHAPTER 1 - FINANCE

INTRODUCTION

This Chapter provides details on the composition and scope of the Department's expenditure. It also provides information on the impact of defence spending on the wider economy and international comparisons.

8 UKDS 2008 can be found at the DASA MOD website address: <http://www.dasa.mod.uk/UKDS2008/ukds.html>

In addition this chapter can be found in html format at:

<http://www.dasa.mod.uk/UKDS2008/chapter1.html>

A pdf version of Chapter 1 is also available from:

<http://www.dasa.mod.uk/UKDS2008/pdf/CHAPTER1.pdf>

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

- The Government's Expenditure Plans 2008/2009 (Cm 7385, June 2008)
- The Ministry of Defence's Annual Report & Accounts 2007-08 (HC850-I and II, July 2008)
- HMT Public Expenditure Statistical Analyses 2008 (HC489, April 2008)

Some of these documents and other background information can be found at the MOD website:

<http://www.mod.uk>

Where possible, every attempt has been made to maintain the consistency of this publication with those above. Where differences do occur, this reflects differences in coverage and/or the availability of more up to date information.

This year has seen the inclusion of a new table detailing future planned financial commitments relating to MOD PFI Projects (**Table 1.12a**) as well as further improvements to existing tables including:

- the expansion of some of the industrial categories contained within **Table 1.9a**
- an update on the latest developments relating to defence related imports and exports statistics (**Tables 1.13 & 1.14**)
- a redesigned **Table 1.19** to include more information on the net direct and indirect costs incurred by MOD operations overseas.

There are five main sections within this Chapter covering:

- **Departmental Resources** – Defence Expenditure Outturn, Public Expenditure by Departmental Grouping, Principal Headings of Defence Expenditure Outturn, MOD Equipment Expenditure, MOD Resources by Budgetary Areas, MOD Resources by Departmental Aims & Objectives, MOD Fixed Assets and MOD Research & Development Expenditure Outturn.
- **Industry & Employment** – MOD spending with UK industry, Estimated UK Employment Dependent on Defence Expenditure and Exports, Estimated UK Regional Direct Employment Dependent on MOD Expenditure and MOD payments on Private Finance Initiatives (PFI) Projects.
- **Trade** – Imports, Exports and Balance of Payments for Trade in Services.
- **Contracts** – by type, major equipment projects and main suppliers (including by holding company).
- **International Defence** – MOD Operation and Peacekeeping Costs, NATO Countries Defence Expenditure and their expenditure as a percentage of GDP and the Top World-wide Military Spenders in 2007.

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Main Findings

The main findings from Chapter 1 are:

Departmental Resources

- In 2007/08, Defence Spending (Resource DEL plus Capital DEL minus Depreciation) totalled £37.4 billion.
- In 2007/08, the outturn against the Departmental Expenditure Limits was £43.7 billion. The Resource DEL accounted for £35.7 billion of the 2007/08 expenditure, whilst the Capital DEL accounted for £7.9 billion.
- In 2007/08 Defence is estimated to be the fourth highest area of Government expenditure (Resource DEL plus Capital DEL plus AME) behind Work and Pensions, Health, and Children, Schools and Families.
- In 2007/08, the main areas of Resource expenditure were personnel (£11.5 billion) and depreciation/impairments (£6.2 billion).
- In 2007/08, the main area of Capital expenditure was Assets under Construction (£5.4 billion), which largely consist of major weapons platforms under construction.
- Estimated MOD Equipment Expenditure has increased by some £0.7 billion for 2007/08, largely due to an increase in equipment support costs.
- The total net value of MOD Fixed Assets was £105.1 billion as at 31 March 2008.
- The largest category of assets was Single Use Military Equipment (£35.8 billion) as at 31 March 2008.

Industry & Employment

- In 2006/07, the MOD spent some £16.5 billion with UK Industry. The 'manufacturing' industries (section D) attracted nearly 50% of MOD expenditure with UK Industry. The single industry group attracting most MOD expenditure was Aircraft and Spacecraft (around 12% of the total).
- Estimated employment in UK industry and commerce dependent on MOD expenditure and defence exports has fallen slightly on last year to around 305,000.

Trade

- Total estimated UK deliveries of exports increased from £4.7 billion reported in 2006 to £5.5 billion in 2007.
- The UK identified export orders increased by £4.1 billion between 2005 and 2006 to £9.7 billion. This significant increase in export orders can be attributed to a large order from Saudi Arabia for Typhoon aircraft and orders from Oman and Trinidad and Tobago for offshore patrol vessels.

Contracts

- In 2007/08 MOD HQ placed just over 22,900 contracts with a collective value of around £14.4 billion. The number of contracts placed in 2007/08 remains roughly the same as was reported for 2006/07, whereas the value has decreased by nearly 50% (£13.8 billion) over the same period. The increase in contract value in 2006/07 was due to the placing of a multi billion pound contract with Aspire Defence Holdings and the removal of this contract from the 2007/08 calculations sees a return to historical levels of contract value. Please note that most contract payments are not made during the year in which the contract is placed.
- The largest post Main-Gate equipment project by value is the Type 45 Destroyer (£6.5 billion). This is followed by the Astute Class Submarine (£3.8 billion) and the Nimrod Maritime Reconnaissance and Attack Mk4 (£3.5 billion).

International Defence

- In 2007/08, the MOD spent around £3.0 billion on conflict prevention worldwide.
- The net additional cost incurred by the MOD as a result of operations in Iraq and Afghanistan was around £1.5 billion each.

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RESOURCE ACCOUNTING & BUDGETING

Transition of Cash to Resource Accounting & Budgeting (RAB)

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Up until financial year 1998/99, Government expenditure was accounted for on a cash basis. In April 1999 the introduction of Resource Accounting and Budgeting (RAB) brought in an accruals-based accounting system, although Government departments were still controlled on a cash basis. This transitional accounting regime remained for two financial years. Government expenditure has been accounted for on a resource basis only since 2001/02.

The main difference arising from the adoption of RAB is that costs are accounted for as they are incurred (the principle of accruals), rather than when payment is made (the principle of cash). This gives rise to timing differences in accounting between the cash and RAB systems and also to the recognition of depreciation, which expends the cost of an asset over its useful economic life, and the cost of capital charge, equivalent to an interest charge on the net assets held on the Balance Sheet. At the time that RAB was introduced the cost of capital charge was 6% of the net value of assets; although this was reduced to 3.5% in 2003/04.

Control regime

Under Resource Accounting, Government Departments are accountable for their spending against Resource and Capital Departmental Expenditure Limits (DELs). Spending against the Resource DEL includes current items, which are explained in the following two paragraphs. The Capital DEL, whilst part of the overall DEL, reflects investment spending that will appear on the Department's balance sheet and be consumed over a number of years, net of the receipts from sale of assets. Departments are also responsible for Annually Managed Expenditure (AME). This spending is demand led (for example, payment of War Pensions) and therefore cannot be controlled by Departments in the same way.

In **Stage 1** of RAB, which was introduced at the start of financial year 2001/02, the Resource DEL covered current costs such as in year personnel costs, equipment, maintenance of land and buildings. Non cash costs such as depreciation and the cost of capital charge fell within Annually Managed Expenditure (AME) and were not controlled to the same degree as DELs. This allowed departments an interim period to gain experience of managing the new non-cash costs and to review their holdings of stocks and fixed assets, which impact the non-cash costs, prior to the charge impacting on the more tightly controlled DELs.

Stage 2 of RAB was introduced at the start of the financial year 2003/04. This involved the movement of the primary non-cash costs (depreciation and the cost of capital charge) from AME into the Resource DEL, and reduced the cost of capital charge to 3.5% of the net value of assets.

The change in definition of the DELs combined with volatile non-cash costs over the Stage 1 period make time series comparisons over the period 2001/02 - 2003/04 complex.

From 2006/07, the MOD has transferred ownership of fixed assets into two TLBs: Defence Estates (DE) for Land and Buildings; and Defence Equipment & Support (DE&S) for Plant and Machinery, Transport, IT and Communications equipment, and Single Use Military Equipment (SUME).

Factors affecting Cash to RAB data consistency

- There are timing differences as to when payments are recognised.
- The movement of Non-Cash items of expenditure from AME into the Resource DEL from 2003/04 onwards has the 'apparent' effect of inflating the Resource DEL.
- In financial year 2003/04 the rate of interest used to calculate the cost of capital charge was reduced from 6% to 3.5%.
- The discount rate for provisions was changed from 3.5% real to 2.2% real with effect from 1 April 2005.
- The discount rate for pensions liabilities was changed from 2.8% real to 1.8% real with effect from 1 April 2007.

Further information on the introduction of RAB can be found in Chapter 1 of *UK Defence Statistics 2002* in the 'Resource Accounting & Budgeting' section. Alternatively, more information can be found on the HM Treasury website at: http://www.hm-treasury.gov.uk/about/resourceaccounts/resourceaccounts_index.cfm.

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This section examines changes in defence expenditure over time (**Table 1.1**). **Table 1.2** examines expenditure on defence within the wider public expenditure framework. **Table 1.3** gives a breakdown of defence expenditure outturn by main area. **Table 1.4** presents estimates of MOD equipment expenditure broken out by the main categories of expenditure. **Table 1.5** presents the MOD resources broken down by budgetary area. **Table 1.6** is included to show the resources consumed against departmental objectives. Following the introduction of RAB, **Tables 1.1, 1.3 and 1.5** display the Resource, Capital and AME components separately. **Table 1.7** details actual net book values for MOD Fixed Assets broken down by budgetary area. **Table 1.8** details the MOD's annual expenditure on R&D. This is broken down into intramural (within the department) and extramural (outside of the department) expenditure.

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Main Findings

Defence Spending (Table 1.1)

- In 2007/08, Defence Spending (Resource DEL plus Capital DEL minus Depreciation) totalled £37.4 billion.
- In 2007/08, the outturn against the Departmental Expenditure Limits was £43.7 billion. The Resource DEL accounted for £35.7 billion of the 2007/08 expenditure, whilst the Capital DEL accounted for £7.9 billion.

Comparison with other Government Departments (Table 1.2)

- In 2007/08 Defence is estimated to be the fourth highest area of Government expenditure (Resource DEL plus Capital DEL plus AME) behind Work and Pensions, Health, and Children, Schools and Families.
- In 2007/08 Health, Defence and Children, Schools and Families represent around 53% of Departmental Expenditure Limits (55% of Resource DEL and 39% of Capital DEL).

Principal Headings of Defence Expenditure Outturn (Resources) (Table 1.3)

- In 2007/08, the main areas of Resource expenditure were personnel (£11.5 billion) and depreciation/impairments (£6.2 billion).
- In 2007/08, the main area of Capital expenditure was Assets under Construction (£5.4 billion), which largely consist of major weapons platforms under construction.
- Between 2006/07 and 2007/08 expenditure on service personnel has increased by 2.7% while civilian personnel expenditure has increased by 2.0%.

MOD Equipment Expenditure (Table 1.4)

- MOD Equipment Expenditure has increased by some £0.7 billion for 2007/08, largely due to an increase in equipment support costs.

MOD Resources by Budgetary Area (Table 1.5)

- The largest outturn against the DEL by TLB in 2007/08 was for the Defence Equipment & Support (£22.9 billion).
- Of the operational TLBs, Commander-in-Chief Land Command had the highest outturn against the DEL in 2007/08 (£6.6 billion).

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Fixed Assets (Table 1.7)

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- The total net value of MOD Fixed Assets was £105.1 billion as at 31 March 2008.
- The largest category of assets was Single Use Military Equipment (£35.8 billion) as at 31 March 2008.
- The value of land & buildings owned by the MOD totalled nearly £19.8 billion as at 31 March 2008.
- Defence Estates hold over 99% of the MOD's land and buildings as at 31 March 2008.
- The Defence Equipment & Support holds nearly 98% of the Department's remaining fixed assets as at 31 March 2008.
- The large holdings of Defence Estates and the Defence Equipment & Support of fixed assets reflect the policy since April 2006 to transfer tangible and intangible assets from Top Level Budgets to Single Balance Sheet Owners.

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Table 1.1 Defence Expenditure Outturn¹

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This table shows the changes in Defence expenditure over time, including the period of transition to Stage 1 and 2 of Resource Accounting & Budgeting (RAB) (see page 10). Under Stage 1 RAB, introduced in 2001/02, non-cash costs such as depreciation and cost of capital charge were held under AME, and did not form part of the Resource Departmental Expenditure Limit (DEL). This changed under Stage 2 RAB when non-cash costs moved to the Resource DEL. In order to give a single measure of spending on public services under full resource budgeting, the Defence Spending line is presented as the sum of the resource and capital budgets, net of depreciation and impairments. This reflects the resources required plus the net investment in them, but avoids double counting the writing down of the existing capital stock and the cash outlay on new assets. Control is exercised separately on gross Capital and Resource DEL which replaced Control Totals in 1999/00.

The Net Cash Requirement (NCR) is the actual money that MOD requests from the Government in order to fund its activities. The NCR takes account of movements in working capital levels (debtors, creditors, stock) whilst excluding all non-cash costs.

This table includes expenditure on Conflict Prevention (Request for Resources 2 (RfR2)).

	Cash					RAB Stage 1		RAB Stage 2					
	----->					----->		----->					
	Inclusive of non-recoverable VAT at Current Prices (£ million)												
	1990/91	1997/98	1998/99	1999/00	2000/01	Outturn 2001/02	Outturn 2002/03	Outturn 2003/04	Outturn 2004/05	Outturn 2005/06	Outturn 2006/07	Outturn 2007/08	
Defence Spending²	*	*	*	*	*	*	*	30 861	32 515	33 164	34 045	37 407	
Departmental Expenditure Limits	*	*	*	22 572	23 552	24 456	26 148	37 174	38 323	39 751	40 654	43 654	
Resource DEL³	*	*	*	*	..	18 905	19 944	31 266	31 798	32 911	33 457	35 709	
<i>of which:</i>													
Depreciation/Impairments	*	*	*	*	*	*	*	6 313	5 808	6 587	6 609	6 247	
Cost of Capital Charge	*	*	*	*	*	*	*	2 770	3 026	3 106	3 242	3 371	
Capital DEL⁴	*	*	*	*	..	5 551	6 204	5 908	6 525	6 840	7 197	7 945	
Annually Managed Expenditure⁵	*	*	*	*	..	14 962	19 293	1 011	908	890	582	510	
Cash	22 298	20 945	22 482	22 572	23 552	*	*	*	*	*	*	*	
Net Cash Requirement	*	*	*	*	..	24 874	26 991	29 338	29 524	30 603	31 454	33 505	
Defence Spending ² at Constant 2007/08 Prices ⁶	*	*	*	*	*	*	*	34 246	35 111	35 057	35 037	37 407	

Source: MOD Directorate of Performance and Analysis

1. The table includes both programme and operational expenditure on conflict prevention.
2. Also referred to as Total DEL, Defence Spending in 2003/04 to 2007/08 is the sum of the Resource DEL, less depreciation and impairments, and Capital DEL. This is consistent with HM Treasury guidance.
3. Resource DEL includes operating cost items such as pay, equipment support costs, fuel and administrative expenditure. From 2003/04 it also includes non-cash items such as depreciation and the cost of capital charge on the Department's net assets plus stock and fixed asset write offs.
4. Capital DEL includes expenditure on the purchase of fixed assets (ships, tanks, planes, buildings etc).
5. From 2003/04 Annually Managed Expenditure includes only demand led items such as war pensions.
6. Conversion to constant 2007/08 prices uses the latest available forecast GDP deflator series produced by HM Treasury dated 27 June 2008.

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Table 1.2 Public Expenditure by Departmental Grouping

This table (taken from Table 1.5 and Table 1.10 of *Public Expenditure Statistical Analyses (PESA 2008) HC 489* (http://www.hm-treasury.gov.uk/d/pesa0809_complete.pdf) produced by HMT) examines the expenditure on defence within the wider public expenditure framework. It presents Departmental Expenditure Limits, resource and capital, and Annually Managed Expenditure (AME) by departmental groupings. It is not possible to show figures for all individual departments separately and so departments are grouped broadly on the basis of ministerial responsibilities. A detailed list of departmental groupings can be found in *PESA 2008* Appendix B.

Annually Managed Expenditure (AME) relates to expenditure outside the Departmental Expenditure Limits (DEL) but included in Departmental Budgets. This is typically demand led items such as social security benefits, certain pension allowances and tax credits for individuals. DELs are firm plans for three years for a specific part of a department's expenditure. In general DEL will cover all running costs and all programme expenditure. DEL includes relevant non-cash items such as depreciation, cost of capital charges and provisions.

Current Prices (£ billion)

	Outturn 2002/03 ¹	Outturn 2003/04	Outturn 2004/05	Outturn 2005/06	Outturn 2006/07	Estimated Outturn 2007/08
Total Government Resource DEL²	229.9 r	245.1 r	258.8 r	277.6 r	291.2	313.1
<i>Of which:</i>						
Children, Schools and Families ²	10.6	11.9	12.6	14.3	42.1	44.9
Health	57.1	63.6	69.1	76.4	80.4	89.2
<i>Of which: NHS England</i>	55.4	61.9	66.9	74.2	78.5	87.1
CLG Local Government ³	37.4	40.9	43.3	46.2	22.5	22.7
Home Office ²	7.3	7.9	8.0	8.3	8.3	8.7
Defence ⁴	36.5	31.4	31.3	33.5	33.5	36.7
Work and Pensions ²	7.0	7.8	8.0	8.0	7.9	8.1

Current Prices (£ billion)

	Outturn 2002/03 ¹	Outturn 2003/04	Outturn 2004/05	Outturn 2005/06	Outturn 2006/07	Estimated Outturn 2007/08
Total Government Capital DEL²	27.1 r	30.5 r	32.8	35.2 r	38.9	43.9
<i>Of which:</i>						
Children, Schools and Families ²	2.7	3.5	4.1	4.4	4.1	5.5
Health	2.1	2.7	2.7	2.2	3.2	3.6
<i>Of which: NHS England</i>	2.1	2.6	2.6	2.2	3.1	3.3
CLG Local Government ³	0.2	0.2	0.3	0.3	0.2	0.1
Home Office ²	0.7	0.7	0.6	0.6	0.6	0.8
Defence	6.1	6.0	6.7	6.4	7.1	8.1
Work and Pensions	0.3	0.2	0.3	0.4	0.2	0.1

Current Prices (£ billion)

	Outturn 2002/03 ¹	Outturn 2003/04	Outturn 2004/05	Outturn 2005/06	Outturn 2006/07	Estimated Outturn 2007/08
Total Government AME^{2,5}	160.0 r	164.8 r	173.0 r	187.5 r	206.3	221.2
<i>Of which:</i>						
Children, Schools and Families ²	7.2	6.6	6.3	8.0	8.6	10.7
Health	4.7	6.3	6.7	10.1	10.5	14.6
<i>Of which: NHS England</i>	0.1	0.1	0.3	0.8	0.3	0.6
CLG Local Government ³	0.2	0.4	0.5	0.5	1.0	0.9
Home Office ²	1.7	-	-	-	0.3	0.4
Defence ⁶	*	1.0	0.9	0.9	0.6	0.5
Work and Pensions ²	99.9	103.8	110.7	115.2	119.3	129.6
Total Government DEL (RDEL + CDEL)^{2,7}	256.9 r	275.6 r	291.6 r	312.8 r	330.0	357.1
Total Government AME^{2,5}	160.0 r	164.8 r	173.0 r	187.5 r	206.3	221.2
Total Government Spend (RDEL + CDEL + AME)^{2,6}	416.9 r	440.4 r	464.6 r	500.3 r	536.3	578.2

Source: HMT Public Expenditure Statistical Analyses HC 489 (Table 1.5 & Table 1.10)

- The figures presented in this table for 2002/03 are different from the ones shown in **Tables 1.1, 1.3 & 1.5** as the PESA figures for these years have been recast by HM Treasury on the Stage 2 RAB definition of DEL and AME whereas the MOD reported the accounts on Stage 1 definitions until 2003/04.
- Changes in all years are a result of machinery of government changes.
- CLG Local Government was introduced in 2006/07 but it is comparable with the "Local Government" category referred to in previous editions of UKDS. This category is due to the creation of the "Department for Communities and Local Government" established on 5 Apr 2006.
- For 2003/04 the Defence figure includes the supplementary estimate for asset revaluation.
- Total figures include Defence figures for AME as shown in *PESA 2008* and not as shown in this table.
- The figures for Defence AME from 2003-04 onwards have been adjusted to align with the data contained in **Tables 1.1, 1.3 & 1.5** which excludes contributions to the Armed Forces Pensions Scheme.
- These figures are different from *PESA 2008*, which presents Total DEL as RDEL + CDEL less depreciation.

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Table 1.3 Principal Headings of Defence Expenditure Outturn (Resource basis)

This table provides a breakdown of defence outturn in terms of resources consumed. This is distributed between the main personnel, fixed assets and other expenditure groups. These groupings differ from those used under cash accounting and are not directly comparable. **This table includes expenditure on Conflict Prevention (RfR2).**

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RAB Stage 2

Inclusive of non-recoverable VAT at Current Prices (£ million)

	Outturn 2003/04	Outturn 2004/05	Outturn 2005/06	Outturn 2006/07	Outturn 2007/08
Defence Spending	30 861	32 515	33 164	34 045	37 407
Departmental Expenditure Limits	37 174	38 323	39 751	40 654	43 654
Resource DEL	31 266	31 798	32 911	33 457	35 709
<i>of which:</i>					
Expenditure on Personnel	10 435	10 996	11 255	11 204	11 485
<i>of which:</i> for Armed Forces	7 974	8 047	8 263	8 423	8 649
for Civilians	2 461	2 948	2 992	2 781	2 836
Depreciation/Impairments	6 313	5 808	6 587	6 609	6 247
Cost of Capital	2 770	3 026	3 106	3 242	3 371
Equipment Support ¹	3 804	3 623	3 542	3 793	4 272
Stock Consumption ²	1 060	1 079	1 039	1 140	1 071
Property Management ³	1 393	1 509	1 367	1 258	1 523
Movements ⁴	491	711	729	774	858
Accommodation & Utilities ⁵	643	581	735	786	750
Professional Fees ^{6,7}	549	565	553	482 ^r	471
Fuel ⁸	161	239	369	416	537
Hospitality & Entertainment	8	6	5	4	4
PFI Service Charges	*	*	870	1 148	1 276
IT & Communications	738	678	643	719	655
Other Costs ⁹	2 900 ^r	2 977 ^r	2 111 ^r	1 882 ^r	3 189
Capital DEL	5 908	6 525	6 840	7 197	7 945
<i>of which:</i>					
Expenditure on Fixed Asset Categories					
Intangible Assets ¹⁰	1 665	1 580	1 550	1 744	1 756
Land and Buildings ⁷	54	388 ^r	31	45	126
Single Use Military Equipment ^{7,11}	90	435 ^r	402	404	657
Plant, Machinery & Vehicles	78	124	64	32	36
IT & Communications Equipment	183	134	180	206	361
Assets Under Construction ¹²	3 931	4 335	4 879	5 099	5 450
Transport ¹³	*	73	13	33	55
Capital Spares ¹³	581	*	*	*	*
Capital Loan Repayment	- 28	- 25	- 53	- 8	- 10
Capital Income ^{14,15}	- 646	- 519	- 225	- 358	- 486
AME	1 011	908	890	582	510
<i>of which:</i>					
War Pensions ⁷	1 116	1 110	1 067	1 038 ^r	1 014
Other ^{7,16}	- 105	- 202	- 177	- 456 ^r	- 504

Source: MOD Directorate of Performance and Analysis

- Internal and contracted out costs for equipment repair and maintenance.
- Consumption of armament, medical, dental, veterinary, oil, clothing, and general stores.
- Estate and facilities management services and costs for buildings' maintenance.
- Cost of transportation of freight and personnel.
- Charges include rent, rates, gas, electricity, water and sewerage costs.
- Fees, such as legal costs, paid to professional organisations.
- Minor revisions in 2004/05 and 2006/07 caused by rounding.
- Relates to fuel consumption by military vehicles, ships and aircraft.
- Other costs can include Grants-in-aid, Exchange rate movements, Provisions, receipts, welfare, medical and legal costs, Research and Expensed Development, rentals paid under operating leases, Fixed Assets, and Stock written off.
- Intangible Assets comprise the development costs of major equipment projects and Intellectual Property Rights.
- SUME are assets which only have a military use, such as tanks and fighter aircrafts. Dual use items i.e. those that also have a civilian use are recorded under the other categories.
- Assets Under Construction (AUC) largely consist of major weapons platforms under construction in the Defence Equipment & Support, and a smaller element of Buildings under construction. Once construction is complete, those platforms will transfer to the relevant Top Level Budget holder as SUME on their Balance Sheets.
- From 2004/05 Transport has been recorded as a separate category and Capital Spares has been removed as a category, with the costs previously recorded here being incorporated into Transport or SUME.
- Redemption of QinetiQ preference shares refers to the proceeds received from the partial redemption of the redeemable preference shares during 2004/05.
- Capital income is receipts for the sale of fixed assets.
- Under Stage 2 of RAB, this category now contains only demand led payments, such as cash release and cost of capital credit on nuclear provisions and QinetiQ loan repayments.

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Table 1.4 Estimated MOD Equipment Expenditure¹

This table presents estimates of MOD equipment expenditure broken out by the main categories of expenditure. Aggregate MOD Equipment expenditure here has been used to indicate expenditure on acquisition, maintenance, repair and update of items such as plant, machinery and vehicles and fighting equipment plus associated Research & Development, and expenditure on administrative computers. It is therefore a **wider definition** than that used by the MOD Equipment and Equipment Support Plans, and covers both military and non-military equipment (including dual use equipment) used by MOD service and civilian personnel. The data are derived directly from the MOD Annual Report & Accounts.

This table is outside the scope of National Statistics because it is still under review to ensure it meets all of the high professional quality assurance standards set out in the National Statistics Code of Practice.

Inclusive of non-recoverable VAT at Current Prices (£ million)

	2003/04	2004/05	2005/06	2006/07	2007/08
Estimated MOD Equipment Expenditure	10 886	10 754	10 974	11 672	12 380
<i>Of which:</i>					
Capital Expenditure on Equipment ^{2,3}	4 404	4 555	4 913	5 146	5 401
Equipment Support ⁴	3 804	3 623	3 542	3 793	4 272
Research & Development ⁵	2 677	2 576	2 519	2 732	2 707

Source: MOD Annual Report & Accounts

1. These estimates are not directly comparable to the old cash equipment procurement time series last published in 2000/01 (UKDS 2002) due to the exclusion of in year stock purchases. It is not possible to identify that element of stock purchases which wholly relates to MOD equipment expenditure.
2. Capital expenditure on Equipment includes those Assets Under Construction (AUC) relating to Single Use Military Equipment (SUME) only plus in year purchases on IT and communications equipment, vehicles, SUME and plant and machinery. AUC SUME largely consist of major weapons platforms under construction in the Defence Equipment & Support (DE&S) organisation (formerly the Defence Procurement Agency and Defence Logistics Organisation), and excludes that element of Buildings under construction and Land which would fall outside the wider definition of MOD equipment procurement detailed in the commentary above. Once construction is complete, those platforms will transfer to the relevant Single Balance Sheets Owners (SBSO) as Single Use Military Equipment (SUME) on their Balance Sheets.
3. During 2007-08, the augmentation of the MOD Chart of Accounts has enabled more detailed reporting of the 'AUC-Other' classification by category type by the Defence Equipment & Support Organisation. This has improved the coverage of equipment expenditure reported in the table from 2007-08 by providing a more distinct separation of equipment (particularly dual use) from non-equipment expenditure (e.g. construction, land and buildings, and other administrative costs).
4. Internal and contracted out costs for equipment repair and maintenance.
5. The data are derived from information held on MOD accounting systems relating to expenditure on Additions to Intangible Assets and Research & Expensed Development. Development activity associated with acquiring assets is the most significant part of this expenditure. These figures do not fully align with those in **Table 1.8** which present MOD R&D expenditure on a different basis using OECD Frascati definitions. (See *Defence Statistics Bulletin No. 6*). The estimates in **Table 1.4** will include items which fall outside these definitions but nonetheless broadly relate to the wider definition of MOD equipment expenditure as described in the commentary above.

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Table 1.5 MOD Resources by Budgetary Areas¹

This table provides a detailed breakdown of resource consumption by budgetary area for 2003/04 through to 2007/08. Under Spending Review 2002 rules, figures for financial years 2003/04 onward include non-cash items such as depreciation and cost of capital charge that previously were part of Annually Managed Expenditure (AME).

The revisions in Resource DEL and Capital DEL for the earlier years are due to 'Non Allocated' amounts being subsequently attributed to the correct TLB.

From 2007/08, changes to the MOD Top Level Budget (TLB) structure have been reflected in the figures and highlighted at footnotes 2-5.

This table includes expenditure on Conflict Prevention (RfR2).

RAB Stage 2

Inclusive of non-recoverable VAT at Current Prices (£ million)

	Outturn 2003/04	Outturn 2004/05	Outturn 2005/06	Outturn 2006/07	Outturn 2007/08
Departmental Expenditure Limits (DEL)	37 174	38 323	39 751	40 654	43 654
Request for Resources 1: PROVISION OF DEFENCE CAPABILITY	35 681	37 211	38 484	38 858	40 622
Resource DEL	30 033	30 860	31 855	32 009	33 513
<i>of which:</i>					
Commander-in-Chief Fleet ²	3 242	3 569	3 548	2 148	2 185
General Officer Commanding (Northern Ireland)	649	626	580	389	*
Commander-in-Chief Land Command ³	5 079	5 341	5 632	4 322	6 495
Air Officer Commanding-in-Chief RAF Strike Command	3 385	3 503	4 043	1 924	*
Commander-in-Chief Air Command ⁴	*	*	*	*	2 635
Chief of Joint Operations	524	493	570	391	475
Chief Defence Logistics ⁵	7 758 ^r	7 452	7 588 ^r	12 788	*
Defence Equipment & Support ⁶	*	*	*	*	16 236
2nd Sea Lord/Commander-in-Chief Naval Home Command	693	763	778	*	*
Adjutant General (Personnel and Training Command) ⁵	1 743 ^r	1 778	1 924	1 576	*
Air Officer Commanding-in-Chief RAF Personnel and Training Command Central ⁵	995	1 125	904	762	*
Defence Estates ⁷	2 695	3 136 ^r	2 458	2 172	2 317
Defence Procurement Agency ⁵	*	*	1 056	2 692	2 628
Science Innovation Technology	2 850 ^r	2 568	2 272	2 321 ^r	*
Capital DEL	5 648	6 351	6 629	6 849	7 109
<i>of which:</i>					
Commander-in-Chief Fleet ²	37	17	7	14	29
General Officer Commanding (Northern Ireland)	43	28	4	2	*
Commander-in-Chief Land Command ³	21	153	47	75	123
Air Officer Commanding-in-Chief RAF Strike Command	40	27	10	7	*
Commander-in-Chief Air Command ⁴	*	*	*	*	13
Chief of Joint Operations	22	24	19	4	34
Chief Defence Logistics	1 210	1 121	1 045	1 243	*
Defence Equipment & Support ⁶	*	*	*	*	6 661
2nd Sea Lord/Commander-in-Chief Naval Home Command	28	23	11	*	*
Adjutant General (Personnel and Training Command)	41	26	17	15	*
Air Officer Commanding-in-Chief RAF Personnel and Training Command Central	18	24	13	11	*
Defence Estates ⁷	- 96	322	- 44	44	41
Defence Procurement Agency ⁵	*	*	274	140	208
Science Innovation Technology	4 284 ^r	4 586	5 226 ^r	5 294 ^r	*
Request for Resources 2: CONFLICT PREVENTION (not broken down by Top Level Budget)	1 493	1 112	1 266^r	1 796^r	3 032
Resource DEL	1 233	938	1 055^r	1 448	2 196
Capital DEL	260	174	211	348	836
Annually Managed Expenditure (AME)	1 011	908	890	582	510
Request for Resources 1: PROVISION OF DEFENCE CAPABILITY^{8,9}	- 105	- 202	- 177	- 456^r	-504
Request for Resources 2: CONFLICT PREVENTION	*	*	*	*	*
Request for Resources 3: WAR PENSIONS & ALLOWANCES, etc	1 116	1 110	1 067	1 038^r	1 014

Source: MOD Directorate of Performance and Analysis

1. Full TLB definitions are available in the **Glossary** at the back of this publication.

2. C-in-C Fleet TLB includes the former 2nd Sea Lord/C-in-C Naval Home Command TLB from 2006/07.

3. Land Command includes the former Adjutant General (Personnel and Training Command).

4. Air Command is an amalgamation of 'Air Officer Commanding in Chief RAF Personnel and Training Command' and 'RAF Strike Command'.

5. Revisions within RDEL and CDEL for the years 2003/04 to 2006/07 are caused by the attributions of costs previously classed as 'Not Allocated'. Totals for 2006/07 have been adjusted for consistency to the MOD Annual Report and Accounts.

6. Defence Equipment & Support was created from the amalgamation of the 'Defence Logistic Organisation' and 'Defence Procurement Agency'.

7. The 'Defence Estates' TLB was formed on 1 April 2005. This was formerly part of 'Central' TLB. There is no historic data for this new TLB.

8. AME for 2003/04 onwards includes accounting charges relating to nuclear decommissioning, loan interest and cost of capital charges for self financing public corporations. The negative AME figures arise from the cash release from the nuclear decommissioning provision and the cost of capital charge calculated on a net balance sheet liability (as opposed to net assets).

9. A breakdown of AME (RfR1) figures by TLB can be viewed in the online version of UKDS.

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Table 1.6 MOD Resources by Departmental Aims & Objectives

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The MOD's aim is to "deliver security for the people of the United Kingdom and the Overseas Territories by defending them, including against terrorism, and act as a force for good by strengthening international peace and security". This aim and three supporting objectives are set out in the MOD's Public Service Agreement for the years 2005 to 2008. The costs of meeting these objectives, and their enabling outputs set out below, are reported in the MOD Annual Report and Accounts. The outputs are defined more fully in Note 24 to the Accounts. Figures are net of receipts and are not comparable with those presented in Tables 1.1, 1.3 and 1.5, for example, due to the treatment of MOD Trading Funds. The Total Defence Output Cost is consistent with the net operating cost figure (excluding the payments of War Pensions and Benefits) in the statement of Operating Costs by Departmental Aim and Objectives of the MOD Annual Report & Accounts.

The sum of Resource DEL and "Other AME", which may be derived from Table 1.5, closely aligns with the total of these net operating costs. The figures do not exactly match because certain categories of MOD's interest payments and grants and other non budgetary costs are specified by HM Treasury to be outside the scope of the MOD's Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). Totals for 2006/07 have been adjusted for consistency to the MOD Annual Report and Accounts.

Operating costs include resource charges for capital assets through depreciation and cost of capital charges.

Inclusive of non-recoverable VAT at Current Prices (£ million)

	Outturn 2003/04	Outturn 2004/05	Outturn 2005/06 ¹	Outturn 2006/07 ²	Outturn 2007/08 ³
Total Defence Output Cost	33 415	31 222	33 325	32 911 ^r	35 209
OBJECTIVE 1: Achieving success in the tasks we undertake	3 481	3 390	3 564	3 711	4 050
Operations	1 233	938	1 040	1 443	2 196
Other Military Tasks	1 659	1 764	1 698	1 525	1 086
Contributing to the Community	360	395	494	397	460
Helping to Build a Safer World	229	293	332	346	309
OBJECTIVE 2: Being ready to respond to the tasks that might arise⁴	26 777	24 934	26 601	26 292	28 320
Royal Navy	9 990	7 310	7 942	7 037	7 586
Aircraft Carriers	293	347	354	339	377
Frigates & Destroyers	1 709	1 548	1 355	1 619	1 491
Smaller Warships	284	486	413	390	360
Amphibious Ships	339	340	290	339	414
Strategic Sealift	3	38	41	46	34
Fleet Support Ships	348	408	344	366	304
Survey & Other Vessels	157	102	72	94	153
Naval Aircraft	1 393	1 193	1 139	1 083	1 123
Submarines	4 862	2 307	3 393	2 204	2 783
Royal Marines	604	540	540	557	548
Army	8 723	9 252	10 479	10 706	11 261
Field Units	6 372	7 517	8 492	8 822	9 671
Other Units	2 350	1 736	1 987	1 884	1 590
Royal Air Force	7 002	6 825	6 848	6 987	7 573
Combat Aircraft ⁵	4 519	4 577	4 125	3 692	4 193
Intelligence, Surveillance, Target Acquisition and Reconnaissance Aircraft (ISTAR) ⁶	350	489	606	613	899
Tankers, Transport and Communications Aircraft	1 040	1 028	1 247	1 211	1 025
Future Capability	339	15	20	44	86
Other Aircraft and RAF Units	753	716	850	1 427	1 371
Centre Grouping	1 063	1 547	1 332	1 562	1 899
Joint and Multinational Operations	148	523	474	425	761
Centrally Managed Military Support	236	289	400	367	606
Maintenance of War Reserve Stocks	679	734	458	770	532
OBJECTIVE 3: Building for the future	3 156	2 899	3 160	2 907	2 838
Research & Expensed Development	1 007	996	1 041	1 026	974
Equipment Programme	2 149	1 903	2 119	1 881	1 865

Source: MOD Annual Report & Accounts

1. The increased Total Defence Output Cost figure for 2005/06 reflects: an increased cost incurred following the change in discount rate, from 3.5% to 2.2%, applied to the Department's provisions for nuclear decommissioning of £1.1 billion; and movements in other operating costs, including staff, impairments, and depreciation as a result of the Quinquennial review of fixed assets of £1.4 billion offset by receipts from the sale of QinetiQ shares.

2. With effect from April 2006, intangible and tangible fixed assets were transferred from Top Level Budgets (TLBs) to Single Balance Sheet Owners (SBSOs). The related operating costs (e.g. depreciation and cost of capital charge) have been apportioned to outputs by the SBSOs using the percentage of costs attributed to the Management Grouping in 2005/06 as a basis for the apportionment. Where Front Line TLBs had previously allocated some asset costs directly to final outputs, the methodology used in 2006/07 has resulted in some variances in costs attributed to final outputs from those reported in 2005/06. Restructuring within RAF Strike Command resulted in a more accurate alignment of costs to outputs.

3. A working group, consisting of all TLBs and the SBSOs, was set up in 2007/08 to review the apportionment methods used. The aim was to improve consistency in the costing of final outputs; some of the variances between 2006/07 and 2007/08 are as a result of changes agreed by the group. The increase in Total Defence Output is as a result of: Operational costs due to continuing commitments in Iraq and Afghanistan £0.75Billion and costs in respect of Typhoon £0.5Billion, Apache helicopters £0.3Billion and increases to provisions in respect of nuclear decommissioning £0.5 Billion.

4. The costs of delivering the military capability to meet Objective 2 are analysed among force elements of the front line commands, including joint force units where these have been established, and a small number of centrally managed military support activities. In addition to the direct operating costs of the front line units, they include the attributed costs of logistical and personnel support. In common with all Objectives, these also contain a share of the costs of advising ministers and accountability to Parliament, and apportioned overheads for head office functions and centrally provided services.

5. Combines former titles of Strike/Attack and Offensive Support Aircraft and Defensive and Surveillance Aircraft.

6. Formerly Reconnaissance and Maritime Patrol Aircraft.

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Table 1.7 MOD Fixed Assets: 2007/08¹

This table gives a detailed breakdown of the **net book value** of the MOD's Fixed Assets by category and budgetary area. The MOD is one of the largest owners of fixed assets in the United Kingdom. The stewardship and efficient management of the Department's assets are the responsibility of Top Level Budget (TLB) Holders. MOD Fixed Assets are formally revalued on a five-yearly basis, but are uplifted annually using indexation. This table has been modified to reflect revised asset categories. Fighting Equipment has been replaced by Single Use Military Equipment (SUME), Plant, Machinery and Vehicles has been replaced with two categories; Plant and Machinery and Transport, and the category of capital spares has been removed and incorporated into SUME and Transport.

The values contained in the table are at 31 March 2008. The valuation method complies with financial reporting standards with values being on an existing use basis and not market value at disposal. Overseas estates for which the Crown holds no legal title, but which are used for garrison and training purposes by British Forces are included in the MOD Fixed Assets Register. UK bases occupied by visiting forces are also included.

From 2006-07 the creation of Single balance sheet owners has meant that most classes of assets are now accounted for by one TLB. This accounts for changes since UKDS 2007.

Current Prices (£ million)

	Tangible Fixed Assets							Intangible Assets	Investments	Total Assets
	Land & Buildings	Plant & Machinery	Transport	IT & Comms Equipment	SUME ²	AUC ³ SUME	AUC ³ Other			
Top Level Budget⁴ Total	19 774	1 753	4 611	1 059	35 767	11 141	3 826	26 692	497	105 120
Commander-in-Chief Fleet ⁵	-	1	1	4	-	-	41	-	-	47
General Officer Commanding (Northern Ireland)	-	-	2	-	-	-	-	-	-	2
Commander-in-Chief Land Command	18	-	3	5	4	-	141	-	-	171
Commander-in-Chief Air Command ⁶	-	-	-	1	-	-	31	-	-	32
Chief of Joint Operations	24	3	3	2	-	1	45	9	-	87
Defence Equipment & Support ⁷	46	1 746	4 600	1 045	35 763	11 140	2 374	26 683	-	83 398
Central	-	2	1	2	-	-	82	-	497	583
Defence Estates	19 686	1	1	-	-	-	1 112	-	-	20 800

Source: MOD Directorate of Performance and Analysis

1. Figures provided as at 31 March 2008 are taken from MOD Fixed Assets Register. Figures relate to the net book value of the MOD fixed assets. The net value of an asset is equal to its original cost (its book value) minus depreciation and amortisation costs.
2. SUME refers to Single Use Military Equipment.
3. AUC refers to Assets Under Construction.
4. The reason for the relatively small amounts in TLBs is due to the Fixed Assets not having been transferred to the single balance sheet holder mainly because the TLBs cannot agree on the asset value or there are other difficulties over the paperwork. If the system works well they should reduce to zero.
5. C-in-C Fleet TLB includes the former 2nd Sea Lord/C-in-C Naval Home Command TLB from 2006/07.
6. Air Command is an amalgamation of 'Air Officer Commanding in Chief RAF Personnel and Training Command' and 'RAF Strike Command'.
7. Defence Equipment & Support was created from the amalgamation of the 'Defence Logistic Organisation' and 'Defence Procurement Agency'.

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Table 1.8 MOD Research & Development Expenditure Outturn

This table details the MOD's annual expenditure on Research and Development (R&D) activity. Expenditure is broken down into intramural (i.e. R&D activity undertaken within the Department) and extramural (i.e. R&D activity undertaken outside of the Department). The data included in this table are derived from an annual survey of MOD R&D expenditure conducted by DASA and information from MOD accounting systems. DASA seek to classify R&D activity within the Organisation for Economic Co-operation & Development's Frascati Guidelines which align to National Accounts definitions.

Following a recent data quality review, the MOD development estimates for 2003/4 to 2005/6 have been revised downwards. We have also sought to publish estimates for 2006-07 for the first time. Estimates for 2007-08 will appear in UKDS 2009 at the end of September 2009. The MOD research expenditure estimates remain unaffected by these revisions. For the years 2001-02 and 2002-03 MOD net development expenditure, as defined by Frascati, may have been overstated by up to 40% per year, but insufficient records exist to enable a true estimate to be made. **We therefore advise that the data for these years be treated with caution as we cannot guarantee that the data complies with the Frascati guidelines and meets all of the high professional assurance standards set out in the Code of Practice for Official Statistics.**

Full details highlighting the deficiencies in the estimates for 2001-02 and 2002-03, the revisions to later years and our future plans to improve these statistics are published in DASA Defence Statistics Bulletin No.9 which is available on the DASA website.

Research & Development	1990/91	1997/98	Inclusive of non-recoverable VAT at Current Prices (£ million)					
			2001/02 ^{1,2}	2002/03	2003/04	2004/05	2005/06	2006/07
Total Gross Expenditure on R&D	2 453	2 371	2 117	2 790	2 200 r	2 260 r	2 318 r	2 212
<i>Of which:</i>								
Intramural	902	750	419	288	380	357	365	361
Extramural	1 551	1 622	1 698	2 502	1 820 r	1 903 r	1 953 r	1 851.
Receipts ³	116	57	60	56	68	69	75	88
<i>Of which used:</i>								
Intramurally	53	39	44	46	59	61	74	81
Extramurally	63	18	16	10	9	8	1	7
Total Net Expenditure on R&D	2 337	2 314	2 057	2 734	2 133 r	2 191 r	2 243 r	2 124

Research	1990/91	1997/98	Inclusive of non-recoverable VAT at Current Prices (£ million)					
			2001/02 ^{1,2}	2002/03	2003/04	2004/05	2005/06	2006/07
Total Gross Expenditure on Research	..	577	616	524	548	664	626	664
<i>Of which:</i>								
Intramural	..	325	229	145	164	190	171	179
Extramural	..	251	388	379	384	474	455	485
Receipts ³	..	13	60	9	24	26	28	32
<i>Of which used:</i>								
Intramurally	..	12	44	9	23	25	27	31
Extramurally	..	2	16	-	1	1	1	1
Total Net Expenditure on Research	412	564	557	515	524	639	598	632

Development	1990/91	1997/98	Inclusive of non-recoverable VAT at Current Prices (£ million)					
			2001/02 ^{1,2}	2002/03	2003/04	2004/05	2005/06	2006/07
Total Gross Expenditure on Development	..	1 794	1 500	2 266	1 652 r	1 596 r	1 693 r	1 548
<i>Of which:</i>								
Intramural	..	424	190	143	216	167	194	182
Extramural	..	1 370	1 311	2 123	1 436 r	1 429 r	1 499 r	1 366
Receipts ³	..	44	-	48	44	43	47	56
<i>Of which used:</i>								
Intramurally	..	28	-	38	35	36	47	49
Extramurally	..	16	-	10	8	8	-	7
Total Net Expenditure on Development	1 926	1 750	1 500	2 218	1 609 r	1 552 r	1 645 r	1 492

Source: DASA (Economic Statistics)

1. Since 2000/01 the Departmental Resource Accounts (DRAc) follow Statement of Standard Accounting Practice 13, "Accounting for Research and Development". Since 2000/01 the figures are calculated on a resource basis, and are consistent with the aggregate of Research & Expensed Development plus Additions to Intangible Assets. Following this year's quality review, figures from 2003-4 onwards continue to be consistent with the aggregate of Research & Expensed Development but comprise only that element of Additions to Intangible Assets (taken to represent capitalised development) which has been assessed as Frascati compliant. This table therefore comprises elements from both the Operating Cost Statement and the Balance Sheet in the MOD accounts.
2. On 1 July 2001 DERA was split into two organisations: the Defence Science & Technology Laboratory (Dstl) (about a quarter of DERA) staying as a Trading Fund within MOD, and QinetiQ, the remainder, becoming a private (extramural) company.
3. Receipts are monies received by MOD & its Trading Funds for expenditure on R&D, for example from other government departments & private industry. This money is not necessarily spent on defence-related R&D.
4. Access to project level data for the first time has enabled us to more closely align with the OECD definitions and remove activities which do not strictly comply to these. Non-Frascati expenditure during this period represented an average of 20% per year of the annual estimate of aggregate MOD net development spend.

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INDUSTRY & EMPLOYMENT

This section provides data on the impact of MOD's spending on equipment and services in the UK. **Table 1.9** details the estimated amount of money that the MOD spent with UK industry broken down by industrial group from the cash accounts. **Table 1.9a** provides data for 2002/03 onwards against slightly different industry groupings due to the introduction of Resource Accounting and Budgeting. These numbers have been derived from administrative systems which use Resource Account Codes. The industrial groupings are based on the UK Standard Industrial Classification (SIC) 1992 and 2003 maintained by the Office for National Statistics (ONS). **Table 1.10** provides estimates of UK employment dependent on MOD expenditure and defence exports. **Tables 1.11, 1.11a & 1.11b** provide estimates of the number of direct full time jobs in the Government Office Regions of England, Scotland, Wales, Northern Ireland and the UK as a whole, supported in industry and commerce by MOD direct expenditure. **Table 1.12** details MOD payments on PFI projects during 2007/08 whilst **Table 1.12a** lists those PFI projects which have planned unitary charge payments of over £25 million in 2008/09.

Main Findings

Expenditure by Industry Group (Table 1.9a)

- In 2006/07, the MOD spent some £16.5 billion with UK Industry. The 'manufacturing' industries (section D) attracted nearly 50% of MOD expenditure with UK Industry. The single industry group attracting most MOD expenditure was Aircraft and Spacecraft (around 12% of the total).

Defence Related Employment (Table 1.10 & 1.11)

- Estimated employment in UK industry and commerce dependent on MOD expenditure and defence exports has fallen slightly from last year to around 305,000.
- Regional employment directly dependent on MOD expenditure is concentrated in the South East (38,000 jobs) and the South West (37,000 jobs). Scotland, Wales and Northern Ireland account for just 11,000 jobs (7%).

MOD PFI Projects (Table 1.12)

- The PFI projects against which the highest payments were made in 2007/08 were Allenby/Connaught, Attack Helicopters Training Service - Apache, Colchester Garrison, Defence Fixed Telecommunications Service (DFTS), Main Building Redevelopment (MBR), Skynet 5 and the Tri-Service White Fleet.

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INDUSTRY & EMPLOYMENT

Table 1.9 Estimated Defence Expenditure Outturn in the UK: Breakdown by Industry Group

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This table, which has been prepared from the MOD's Cash Ledger, details the amount of money the MOD spent with UK industry broken down by industrial group. Figures therefore, exclude 'internal' MOD expenditure such as pay and allowances. Industrial groupings are derived from the Standard Industrial Classification (SIC) guidelines maintained by the Office for National Statistics. From 1996/97 onwards, figures are based on Standard Industrial Classification 1992 - SIC(92). Prior to this, figures are based on SIC(80). The creation of QinetiQ PLC from part of the MOD's Defence Evaluation and Research Agency (DERA) in July 2001 provides a discontinuity in 2001/02 compared to earlier years. The figures have been rounded to the nearest £10M. Differences between the totals and sums of the components are caused by this rounding. This table has been reproduced again this year to provide continuity with the time series data presented in **Table 1.9a**.

SIC(92) Group			VAT exclusive at Current Prices (£ million)					
	1990/91	1995/96	1997/98	1998/99	1999/00	2000/01	2001/02	
Total		8 870	10 030	11 200	12 170	11 480	12 060	12 760
Solid Fuels	10	10	10	-	-	-	-	-
Petroleum Products	23.2	390	290	300	230	240	340	370
Gas, Electricity and Water Supply	40-41	250	230	270	260	250	230	210
Metals	27,28	*	80	140	180	200	200	180
Chemicals	24	*	60	40	50	40	60	60
Other Mechanical and Marine Engineering	29.1-29.5	800	240	370	270	220	210	220
Weapons & Ammunition	29.6	750	400	750	880	830	790	690
Data Processing Equipment	30	280	640	80	180	120	140	180
Other Electrical Engineering	31	170	270	180	250	210	190	180
Electronics & Precision Instruments	32,33	1 810	1 090	1 320	1 400	950	1 000	1 110
Motor Vehicles and Parts	34, 35.2, 35.4, 35.5	320	480	280	390	330	180	170
Shipbuilding and Repairing	35.1	780	770	790	1 180	1 090	1 100	1 230
Aircraft and Spacecraft	35.3	2 130	2 060	2 360	2 220	2 240	2 390	2 540
Food	15	160	120	110	120	120	120	140
Textiles, Leather Goods and Clothing	17,18,19	140	110	130	130	140	120	120
Office Furniture	36.1	*	70	110	60	60	60	70
Stationery	21,22	*	120	30	40	30	40	40
Construction	45	*	1 280	1 060	1 070	1 040	1 070	1 100
Postage	64.1	*	10	20	20	40	40	40
Telecommunications	64.2	*	120	180	290	260	210	320
Other Production Industries ¹	nes ³	370	270	900	1 080	1 140	1 440	1 520
Other Industries and Services ²	nes ³	510	1 300	1 770	1 860	1 940	2 140	2 280

Source: DASA (Economic Statistics)

1. This category includes expenditure on equipment in other manufacturing industries, as well as the business and administration, education and training and operational support sectors.
2. This category includes expenditure on services in the business and administration, education and training and operational support sectors. It also includes expenditure on road and rail transport and freight.
3. Not elsewhere specified.

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INDUSTRY & EMPLOYMENT

Table 1.9a Estimated Defence Expenditure Outturn in the UK: Breakdown by Industry Group

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This table, which has been prepared from MOD administrative systems introduced under Resource Accounting and Budgeting (RAB), estimates the amount of money the MOD spends directly with UK industry broken down by industrial group. The RAB breakdowns do not permit the analysis that was undertaken previously. The break in series has, however, permitted the table to show all the sections of the economy that are represented in the Standard Industrial Classification (SIC). Figures exclude 'internal' MOD expenditure such as pay and allowances. Industrial groupings are based on the SIC 1992 guidelines maintained by the Office for National Statistics. The figures have been rounded to the nearest £10M. **Differences between the totals and sums of the components are caused by this rounding.**

SIC(92)/SIC(03) Section		VAT exclusive at Current Prices (£ million)				
		2002/03 ¹	2003/04	2004/05	2005/06	2006/07
Total		13 810	14 640	14 490	16 030	16 490
A, B, C	Agriculture, Fishing and Mining	-	-	-	-	-
D	Manufacturing, excluding those industries itemised below	1 470	1 470	1 350	1 740	1 640
	29.6 Weapons & Ammunition	790	740	820	1 030	1 080
	30 Data Processing Equipment	170	180	110	70	50
	31 Other Electrical Engineering	170	180	150	180	200
	32 Electronics	640	600	910	1 160	1 000
	33 Precision Instruments	810	760	690	750	600
	34, 35.2, 35.4, 35.5 Motor Vehicles & Parts	130	170	220	330	300
	35.1 Shipbuilding & Repairing	1 070	1 160	1 060	1 100	1 150
	35.3 Aircraft & Spacecraft	2 380	2 050	1 810	1 730	1 960
E	Electricity, Gas & Water	190	210	230	260	280
F	Construction	990	1 190	1 230	1 310	1 380
G	Wholesale, Retail & Repair of Motor Vehicles	170	180	160	180	230
H, I ²	55 Hotels & Restaurants	200	210	200	250	230
	60.1 Transport via railways	80	70	60	70	70
	60.2,60.3 Other Land Transport (incl. via pipelines)	70	70	20	30	20
	61,62,63 Water, Air and Auxiliary/freight supply transportation	420	490	380	370	450
	64 Post & Courier Services	10	10	10	10	10
	64.2 Telecommunications	320	530	310	300	330
J, K, L, M, N, O, P	Financial Services, Business Activities, Education, Health, & Other Service Activities excluding those industries itemised below ^{3 4}	2 150	2 590	2 750	2 800	2 880
	70, 71 Real Estate & Renting	950	1 000	1 230	1 460	1 500
	72 Computer Services	640	800	790	930	1 110

Source: DASA (Economic Statistics)

1. The break in series between 2002/03 and 2003/04 reflects the fact that for 2002/03 the Defence Bills Agency data was still based on Internal Account Codes (used under the old cash system), and was migrated to Resource Accounting Codes one year later than the accounting systems, on 1 April 2003.
2. The "Hotels, Restaurants and Transportation" category previously published in UKDS has been expanded this year to include a more detailed breakdown of the H and I divisions of the Standard Industrial Classification. This allows for a greater disaggregation of expenditure on transportation related activities such as auxiliary and freight supply transport.
3. Includes MOD payments to AWE Management Ltd, who manage the Atomic Weapons Establishment on behalf of the MOD under a Government-owned/contractor-operated arrangement.
4. The quality of data available for the service industries is insufficient to identify these SICs separately.

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Table 1.10 Estimated UK Employment Dependent on MOD Expenditure and Defence Exports

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This table provides estimates of the number of full-time jobs supported in the UK by MOD expenditure and defence exports. The methodology is described in *Defence Statistics Bulletin No.5*, available on the DASA website. "Direct" employment is that generated in those companies providing the product or service directly to MOD, or that within the exporter. "Indirect" employment is that provided through "the supply chain" by sub-contractors or suppliers to the "direct" contractor. The figures reflect average full time equivalent in year. The figures exclude MOD service and civilian personnel, and are shown rounded to the nearest five thousand. **Differences between the totals and sums of the components are caused by this rounding.**

From 2002/03 onwards the numbers have been calculated using expenditure data derived from the MOD administrative systems that were introduced with Resource Accounting and Budgeting. The resulting changes to the methodology are described in *Addendum No 5a to Defence Statistics Bulletin*.

This table is outside the scope of National Statistics because the Defence exports data do not meet all of the high professional quality assurance standards set out in the National Statistics Code of Practice.

		Thousands						
		1997/98	2001/02 ³	2002/03	2003/04	2004/05	2005/06	2006/07
Total Employment¹		340	295 	305	315	310	310	305
Direct		160	155	165	170	170	165	160
Indirect		180	140	140	145	140	145	145
Employment from MOD Expenditure		230	235 	245	250	240	260	255
Direct		115	125	135	140	135	145 ^r	135
Indirect		115	110	110	110	105	120	115
Split by:								
Equipment Expenditure								
Direct		70	75	85	85	80	85	80
Indirect		75	65	75	70	70	75	75
Non-Equipment Expenditure								
Direct		50	55	50	55	55	60	55
Indirect		45	40	35	40	35	40	40
Employment from Defence Exports^{1 2 4}		110	60 	60	65	70	50	55
Direct		45	30	30	30	35	25	25
Indirect		65	30	30	30	35	30	30

Source: DASA (Economic Statistics)

1. The estimates of UK employment dependent on defence exports are based on estimates of those exports which are not of sufficient quality to be badged as National Statistics.
2. Figures calculated for "exports" are not derived directly from the financial figures for exports contained in **Table 1.14**. Adjustments are made for international collaborations, electronics and vehicle exports. Please refer to *Defence Statistics Bulletin No.5* for further discussion. In aggregate the adjustments to the total export figures were £114 million in 1997, £859 million in 1998, £499 million in 1999, £49 million in 2000, -£143 million in 2001, £74 million in 2002, £48 million in 2003, £115 million in 2004, -£134 million in 2005 and £22 million in 2006.
3. In July 2001, part of the Defence Evaluation & Research Agency (DERA) was established as QinetiQ plc. These employees are now included in the "direct" employment total.
4. The increase in employment dependent on defence exports in 2004/05 reflects an increase in defence export sales, orders and deliveries identified predominantly in the aerospace, electronics and shipbuilding sectors during 2004. The methodology used to derive the defence export figures used to produce the employment estimates is described in *Defence Statistics Bulletin No.5*, available on the DASA website.

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Table 1.11 Estimated UK Regional Direct Employment Dependent on MOD Expenditure^{1,2}

Tables 1.11, 1.11a & 1.11b provide estimates of the number of direct full time jobs in the Government Office Regions of England, Scotland, Wales, Northern Ireland and the UK as a whole, supported in industry and commerce by MOD direct expenditure. Table 1.11a provides estimates of the number of direct jobs in UK industry and commerce dependent on direct MOD equipment expenditure. Table 1.11b provides estimates of the number of direct jobs in UK industry and commerce dependent on direct MOD non equipment expenditure. Direct employment is that generated in those companies providing the product or service to the MOD. Equipment expenditure covers those sums spent on producing equipment for the armed forces and goods for MOD, including expenditure on Research and Development, manufacture, and equipment support. Non equipment includes expenditure on items such as utilities (gas, water and electricity) and maintaining the defence estate.

The full methodology (which includes an assessment of the quality of the underlying data used to produce these estimates) is described in *DASA Defence Statistics Bulletin No. 7*, available on the DASA website.

The figures exclude MOD service and civilian personnel. Total direct UK employment has been rounded to the nearest 5000 to align to the national employment estimates in Table 1.10, whilst individual regional totals are shown to the nearest 1000 full time equivalent. Differences between the totals and sums of the components are caused by this rounding. Regional percentage breakdowns are based on the unrounded UK figures.

The data in this table are outside the scope of National Statistics because they do not meet all of the high professional quality assurance standards set out in the National Statistics Code of Practice.

	Thousands					Percentage				
	2002/03	2003/04 ³	2004/05 ³	2005/06 ⁴	2006/07	2002/03	2003/04	2004/05	2005/06	2006/07
United Kingdom	135	140	135	145^r	135	100%	100%	100%	100%	100%
England	118	126^r	123^r	130^r	126	89%	89%	90%^r	91%	92%
East of England	13	12	10	11	8	10%	9%	7%	8%	6%
East Midlands	3	3	3	5	4	2%	2%	2%	3%	3%
London	10	10	13	9	9	8%	7%	10%	6%	7%
North East	2	3	2	2	3	2%	2%	1%	2%	2%
North West	14	17	15	15	17	11%	12%	11%	10% ^r	13%
South East	36	36	37	41 ^r	38	27%	26%	27%	29% ^r	28%
South West	30	35	35	37	37	23%	25%	26%	26%	27%
West Midlands	6	6	5	5	7	5%	4%	4%	4%	5%
Yorkshire & Humber	4	4	3	4	4	3%	3%	2%	3%	3%
Scotland	10	10	9	9	7	8%	7%	7%	6%	5%
Wales	2	3	2	2	2	2%	2%	1%	1%	1%
Northern Ireland	2	2	2	2	2	2%	1%	1%	1%	1%

Source: DASA(Economic Statistics)

- Using the average UK turnover per full time equivalent may neglect potential differences in regional turnover per head. However, regional turnover per head at the level of SIC used in the employment estimates is not currently available from the ONS: the employment estimates for a number of industries/ products use 3 digit SIC level data, and the ONS only publish (limited) regional data derived from the Annual Business Inquiry (ABI) data at 2 digit level. The impact of using national employment averages is not likely to produce a significantly different output than if regional employment averages were available.
- Estimates have been provided from 2002-03 onwards to reflect the available expenditure data derived from the MOD administrative systems that were introduced with Resource Accounting and Budgeting.
- The revisions prior to 2005-06 are due to the correction of some very minor rounding anomalies.
- The revisions to the regional employment numbers for 2005-06 reflect updated information relating to industry turnover from the Office for National Statistics which only became available after the publication of UKDS 2007. This in turn has resulted in very minor adjustments to the percentage breakdowns.

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Table 1.11a Estimated UK Regional Direct Employment Dependent on MOD Equipment Expenditure^{1,2}

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Tables 1.11, 1.11a & 1.11b provide estimates of the number of direct full time jobs in the Government Office Regions of England, Scotland, Wales, Northern Ireland and the UK as a whole, supported in industry and commerce by MOD direct expenditure. **Table 1.11a** provides estimates of the number of direct jobs in UK industry and commerce dependent on direct MOD equipment expenditure. **Table 1.11b** provides estimates of the number of direct jobs in UK industry and commerce dependent on direct MOD non equipment expenditure. Direct employment is that generated in those companies providing the product or service to the MOD. Equipment expenditure covers those sums spent on producing equipment for the armed forces and goods for MOD, including expenditure on Research and Development, manufacture, and equipment support. Non equipment includes expenditure on items such as utilities (gas, water and electricity) and maintaining the defence estate.

The full methodology (which includes an assessment of the quality of the underlying data used to produce these estimates) is described in *DASA Defence Statistics Bulletin No.7*, available on the DASA website.

The figures exclude MOD service and civilian personnel. Total direct UK employment has been rounded to the nearest 5000 to align to the national employment estimates in **Table 1.10**, whilst individual regional totals are shown to the nearest 1000 full time equivalent. **Differences between the totals and sums of the components are caused by this rounding. Regional percentage breakdowns are based on the unrounded UK figures.**

The data in this table are outside the scope of National Statistics because they do not meet all of the high professional quality assurance standards set out in the National Statistics Code of Practice.

	Thousands					Percentage				
	2002/03	2003/04	2004/05	2005/06	2006/07	2002/03	2003/04	2004/05	2005/06 ⁴	2006/07
United Kingdom	85	85	80	85	80	100%	100%	100%	100%	100%
England	74	74	73	78	76	89%	89%	90%	93%	93%
East of England	9	7	6	6	5	11%	8%	7%	7%	7%
East Midlands	2	2	2	3	3	2%	2%	2%	3%	4%
London	3	2	3	3	2	4%	2%	4%	3%	3%
North East	2	3	2	2	1	2%	4%	2%	2%	2%
North West	13	15	14	14	15	16%	18%	17%	16%	18%
South East	21	20	21	24	21	25%	24%	26%	29%	26%
South West	19	20	21	22	23	23%	24%	26%	26%	28%
West Midlands	4	4	3	4	4	5%	5%	4%	5% ^r	5%
Yorkshire & Humber	1	1	1	1	1	1%	1%	1%	1%	2%
Scotland	7	7	6	5	4	8%	8%	7%	6%	5%
Wales	1	1	1	1	1	1%	1%	1%	1%	1%
Northern Ireland	1	1	1	-	-	1%	1%	1%	- ^r	-

Source: DASA(Economic Statistics)

- Using the average UK turnover per full time equivalent may neglect potential differences in regional turnover per head. However, regional turnover per head at the level of SIC used in the employment estimates is not currently available from the ONS: the employment estimates for a number of industries/ products use 3 digit SIC level data, and the ONS only publish (limited) regional data derived from the Annual Business Inquiry (ABI) data at 2 digit level. The impact of using national employment averages is not likely to produce a significantly different output than if regional employment averages were available.
- Estimates have been provided from 2002-03 onwards to reflect the available expenditure data derived from the MOD administrative systems that were introduced with Resource Accounting and Budgeting.
- The revisions to the regional employment numbers for 2005-06 reflect updated information relating to industry turnover from the Office for National Statistics which only became available after the publication of UKDS 2007. This in turn has resulted in very minor adjustments to the percentage breakdowns.

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Table 1.11b Estimated UK Regional Direct Employment Dependent on MOD Non Equipment Expenditure^{1,2}

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Tables 1.11, 1.11a & 1.11b provide estimates of the number of direct full time jobs in the Government Office Regions of England, Scotland, Wales, Northern Ireland and the UK as a whole, supported in industry and commerce by MOD direct expenditure. Table 1.11a provides estimates of the number of direct jobs in UK industry and commerce dependent on direct MOD equipment expenditure. Table 1.11b provides estimates of the number of direct jobs in UK industry and commerce dependent on direct MOD non equipment expenditure. Direct employment is that generated in those companies providing the product or service to the MOD. Equipment expenditure covers those sums spent on producing equipment for the armed forces and goods for MOD, including expenditure on Research and Development, manufacture, and equipment support. Non equipment includes expenditure on items such as utilities (gas, water and electricity) and maintaining the defence estate.

The full methodology (which includes an assessment of the quality of the underlying data used to produce these estimates) is described in *DASA Defence Statistics Bulletin No.7*, available on the DASA website.

The figures exclude MOD service and civilian personnel. Total direct UK employment has been rounded to the nearest 5000 to align to the national employment estimates in Table 1.10, whilst individual regional totals are shown to the nearest 1000 full time equivalent. **Differences between the totals and sums of the components are caused by this rounding. Regional percentage breakdowns are based on the unrounded UK figures.**

The data in this table are outside the scope of National Statistics because they do not meet all of the high professional quality assurance standards set out in the National Statistics Code of Practice.

	Thousands					Percentage				
	2002/03	2003/04	2004/05	2005/06 ⁴	2006/07	2002/03	2003/04 ³	2004/05 ³	2005/06 ⁴	2006/07
United Kingdom	50	55	55	60^r	55	100%	100%	100%	100%	100%
England	44	51	51	52	51	90%	90%^r	91%^r	90%^r	91%
East of England	4	5	4	6	3	8%	9%	7%	10%	5%
East Midlands	1	1	1	2	1	2%	2%	2%	3% ^r	2%
London	7	8	10	6	7	14%	14%	18%	10% ^r	12%
North East	-	-	-	-	1	-	-	-	- ^r	2%
North West	1	2	1	1	3	2%	3%	2%	2%	5%
South East	15	16	16	17 ^r	16	31%	28%	29%	29% ^r	29%
South West	11	15	14	15	15	22%	26%	25%	26%	26%
West Midlands	2	2	2	2	3	4%	3%	4%	3%	6%
Yorkshire & Humber	3	3	2	3	2	6%	5%	4%	5%	4%
Scotland	3	3	3	4	3	6%	5%	5%	7%	5%
Wales	1	2	1	1	1	2%	3%	2%	2%	2%
Northern Ireland	1	1	1	1	1	2%	2%	2%	2%	2%

Source: DASA(Economic Statistics)

- Using the average UK turnover per full time equivalent may neglect potential differences in regional turnover per head. However, regional turnover per head at the level of SIC used in the employment estimates is not currently available from the ONS: the employment estimates for a number of industries/ products use 3 digit SIC level data, and the ONS only publish (limited) regional data derived from the Annual Business Inquiry (ABI) data at 2 digit level. The impact of using national employment averages is not likely to produce a significantly different output than if regional employment averages were available.
- Estimates have been provided from 2002-03 onwards to reflect the available expenditure data derived from the MOD administrative systems that were introduced with Resource Accounting and Budgeting.
- The revisions prior to 2005-06 are due to the correction of some very minor rounding anomalies.
- The revisions to the regional employment numbers for 2005-06 reflect updated information relating to industry turnover from the Office for National Statistics which only became available after the publication of UKDS 2007. This in turn has resulted in very minor adjustments to the percentage breakdowns.

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Table 1.12 MOD Payments on Private Finance Initiative (PFI) Projects: 2007/2008¹

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This table provides a listing of PFI commitments and payments made to each project by MOD during the financial year 2007/08. Values represent payments made in year against contracts relating to the project and **not the capital value**. It is based on the 'signed' projects from the PFI Project database as at 1 April 2008 and payments data drawn from the Financial Management Shared Service Centre (FMSSC). This table is split into payment groups and individual PFI projects are shown in **alphabetical order**. **Table 1.12a** shows PFI contracts where forecast payments of £25 million or over are due in 2008/09. More detailed information concerning through life planned Unitary charge payments for all currently signed PFI contracts, can be found via the HM Treasury website at: http://www.hm-treasury.gov.uk/documents/public_private_partnerships/ppp_pfi_stats.cfm.

VAT inclusive at Current Prices (£ million)

Over £50 million (7 Projects)	
Allenby/Connaught	Main Building Redevelopment (MBR)
Attack Helicopter Training Service - Apache	Skynet 5
Colchester Garrison	Tri-Service White Fleet
Defence Fixed Telecommunications Service (DFTS)	
£25 - £50 million (7 Projects)	
"C" Vehicles	MOD-Wide Water and Wastewater (Project Aquatrine) - Package C
Defence Housing Executive - Information Systems (DOMIS)	Roll-On/Roll-Off (RORO) Strategic Sealift
Joint Services Command and Staff College	Training Administration and Financial Management Information Systems (TAFMIS)
MOD-Wide Water and Wastewater (Project Aquatrine) - Package A	
£10 - £25 million (10 Projects)	
Army Foundation College (AFC)	Future Provision of Marine Services (FPMS) ²
ASTUTE Class Training Service (ACTS)	Heavy Equipment Transporters (HET)
Defence Sixth Form College (DSFC)	Medium Support Helicopter Aircrew Training Facility (MSHATF)
Devonport Support Services - ARMADA	Northwood Headquarters
Field Electrical Power Supplies (FEPS)	Tornado GR4 Synthetic Training Service (TSTS)
£5 - 10 million (8 Projects)	
Bristol, Bath and Portsmouth Family Quarters	Material Handling Equipment (MHE) - (Follow on)
Defence Animal Centre (DAC)	MOD-Wide Water and Wastewater (Project Aquatrine) - Package B
Fire Fighting Training Units (FFTU)	Tri-Service Materials Handling Service
Marine Support to Range and Aircrew Services	VLF Naval Communications Service ³
Up to £5 million (15 Projects)	
Central Scotland Family Quarters (HQ)	RAF Lossiemouth Family Quarters
Commercial Satellite Communication Service (INMARSAT) ⁴	RAF Lyneham Sewerage
Hawk Synthetic Training Service	RAF Mail
Hazardous Stores Information System (HSIS)	RAF Sentry E3D Aircrew Training
Lynx Aircrew Training	Tidworth Water & Sewerage (Thames Water)
Portsmouth Housing 2	Wattisham & Woodbridge Married Quarters
RAF Cosford/RAF Shawbury Family Quarters	Yeovilton Family Quarters
RAF Fylingdales (Power)	

Source: MOD Private Finance Unit & DASA (Economic Statistics)

1. Future Strategic Tanker Aircraft (FSTA) project started 2007/08 but no payments made in year.

2. New PFI project added this year.

3. Previously 'Royal Navy Fleet Communications'.

4. Commercial Satellite Communication Service (INMARSAT) contract has been novated to Paradigm, with whom management responsibility now rests.

Table 1.12a PFI Projects with Planned MOD Unitary Charge Payments^{1,2} over £25 million: 2008/09

VAT inclusive at Current Prices (£ million)

Over £50 million (7 Projects)	
Allenby/Connaught	Main Building Redevelopment (MBR)
Colchester Garrison	Skynet 5
Defence Fixed Telecommunications Service (DFTS)	Tri-Service White Fleet
Future Provision of Marine Services (FPMS)	
£25 - £50 million (6 Projects)	
Attack Helicopter Training Service - Apache	MOD-Wide Water and Wastewater (Project Aquatrine) - Package A
"C" Vehicles	MOD-Wide Water and Wastewater (Project Aquatrine) - Package C
Joint Services Command and Staff College	Roll-On/Roll-Off (RORO) Strategic Sealift

Source: MOD Private Finance Unit & DASA (Economic Statistics)

1. The Unitary Charge is the regular service payment made to the private sector partner for the provision of services and is calculated in accordance with the price and payment mechanism.

2. Planned expenditure may not be directly comparable to the actual spend reported in 2008/09 because unexpected additional works and services (albeit controlled and managed by agreed control procedures) may be incurred.

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TRADE

This section contains information on defence trade. This includes the estimated value of imports and exports of defence equipment, estimates of total export deliveries, orders of defence equipment and services and payments made for services consumed by MOD establishments overseas. **Table 1.13** presents the estimated value of defence equipment imports and exports split by commodity type and origin/destination. **Table 1.14** estimates total export deliveries and orders of defence equipment and services. **Table 1.15** presents the estimated value of MOD Balance of Payments for Trade in Services.

The estimate of total export deliveries is made up of 'identified defence equipment exports' and 'estimates of additional aerospace equipment and services'. Data on exports are provided by HM Revenue & Customs (HMRC) with supplementary data from the Society of British Aerospace Companies (SBAC). Information on export orders are supplied by the UK Trade & Investment Defence & Security Organisation (UKTI DSO). HMRC provide information on deliveries of military or 'other than civil' goods which cross the UK borders. All equipment exports that are reported to UK customs are classified with tariff codes and we use these to determine defence exports. SBAC data covers sales by UK aerospace companies to foreign civil customers and foreign military aerospace industries and military end-users. UKTI DSO collects data on defence export contracts and they relate to orders placed. These data are collected from the UKTI DSO publication 'The World Defence Export Market' compiled via a quarterly survey with known UK defence contractors.

MOD Trade in Services are provisions of services between UK residents and non-residents (e.g. training, cleaning services, IT support etc) and transactions in goods which are not freighted out of the country in which they take place. They are published in an ONS 'First Release' and 'The Pink Book'.

More information outlining the methodology behind these tables can be found in *DASA Defence Statistics Bulletin No 4* and in the National Statistics Quality Review, detailing Trade Statistics and MOD Balance of Payments Statistics respectively. Further information outlining recent developments with Trade Statistics and an assessment of the quality of the underlying data is given in *DASA Defence Statistics Bulletin No.8*. This is available on the DASA website.

Main Findings

Exports of Defence equipment and services (Tables 1.13 & 1.14)

- Total estimated UK deliveries of exports increased between 2006 and 2007 (from £4.7 billion in 2006 to £5.5 billion in 2007). A contributing factor to this increase has been a sharp increase in the value of identified exports in the Warships category in 2007 following an overseas delivery of three Offshore Patrol Vessels.
- The UK identified export orders increased by £4.1 billion between 2006 and 2007 to £9.7 billion. This significant increase in export orders can be attributed to a large order from Saudi Arabia for Typhoon aircraft, and orders from Oman and Trinidad & Tobago for offshore patrol vessels.

Balance of Payments: Trade in Services (Table 1.15)

- In 2007, the MOD's estimated Balance of Payments for Trade in Services was £2.3 billion in deficit made up of £2.8 billion debits and £0.4 billion receipts. The deficit has increased by £359 million compared to the previous year.

Improving the quality of defence related imports and exports data

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Defence Analytical Services & Advice (DASA) publishes statistics on defence exports and imports annually in UK Defence Statistics (UKDS) (Tables 1.13 & 1.14 in 2008). Data are obtained from three different sources: HMRC, SBAC and the UKTI DSO.

There have been problems with the definition, consistency and coverage of defence related exports data over recent years. DASA has endeavoured to ensure that defence exports statistics are 'joined up' across Government. The Defence Trade Statistics Working Group (DTSWG) with representatives from across the relevant Government departments was convened in order to review the quality of the data, the issue of trade suppressions on trade statistics and to ensure consistency and definition across Government.

Subject to EU regulations, HMRC collect data on visible (goods) imports and export trade. However some data that are currently collected cannot always be segregated to indicate what is specifically military trade. Trade data are broken down using a standardised EU commodity coding system and while goods in the majority of the commodity codes that are currently employed can be identified as distinctly military or non-military, there are several codes which contain both military and civil trade (dual use). Presently there are no reliable positive identification procedures to determine what proportion of the trade reported in these commodity codes can be classed as military.

Recent developments which have continued to affect the quality of defence related imports and exports data include:

- the impact of changes to the internationally agreed tariff codes used for recording goods exports.
- the nature of a large increase in aerospace sales reported by the Society for British Aerospace Companies (SBAC).
- the feasibility of collecting export and import data via existing departmental surveys.
- the continued robustness of the current methodology.
- the simplification of the EU Intrastat System used to capture intra EU trade flows.

More information outlining progress with these developments, and an assessment of the quality of the underlying data is given in DASA *Defence Statistics Bulletin No.8*. This is available on the DASA website.

It is important to note that following the dismantling of the Defence Export Services Organisation (DESO) in July 2007, the governance framework which underpins the production and development of defence export and import (deliveries) statistics remains uncertain. These issues are currently the subject of a submission to be considered shortly by ministers in MOD, BERR, DfID and FCO.

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TRADE

Table 1.13 Estimated Imports & Exports of Defence Equipment (Goods)

This table presents data on the value of defence equipment imports and exports. This information is broken down by commodity grouping and broad geographic region. Data are based on HM Revenue & Customs information relating to defence equipment reported to UK Customs. Defence equipment is identified by an agreed set of tariff codes intended to capture movements of military equipment. Over the period covered by the table, changes have been made to the list of 'identified' defence equipment by, for example, the removal of two HM Customs codes for aerospace from 1997. Further details are given in *Defence Statistics Bulletin No.4* and in the *National Statistics Quality Review on Trade Statistics*. For progress relating to improvements to the quality of defence trade statistics, please refer to the notes at the start of this section on Trade. These estimates have been subject to a variety of revisions and methodological updates in recent years including changes to the internationally agreed tariff codes used for recording goods exports. These changes are described in *DASA Defence Statistics Bulletin No.8*.

The data in this table are outside the scope of National Statistics because they do not meet all of the high professional quality assurance standards set out in the National Statistics Code of Practice.

	1997	Current Prices (£ million)						
	1997	2001	2002	2003	2004	2005	2006	2007
Identified Imports	1 288	1 804	1 645 II	712	700	652 II	1 098	734
Split by Commodity:								
Armoured Fighting Vehicles and Parts	42	21	22 II	19	40	52 II	87	86
Military Aircraft and Parts	1 038	1 609	1 292 II	440	403	280 II	677	372
Warships	1	-	- II	-	2	- II	-	-
Guns, Small Arms and Parts	46	22	52 II	55	51	62 II	96	81
Guided Weapons, Missiles and Parts	113	138	217 II	163	160	231 II	188	127
Ammunition	9	1	9 II	17	20	12 II	15	30
Optical Equipment and Training Simulators	38	13	53 II	19	24	15 II	34	39
Split by Origin:								
NATO Countries and Other Europe	1 087	1 718	1 371 II	566	576	581 II	904	638
Asia and Far East	93	1	104 II	53	42	35 II	120	51
Latin America and Caribbean	6	2	20 II	2	4	1 II	2	7
Middle East and North Africa	93	80	136 II	84	70	28 II	59	24
Other Africa	9	3	15 II	7	7	7 II	13	14
Identified Exports¹	3 359	1 533	942	992	1 391	1 391 II	1 358	2 070
Split by Commodity:								
Armoured Fighting Vehicles and Parts	201	54	77	63	62	60 II	76	76
Military Aircraft and Parts	2 296	1 207	584	734	957	740 II	866	899
Warships ²	256	1	-	-	58	58 II	-	769
Guns, Small Arms and Parts	95	75	53	48	72	199 II	77	87
Guided Weapons, Missiles and Parts	427	175	193	121	219	291 II	250	171
Ammunition	20	9	19	5	5	6 II	3	4
Optical Equipment and Training Simulators	64	12	16	21	18	36 II	86	64
Split by Destination:								
NATO Countries and Other Europe	1 034	969	609	467	801	832 II	914	764
Asia and Far East	204	196	136	273	235	317 II	254	1 054
Latin America and Caribbean	132	19	5	6	15	5 II	6	12
Middle East and North Africa	1 985	320	185	221	250	207 II	172	196
Other Africa	3	28	8	26	90	29 II	12	44

Source: HM Revenue & Customs

- Changes to the internationally agreed tariff codes used for recording goods exports (see Annex C of the Annual Report on Strategic Export Controls) had originally contributed to an apparent increase in the deliveries figures from 2005 to 2006. The further amalgamation of military and civil codes which has resulted in a discontinuity in the code set used to compile these data has been investigated. It was not clear how far the increase reported reflected a true increase in the value of military goods exported as opposed to the inclusion of civil goods previously excluded. Further investigation of the HMRC dataset revealed a large element of this reported increase in 2006 (recorded against one of the dual use codes) as being probably civil in nature. The 2006 figure was therefore revised prior to publication in UKDS 2007.
- The large increase in the value of identified exports in the Warships category in 2007 is due to the overseas delivery of three Offshore Patrol Vessels.

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Table 1.14 Estimates of Total Export Deliveries & Orders: Defence Equipment & Services

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This table provides an estimate of total defence export activity relating to the UK. It uses data on additional aerospace equipment and services from a survey undertaken by the Society of British Aerospace Companies. Aerospace services include training, consultancy and project support related to the export activity. The second part of the table provides data on identified export orders of defence equipment and services. This illustrates the relationship between export orders and actual export deliveries. These estimates have been subject to a variety of revisions and methodological updates in recent years including changes to the internationally agreed tariff codes used for recording goods exports. These changes are described in *DASA Defence Statistics Bulletin No.8*.

The data in this table are outside the scope of National Statistics because they do not meet all of the high professional quality assurance standards set out in the National Statistics Code of Practice.

	1995 1997		Current Prices (£ million)							
	2001	2002	2003	2004	2005	2006	2007			
Estimated Total Export Deliveries: Equipment & Services	4 723	6 684	4 216	4 120	4 545	5 162	4 527	 	4 697	5 474
<i>Of which:</i>										
Identified Defence Equipment Exports	2 076	3 359	1 533	942	992	1 391	1 391		1 358	2 070
Estimates of Additional Aerospace Equipment and Services	2 647	3 325	2 683	3 178	3 553	3 771	3 136		3 339	3 404

	1995 1997		Current Prices (£ million)							
	2001	2002	2003	2004	2005	2006	2007 ²			
Identified Export Orders for Defence Equipment and Services¹	4 970	5 540	4 160	5 041	4 882	4 546	3 989		5 527	9 651
<i>Split by Equipment Type:</i>										
Air Sector	3 456	3 193	3 245	3 553	3 526	3 199	2 491		4 133	7 525
Land Sector	535	656	341	509	303	475	584		670	762
Sea Sector	71	368	50	464	252	209	369		280	1 017
Not Specified	908	1 323	524	515	801	663	546		444	347

Source: UKTI Defence and Security Organisation

1. Figures for export orders are taken from the UKTI DSO survey of known Defence Contractors.
2. The large increase in the 2007 export orders figures can be attributed to a large order from Saudi Arabia for Typhoon aircraft (valued initially at £4.4 billion) and orders from Oman and Trinidad and Tobago for offshore patrol vessels.

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Table 1.15 Ministry of Defence Estimated Balance of Payments for Trade in Services

Balance of Payments is a measure of the UK's trading account with the rest of the world. Trade in Services are provisions of services (e.g. training, cleaning services, IT support etc) between UK residents and non-residents, and transactions in goods which are not freighted out of the country in which they take place; these transactions are not recorded in the official 'Trade in Goods' statistics. A detailed discussion of these concepts can be found in the latest edition of The Pink Book published by the Office for National Statistics. More details are available in *Defence Statistics Bulletin No 4* or in the *National Statistics Quality Review report on Balance of Payments: Trade in Services*.

The data in this table are outside the scope of National Statistics because they do not meet all of the high professional quality assurance standards set out in the National Statistics Code of Practice.

	1995	1997	Current prices (£ million)						
			2001	2002	2003 ¹	2004	2005	2006	2007
Net Balance	-1 691	-1 394	-1 627	-1 543	-2 021	-1 762	-1 723	-1 979	-2 338
Total Debits	2 057	1 600	1 836	1 764	2 411	2 200	2 158	2 471	2 763
Expenditure ²									
Germany	1 038	848	1 035	799	974	1 190	1 237	1 244	1 501
Other Identified NATO Countries	684	406	492	731	1 139	801	573	755	881
Mediterranean	135	158	148	156	173	168	182	226	175
Far East	6	21	-	-	-	-	-	-	-
Other Areas	194	167	160	78	125	41	166	245	206
Total Credits	366	206	209	221	390	438	435	492	425
Receipts ³									
Receipts from US Forces in UK	136	110	161	154	142	126	128	126	116
Other Receipts ⁴	230	96	48	67	248	312	307	366	309

Source: DASA (Economic Statistics)

1. The increase in 'Total Debits' in 2003 was largely attributable to increased spending on services as a result of military activity in Iraq.
2. Based on drawings of foreign exchange.
3. A mix of export sales and receipts from other Government and International Organisations for services provided overseas and to overseas forces based in the UK.
4. The increase in 'Other Receipts' from 2003 is due to the improvement in the methodology used to identify receipts data.

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This section presents an analysis of contracts placed, major equipment projects and payments made by the MOD. **Table 1.16** shows the number and value of contracts placed by type during 2007/08 and earlier years. **Table 1.17** presents more information on the MOD's major equipment projects. **Table 1.18** provides a list, by broad-banded value, of organisations paid £5 million or more during 2007/08. Following requests from UK industry, **Table 1.18a** provides a further dimension on the data contained within **Table 1.18** by presenting the individual subsidiary organisations "rolled up" into their holding companies. These data are based on information from the Financial Management Shared Service Centre (FMSSC) – formerly the Defence Bills Agency (DBA) – who are responsible for setting up and paying the majority of the MOD contracts issued each year.

Information on Major Equipment Projects comes from the "Major Projects Report". This details the largest post Main-Gate Approval Projects along with the largest pre Main-Gate Approval Projects. The full report provides a summary of each project's current status and progress to date. It also provides comparisons on current forecast costs and in-service dates. Smart Procurement stresses the importance of allocating appropriate resources in the early stages to reduce risk and increase confidence before the main investment decision is made. This is known as the Smart Procurement Acquisition Cycle. Under Resource Accounting and Budgeting all costs are at estimated outturn prices and include 'new' types of cost such as the cost of capital charge.

Main Findings

Contracts by Type (Table 1.16)

- In 2007/08 MOD HQ placed just over 22,900 contracts with a collective value of around £14.4 billion. The number of contracts placed in 2007/08 remains roughly the same as was reported for 2006/07, whereas the value has decreased by nearly 50% (£13.8 billion) over the same period. The increase in contract value in 2006/07 was due to the placing of a multi billion pound contract with Aspire Defence Holdings and the removal of this contract from the 2007/08 calculations sees a return to historical levels of contract value. Please note that most contract payments are not made during the year in which the contract is placed.
- Of the total value of MOD HQ contracts placed in 2007/08 around 47% were priced by competition.

Major Equipment Projects (Table 1.17)

- The largest post Main-Gate equipment project by value is the Type 45 Destroyer (£6.5 billion). This is followed by the Astute Class Submarine (£3.8 billion) and the Nimrod Maritime Reconnaissance and Attack Mk4 (£3.5 billion).

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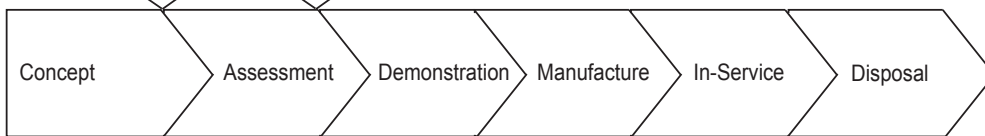
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Table 1.17 Major Equipment Projects

This table shows the MOD's major equipment projects as at 31 March 2007. It details the 20 largest projects on which the main investment decision has been taken (post Main-Gate) and the 10 largest projects yet to reach that point (pre Main-Gate). The information is taken from the *Major Projects Report* (http://www.nao.org.uk/publications/nao_reports/07-08/070898ii.pdf), relating to 31 March 2007, which provides a summary of each project's current status and progress to date. **The Major Projects Report was changed in MPR 2007 to remove forecast In Service Dates to reflect the Department's policy on public release of Assessment Phase project information.** Costs are on a resource basis at outturn prices. Forecast costs include accruals, VAT (less recoverable elements), resource elements such as interest on capital and inflation factors. Pre 1999 figures have been uplifted to 99/00 prices. *Major Projects Report* costs relating to the pre-Main Gate projects are costs of the Assessment phase only. For post Main-Gate projects, costs are of the Demonstration and Manufacture phases.



The following diagram shows the CADMID cycle which is the basis for MOD Smart Procurement. The main investment decision is taken at Main-Gate, ie post assessment phase with the aim of ensuring there is a high level of confidence in achieving time, cost and performance targets. Further information is contained in the Major Projects report.



As at 31 March 2007	MPR2007			
Post Main Gate Major Equipment Projects (Projects in Demonstration and Manufacture Phase only)	In-Service date Forecast or Actual	Financial Years of Peak Expenditure ¹	Forecast Cost (£ million)	Change in Cost (£ million) from MPR2006
A400M	2011	2009 & 2010	2 629	13
Astute Class Submarine	2008	2001 & 2005	3 798	142
Beyond Visual Range Air-To-Air Missile (BVRAAM)	2013	2009 & 2012	1 168	-36
Bowman	2004	2004 & 2005	2 009	- 10 ²
Brimstone	2005	1999 & 2005	899	-1
C Vehicle Capability ³	2006	2019 & 2020	703	-
Falcon ⁴	2010	2008 & 2011	292	-
Guided Multiple Launch Rocket System	2007	2006 & 2010	91	-172
Joint Combat Aircraft (JCA) ⁵	..	2005 & 2007	1 858	- 58
Merlin Mk 1 Capability Sustainment Programme ⁴	2014	2009 & 2010	832	-
Next Generation Anti-Armour Weapon (NLAW)	2008	2007 & 2008	318	4
Nimrod Maritime Reconnaissance and Attack Mk4	2010	2002 & 2004	3 500	- 16
Precision Guided Bomb (PGB)	2007	2006 & 2007	277	-67 ²
Soothsayer ⁴	2008	2007 & 2010	195	-
Sting Ray Lightweight Torpedo Life Extension and Capability Upgrade	2006	2007 & 2008	577	- 12 ²
Support Vehicle	2008	2009 & 2010	1 263	- 75
Terrier	2009	2008 & 2009	299	3
Type 45 Destroyer	2010	2003 & 2004	6 464	354
Typhoon ⁶	2003	2006 & 2008	*	*
Watchkeeper ⁴	2010	2009 & 2010	901	-

Source: Defence Equipment & Support

As at 31 March 2007	MPR 2007
Pre Main Gate Major Equipment Projects (Projects in Assessment Phase only)	Forecast Cost (£ million)
Future Aircraft Carrier (CVF)	299
Future Integrated Soldier Technology (FIST)	36
Future Rapid Effects System	618
Future Strategic Tanker Aircraft (FSTA)	37
Indirect Fire Precision Attack (IFPA)	67
Maritime, Airborne, Surveillance, and Control (MASC)	7
Military Afloat Reach & Sustainability (MARS) ⁵	*
Search and rescue - Helicopter (SAR-H)	12
UKCEC Frigate and Destroyer Programme	55
UK Military Flying Training System (UKMFTS) - Holistic	30

Source: Defence Equipment & Support

1. Financial Year commencing 1 April - not necessarily concurrent years.
 2. Forecast figures in MPR 2006 were revised after the publication of UKDS 2007. When comparing published UKDS 2007 forecast and latest MPR 2007 forecasts the differences will not align (See Pages 30, 106 and 118 of the *Major Projects Report* for further details: http://www.nao.org.uk/publications/nao_reports/07-08/070898ii.pdf.
 3. PFI Service with annual service payment.
 4. Cost comparison not possible as project did not appear in previous MPR.
 5. The tailored Demonstration Main Gate noted but did not approve In Service Date (ISD).
 6. Cost data excluded on grounds of commercial sensitivity.

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Table 1.18 Organisations paid £5 million or more by the Ministry of Defence in 2007/08

Tables 1.18 and 1.18a have been subject to a number of revisions following the recovery of additional data relating to miscellaneous contract transactions. This has resulted from a data system change during the second half of 2007-08.

A revised Table 1.18 is presented below. 30 organisations (shown in green font) are new to the table and 22 organisations which appeared on the original table listing have moved payment bandings (shown in red font). The addition of one new organisation (Le Grand Annington PLC) to Table 1.18a has been necessary as a result of these changes.

This table shows a listing of the UK and foreign owned organisations, including defence suppliers and intermediate bodies paid through the Financial Management Shared Service Centre (FMSSC) - formally the Defence Bills Agency (DBA). The term 'defence suppliers' includes defence contractors, Defence Agencies and other Government Departments. The FMSSC is responsible for the majority of such payments (around 95% by value) made by MOD. Other payments are made, for example, via British Defence Staff (United States), MOD Trading Funds and through local cash offices. The table is split into payment groups with the organisations shown in alphabetical order. Company and organisation names have been reproduced (at the 1 April 2008 position) directly from the truncated entries recorded on the FMSSC database and may appear in a shortened format in places. **Where a contract is novated during the year, annual payments are shown against the new 'owner' (company or entity) of that contract.**

VAT exclusive at Current Prices (£ million)

Over £500 million (7 Organisations)		
AWE Management Ltd	EDS Defence Ltd	Westland Helicopters Ltd
BAE Systems Electronics Ltd	NETMA	
BAE Systems (Operations) Ltd	QinetiQ Ltd	
£250 - £500 million (8 Organisations)		
BAE Systems Land Systems (Munitions & Ordnance) Ltd	British Telecommunications PLC	Devonport Royal Dockyard Ltd
BAE Systems Land Systems (Weapons & Vehicles) Ltd	Debut Services Ltd ¹	Rolls Royce Power Engineering PLC
BAE Systems Surface Fleet Solutions	Defence Science & Technology Laboratory	
£100 - £250 million (30 Organisations)		
AMEC Turner Ltd	Flagship Training Ltd	Paradigm Secure Communications Ltd
Annington Receivables Ltd	Fleet Support Ltd	Pride (Serp) Ltd
Aspire Defence Ltd	General Dynamics United Kingdom Ltd	Purple Foodservice Solutions Ltd
Babcock Support Services Ltd	Kellogg Brown & Root Ltd	Raytheon Systems Ltd
BAE Systems Integrated System Technologies Ltd	Man Truck & Bus UK Ltd	Rolls-Royce PLC
Barclays Bank PLC	Marshall Of Cambridge Aerospace Ltd	Serco Ltd
Carillion Enterprise Ltd	MBDA UK Ltd	Thales Air Defence Ltd
Defence Support Group (DSG) ²	Meteorological Office	Thales UK Ltd
Defense Finance and Accounting Service Columbus	Modern Housing Solutions (Prime) Ltd	The Boeing Company
Europaams SAS	OCCAR-EA	VT Land (Whitefleet Management) Ltd
£50 - £100 million (28 Organisations)		
Aviation Training International Ltd	IBM UK Ltd	Royal & Sun Alliance Insurance PLC
Babcock Dyncorp Ltd	Landmarc Support Services Ltd	Selex Sensors and Airborne Systems Ltd
Babcock Marine (Clyde) Ltd	Lockheed Martin UK INSYS Ltd	Shell Marine Products Ltd
BAE Systems Marine Ltd	McDonnell Douglas Corporation	Sodexo Defence Services Ltd
BP International Ltd	Modus Services Ltd	Thales Naval Ltd
British Energy Direct Ltd	Northrop Grumman Overseas Service Corporation	Thales Underwater Systems Ltd
CEPSA	NP Aerospace Ltd	Ultra Electronics Ltd
Defence Aviation Repair Agency (DARA) ²	Raytheon/Lockheed Martin Javelin Joint Venture	US Treasury
Foreign and Commonwealth Office	Reserve Forces and Cadet Association	
HCR Ltd	RMPA Services PLC	
£25 - £50 million (51 Organisations)		
Air Partner PLC	Foreland Shipping Ltd	NATS (En Route) PLC
ALC (SPC) Ltd	FR Aviation Ltd	Northrop Grumman Information Technology International Inc
AMEC(AGL) Ltd	Fujitsu Services Ltd	Northwestern Shiprepairers And Shipbuilders Ltd
Aramark Ltd	Guy's & St Thomas NHS Foundation Trust	Office of Communications (OFCOM)
BAE Systems (Defence Systems) Ltd	Henry Brothers (Magherafelt) Ltd	Rail Settlement Plan Ltd
BAE Systems Land Systems Pinzgau Ltd	Hess Energy Trading Company (UK)	Receiver General for Canada
Brey Utilities Ltd	HM Revenue and Customs	Selex Communications Ltd
Cap Gemini UK PLC	Interserve (Defence) Ltd	Serco-Denholm Ltd
Central Office of Information	Kuwait Petroleum International Aviation Company (UK) Ltd	SHAPE
Chapman Freeborn Airchartering Ltd	Lockheed Martin Aeronautics Company	Steria Services Ltd
Coast To Coast Water Ltd	Lockheed Martin Aerospace Systems Integration Corporation	Supreme Fuels GMBH and Co KG
Commonwealth War Graves Commission	Lockheed Martin Overseas Corporation	Thales Optronics Ltd
Compass Services (UK) Ltd	Lockheed Martin UK Ltd	The Services Sound and Vision Corporation
Cooneen Watts & Stone Ltd	Logica CMG UK Ltd	The United Kingdom Hydrographic Office
Defence Management (Watchfield) Ltd	M & S Shipping (International) Ltd	Turner Facilities Management Ltd
Esso Petroleum Company Ltd	Mansell Construction Services Ltd	VT Aerospace Ltd
FBS Ltd	NATO	VT Communications Ltd

Source: DASA (Economic Statistics)

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Table 1.18 Organisations paid £5 million or more by the Ministry of Defence in 2007/08 (continued)

VAT exclusive at Current Prices (£ million)

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£10 - £25 million (96 Organisations)		
A & P Falmouth Ltd	E2V Technologies (UK) Ltd	Perkins Engines Company Ltd
A & P Tyne Ltd	EADS Defence and Security Systems Ltd	Pinsent Masons
AAH Pharmaceuticals Ltd	Eastbury Park Ltd	Post Office Ltd
Aerosystems International Ltd	Eurocopter	Qioptiq Ltd
Agustawestland International Ltd	Excel Aviation Ltd	Raytheon Company
Airborne Systems Ltd	Falcon Support Services Ltd	Recon International Ltd
Alfred McAlpine Business Services Ltd	Fast Training Services Ltd	Rheinmetall Waffe Munition GmbH
Arval PHH Business Solutions Ltd	Fastrax Ltd	Right Management Ltd
Astrum (UK) Ltd	FB Heliservices Ltd	Rockwell Collins UK Ltd
Athena	GB Oils Ltd	Rolls-Royce Turbomeca Ltd
Atkins Consultants Ltd	GE Aviation Systems Ltd	RUAG Ammotec
Avenance PLC	Genistics Ltd	Ryder Deutschland GmbH
Babcock International Group PLC	Goodrich Control Systems Ltd	Saab AB (PUBL)
BAE Systems Hagglunds AB	Hawker Beechcraft Ltd	Scottish Power Energy Retail Ltd
Barloworld Handling Ltd	Haymills (Contractors) Ltd	Sellafield Ltd
Bechtel Ltd	Hesco Bastion Ltd	Serco Denholm Marine Services Ltd
Bovis Lend Lease Ltd	Hirtnerberger Defence Systems GmbH & Co Kg	Software Box Ltd
BP Oil International Ltd	Inchcape Shipping Services Ltd	SSAFA Family Health Services
British Gas Trading Ltd	Inviron Ltd	SSE Energy Supply Ltd
Britten-Norman Aircraft Ltd	Iturri SA	Supacat Ltd
Cabinet Office	John Graham (Dromore) Ltd	Systems Consultants Services Ltd
CAE (UK) PLC	Mass Consultants Ltd	Thales Avionics Ltd
CAE Aircrew Training Services PLC	Microsoft Ireland Operations Ltd	Thales Training & Simulation (Ace) Ltd
Centerprise International Ltd	Minerva Education And Training Ltd	Thales Training & Simulation (Merlin) Ltd
Chemring Counter Measures Ltd	NAAFI	The Treasury Solicitor
Chevron Singapore Pte Ltd	NAMSA	Ultralife Batteries (UK) Ltd
Communities and Local Government	NATO Consultation Command and Control Agency	United Tool Distributors Ltd
Compass Group UK and Ireland Ltd	NC3A	Vega Group PLC
Cranfield University	NSAF Ltd	VT Land Ltd
David Brown Engineering Ltd	NSSL Ltd	VT Maritime Affairs Ltd
Defence Training Services Ltd	Organisation for Joint Armaments Cooperation Executive Admin	VT Shipbuilding Ltd
DHL Global Forwarding (UK) Ltd	Paradigm Services Ltd	Welbeck Estates Company Ltd
£5 - £10 million (124 Organisations)		
ABRO	Corporate Document Services Ltd	ISS Mediclean Ltd
Alert Communications Ltd	CQC Ltd	J & S Franklin Ltd
Anixter Ltd	Cubic Defense Applications Inc	Kier Regional Ltd
Argyll & Bute Council	Deflog VQ Trust Ltd	KPMG LLP
Atkins Advantage Technical Consulting Ltd	Deloitte & Touche LLP	LA International Computer Consultants Ltd
Atos Consulting Ltd	Department for Work and Pensions	Land and Property Services
AWE PLC	Detica Ltd	Lockheed Martin Corporation
AXA Corporate Solutions Services UK Ltd	Drive Motor Retail Ltd	Lockheed Martin UK Integrated Systems & Solutions Ltd
BAE Systems Bofors AB	Drumgrange Ltd	LSC Group Ltd
BAE Systems / Rockwell Collins Data Link Solutions LLC	Dytecna Ltd	M S I - Defence Systems Ltd
Balfour Beatty Group Ltd	Elbit Systems Ltd	Marlborough Communications Ltd
Bayford & Co Ltd	Electricity Authority of Cyprus	Meggitt Defence Systems Ltd
BMT Defence Services Ltd	Enersys Ltd	Microsoft Ltd
BOC Ltd	English Welsh & Scottish Railway Ltd	Mitie Engineering Maintenance Ltd
Bonar Floors Ltd	Flagship Fire Fighting Training Ltd	Modis International Ltd
British Embassy	Fluid Transfer International Ltd	NATO Maintenance and Supply Agency
Burness Corlett - Three Quays Ltd	Frimley Park Hospital NHS Foundation Trust	Oracle Corporation UK Ltd
Canon (UK) Ltd	G3 Systems Ltd	Oshkosh Truck Corporation
Cartus Ltd	Gaz De France Sales Ltd	PA Consulting Services Ltd
Chemring Energetics UK Ltd	General Dynamics Ordnance and Tactical Systems	Pace Petroleum Ltd
City of Westminster	Government Communications HQ	PCG Group
Companhia Brasileira De Cartuch	Gulf Aircraft Maintenance Company	Petards Joyce-Loebl Ltd
Compass Contract Services (UK) Ltd	Harris Corporation	Portsmouth Aviation Ltd
Computacenter (UK) Ltd	Hewlett Packard Ltd	Portsmouth City Council
Contrack International Inc	H M Treasury	Portsmouth Hospitals NHS Trust
Corona Energy Ltd	Honeywell Aerospace UK	

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Table 1.18 Organisations paid £5 million or more by the Ministry of Defence in 2007/08 (continued)

VAT exclusive at Current Prices (£ million)

£5 - £10 million (124 organisations)		
Racal Acoustics Ltd	Scott Health & Safety Ltd	The Maersk Company Ltd
Realm Services (DAC) Ltd	Sea Cadet Corps	Thistle Garments Ltd
Remotec UK Ltd	Seafast Logistics PLC	TNT UK Ltd
Remploy Ltd	Security Services Group	Tricomm Housing Ltd
RFD Beaufort Ltd	Selex Sistemi Integrati Ltd	Turbomeca Ltd
Ricardo UK Ltd	Seyntex NV	United States Government
Roxel (UK Rocket Motors) Ltd	Shell UK Ltd	University Hospital Birmingham NHS Foundation Trust
Royal Air Force Museum	Sigma Aerospace Ltd	Veolia Water Nevis Ltd
Royal Hospital	Simmons & Simmons	Veritair Ltd
Ryder PLC	Smit International (Scotland) Ltd	VT Integrated Services Ltd
S.Com Group Ltd	Sodexho Ltd	Wallop Defence Systems Ltd
Saab Bofors Dynamics AB	South Gloucestershire Council	Wescam Inc
Saab Training Systems AB	South Tees Hospitals NHS Trust	Wiltshire and Somerset College
Saft Ltd	Systems Engineering & Assessment Ltd	World Fuel Services Europe Ltd
Salisbury District Council	Terberg DTS (UK) Ltd	Wrekin Construction Company Ltd
SCA Packaging Ltd	Thales Training and Simulation	

Source: DASA(Economic Statistics)

1. Debut Services Ltd includes payments made to Debut Services Ltd and Debut Services (South West) Ltd.
2. On 22 May 2007 it was announced that ABRO business units would merge with those of Defence Aviation Repair Agency (DARA) to form a single new Government owned organisation called Defence Support Group (DSG). Consequently payments in 2007/08 appear against both DARA and DSG prior to contract changes being made, which will attribute all payments to DSG in 2008/09.
3. Reserve Forces and Cadets Association includes payments made to: the Council of Reserve Forces and Cadets Association, Reserve Forces and Cadets Association for East Anglia, Lowland Reserve Forces and Cadets Association, Reserve Forces and Cadets Association for Wales, Reserve Forces and Cadets Association for Greater London, South East Reserve Forces and Cadets Association, The Highland Reserve Forces and Cadets Association, The Reserve Forces and Cadets Association for the North of England, The Reserve Forces and Cadets Association for Yorkshire and the Humber, The Wessex Reserve Forces and Cadets Association, West Midland Reserve Forces and Cadets Association and Reserve Forces and Cadets Association for Northern Ireland.

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Table 1.18a Private Sector Companies paid £50 million or more by the Ministry of Defence in 2007/08: By Holding Company

Tables 1.18 and 1.18a have been subject to a number of revisions following the recovery of additional data relating to miscellaneous contract transactions. This has resulted from a data system change during the second half of 2007-08.

A revised Table 1.18 is presented below. 30 organisations (shown in green font) are new to the table and 22 organisations which appeared on the original table listing have moved payment bandings (shown in red font). The addition of one new organisation (Le Grand Annington PLC) to Table 1.18a has been necessary as a result of these changes.

This table (which is derived from Table 1.18) shows a subset of the data contained within Table 1.18, providing a listing of the Private Sector Companies that were paid £50 million or more through the Financial Management Shared Service Centre (FMSSC) - formerly the Defence Bills Agency (DBA) - in 2007/08.

This listing details the individual subsidiaries listed in Table 1.18 'rolled up' by holding company and single entity private companies where no other subsidiary has been recorded by the FMSSC. The term 'holding company' refers to companies which are full or part owner of other companies (subsidiaries and joint ventures). The table includes only those subsidiaries where the MOD has made payments during 2007/08 and therefore, is not an exhaustive listing of all subsidiaries and joint ventures relating to that holding company. It also excludes those companies and/or joint ventures which work as part of a consortium. Payments to joint ventures have been allocated to their parent holding companies in proportion to their equity holdings. The table excludes all payments made to public sector bodies, government departments and agencies, local authorities, MOD trading funds, multi nation project management agencies, charities and associations.

Please note that the placement of companies by payment bandings may differ from Table 1.18 as the sum of the annual payments made to the holding company will exceed the values for individual subsidiaries listed in Table 1.18. The composition of Holding Companies in terms of their subsidiaries is derived as at 31 March 2008. A listing of each company's subsidiaries and joint ventures, who have made payments during 2007/08 can be found in the footnotes below. It is recognized that the structure and ownership of modern corporations is dynamic and changes frequently. The FMSSC are responsible for the majority of such payments (around 95% by value) made by MOD. Other payments are made, for example, via British Defence Staff (United States), MOD Trading Funds and through local cash offices. The table is split into payment groups with the companies shown in alphabetical order. Company and organisation names have been reproduced (at 1 April 2008 position) directly from the truncated entries recorded on the FMSSC database and may appear in a shortened format in places.

Where a contract is novated during the year, annual payments are shown against the new 'owner' (company or entity) of that contract.

VAT exclusive at current prices (£ million)

Over £500 million (8 Companies)		
Babcock International Group PLC ¹	Finmeccanica SpA ⁴	Serco Group PLC ⁷
BAE Systems PLC ²	Lockheed Martin Corporation ⁵	Thales SA ⁸
Electronic Data Systems Corporation ³	QinetiQ Group PLC ⁶	
£250 - £500 million (5 Companies)		
BT Group PLC ⁹	Rolls-Royce Group PLC ¹¹	VT Group PLC ¹³
EADS NV ¹⁰	The Boeing Company ¹²	
£100 - £250 million (12 Companies)		
Aspire Defence Holdings Ltd ¹⁴	Halliburton Company ¹⁸	Man AG ²²
BP PLC ¹⁵	Interserve PLC ¹⁹	Marshall of Cambridge ²³
Carillion PLC ¹⁶	Le Grand Annington Ltd ²⁰	Northrop Grumman Corporation ²⁴
General Dynamics Corporation ¹⁷	Lend Lease Corporation Ltd ²¹	Raytheon Company ²⁵
£50 - £100 million (12 Companies)		
Amec PLC ²⁶	HCR Group Holdings Ltd ³⁰	Scottish and Southern Energy PLC ³⁴
Atkins (WS) PLC ²⁷	International Business Machines Corporation ³¹	Sodexo ³⁵
British Energy Group PLC ²⁸	Modus Services (Holdings) Ltd ³²	Turner & Co (Glasgow) Ltd ³⁶
Cobham PLC ²⁹	Royal Dutch Shell PLC ³³	Ultra Electronics Holdings PLC ³⁷

Source: DASA (Economic Statistics)

- Babcock International Group PLC includes payments made to Babcock Defence Systems Ltd, Babcock Dyncorp Ltd, Babcock International Group PLC, Babcock Marine (Clyde) Ltd, Babcock Naval Services Ltd, Babcock Support Services Ltd, Debut Services Ltd, Debut Services (South West) Ltd, Rosyth Royal Dockyard Ltd, Rosyth Royal Dockyard Pension Scheme, Devonport Royal Dockyard, Frazer-Nash Consultancy Ltd, LSC Group Ltd and Weir Strachan & Henshaw Ltd.
- BAE Systems PLC includes payments made to Aerosystems International Ltd, BAE Systems, BAE Systems (Aviation Services) Ltd, BAE Systems (Defence Systems)Ltd, BAE Systems (Hawk Synthetic Training) Ltd, BAE Systems Land Systems Pinzgau Ltd, BAE Systems (Operations) Ltd, BAE Systems Surface Fleet Solutions, BAE Systems Bofors AB, BAE Systems Defence Ltd, BAE Systems Electronics Ltd, BAE Systems Hagglands AB, BAE Systems Information & Electronic Systems Integration Inc, BAE Systems Information & Electronic Warfare Systems, BAE Systems Australia Ltd, BAE Systems Integrated System Technologies Ltd, BAE Systems Land Systems (Bridging) Ltd, BAE Systems Land Systems (Munitions and Ordnance) Ltd, BAE Systems Land Systems (Weapons and Vehicles) Ltd, BAE Systems Marine Ltd, BAE Systems Pension Funds Trustees Ltd, BAE Systems PLC, BAE Systems Properties Ltd, BAE Systems/Rockwell Collins Data Link Solutions LLC, Corda Ltd, Flagship Training Ltd, Fleet Support Ltd, MBDA UK Ltd and Piper Group PLC.
- Electronic Data Systems Corporation includes payments made to EDS Defence Ltd, Electronic Data Systems Ltd and Unigraphics Solutions Ltd.
- Finmeccanica SpA includes payments made to Agustawestland International Ltd, Aviation Training International Ltd, Galileo Avionica Spa, MBDA UK Ltd, Selex Communications Ltd, Selex Sensors & Airborne Systems Ltd, Selex Sistemi Integrati Ltd, Vega Group PLC and Westland Helicopters Ltd.
- Lockheed Martin Corporation includes payments made to AWE Management Ltd, AWE PLC, Lockheed Martin Aeronautics Company, Lockheed Martin Aerospace Systems Integration Corp, Lockheed Martin Canada Inc, Lockheed Martin Corp, Lockheed Martin Maritime Systems & Sensors Ltd, Lockheed Martin Overseas Corp, Lockheed Martin Sippican Inc, Lockheed Martin System Integration-Owego Ltd, Lockheed Martin UK Ltd, Lockheed Martin UK Insys Ltd, Lockheed Martin UK Integrated Systems & Solutions Ltd and Raytheon/Lockheed Martin Javelin Joint Venture.

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Table 1.18a Private Sector Companies paid £50 million or more by the Ministry of Defence in 2007/08: By Holding Company (Footnotes continued)

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6. QinetiQ Group PLC includes payments made to ASAP Calibration Services Ltd, Boldon James Ltd, Foster-Miller Inc, Graphics Research Corporation Ltd, HVR Consulting Services Ltd, QinetiQ Ltd and QinetiQ Nanomaterials Ltd.
7. Serco Group PLC includes payments made to AWE Management Ltd, AWE PLC, Cornwell Management Consultants, Defence Management (Watchfield) Ltd, NPL Management Ltd, Serco-Denholm Ltd, Serco Denholm Marine Services Ltd, Serco Gulf Engineering Ltd and Serco Ltd.
8. Thales SA includes payments made to Quintec Associates Ltd, Thales Air Defence Limited, Thales ATM Ltd, Thales Avionics Electrical Systems Ltd, Thales Avionics Ltd, Thales Communications Ltd, Thales Communications SA, Thales E-Security Ltd, Thales Missile Electronics Ltd, Thales Naval Ltd, Thales Nederland BV, Thales Optronics Ltd, Thales Optronics (Bury St Edmunds) Ltd, Thales Optronics (Taunton) Ltd, Thales Research & Technology (UK) Ltd, Thales Systemes Aeroportes S.A., Thales Training & Simulation Ltd, Thales Training & Simulation (ACE) Ltd, Thales Training & Simulation (Eagle Middle Wallop) Ltd, Thales Training & Simulation (Merlin) Ltd, Thales UK Ltd, Thales Norway AS and Thales Underwater Systems Ltd.
9. British Telecommunications Group PLC includes payments made to British Telecommunications PLC, Brightview Internet Services Ltd, Dabs.com PLC and Syntegra Ltd.
10. EADS NV includes payments made to Airbus UK Ltd, EADS Defence & Security Systems Ltd, EADS Test and Services (UK) Ltd, EADS Test and Engineering Services (UK) Ltd, Eurocopter International (UK) Ltd, Infoterra Ltd, MBDA UK Ltd, Paradigm Secure Communications Ltd and Paradigm Services Ltd.
11. Rolls-Royce Group PLC includes payments made to Bristol Aerospace Ltd, Data Systems and Solutions Ltd, Industria de Turbo Propulsores S.A., Powerfield Ltd, Rolls Royce Corporation, Rolls-Royce Marine Electrical Systems Ltd, Rolls-Royce Marine Power Operations Ltd, Rolls-Royce PLC, Rolls-Royce Power Engineering PLC, Rolls-Royce Snecma Ltd, Rolls-Royce Turbomeca Ltd and Vinters Engineering PLC.
12. The Boeing Company includes payments made to Aviation Training International Ltd, Boeing Defence UK Ltd, Continental Datagraphics Ltd, Jeppesen Sanderson Inc, McDonnell Douglas Corporation and The Boeing Company.
13. VT Group PLC includes payments made to Flagship Fire Fighting Training Ltd, Flagship Training Ltd, Fleet Support Ltd, VT Aerospace Ltd, VT Career Progressions Ltd, VT Communications Ltd, VT Halmatic Ltd, VT Integrated Services Ltd, VT Land Ltd, VT Land (Whitefleet Management) Ltd, VT Marine Products Ltd, VT Maritime Affairs Ltd, VT Nuclear Services Ltd, VT Plus Training PLC, VT Shipbuilding Ltd and VT Software Solutions Ltd.
14. Aspire Defence Holdings Ltd includes payments made to Aspire Defence Ltd, Aspire Consulting Ltd and Aspire Defence Services Ltd.
15. BP PLC includes payments made to Air BP Ltd, BP International Ltd, BP Lubricants (UK) Ltd, BP Marine Ltd, BP Oil UK Ltd, BP Oil International Ltd and British Pipeline Agency Ltd.
16. Carillion PLC includes payments made to Aquamen Services Ltd, Carillion Construction Ltd, Carillion Enterprise Ltd, Carillion JM Ltd, Carillion Services Ltd, Carillion Specialist Services Ltd, Enviros Consulting Ltd, Modern Housing Solutions (Prime) Ltd, Planned Maintenance Engineering Ltd, Schal International Management Ltd and TPS Consult Ltd.
17. General Dynamics Corporation includes payments made to Anteon (UK) Ltd, General Dynamics Canada Ltd, General Dynamics United Kingdom Ltd, General Dynamics Ordnance and Tactical Systems, Itronix (UK) Ltd and Mowag GmbH.
18. Halliburton Company includes payments made to Kellogg Brown and Root (UK) Ltd and Mono Pumps Ltd.
19. Interserve PLC includes payments made to Interserve (Defence) Ltd, Landmarc Support Services Ltd, Pride (Serp) Ltd and SSD UK Ltd.
20. Le Grand Annington Ltd includes payments made to Annington Property Ltd and Annington Receivables Ltd.
21. Lend Lease Corporation Ltd includes payments made to Bovis Lend Lease Ltd, Debut Services Ltd and Debut Services (South West) Ltd.
22. Man AG includes payments made to MAN Truck & Bus (UK) Ltd and MAN Diesel Ltd.
23. Marshall of Cambridge includes payments made to Fellhouse Ltd, Marshall of Cambridge Aerospace Ltd, Marshall Motor Group Ltd, Marshall Specialist Vehicles Ltd and Marshall Thermo King Ltd.
24. Northrop Grumman Corporation includes payments made to Northrop Electronics Systems International Inc, Northrop Grumman Corporation, Northrop Grumman Electronics & Systems Integration International Inc, Northrop Grumman Information Technology International Inc, Northrop Grumman ISS International Inc, Northrop Grumman Mission Systems Europe Ltd, Northrop Grumman Overseas Service Corporation, Northrop Grumman Space & Mission Systems Corporation, Northrop Grumman Sperry Marine Ltd, Park Air Systems Ltd and Northrop Grumman Sperry Marine BV.
25. Raytheon Company includes payments made to L-3 Communication Integrated, Raytheon Anschuetz GmbH, Raytheon Company, Raytheon/Lockheed Martin Javelin Joint Venture, Raytheon Systems Ltd and Raytheon Technical Services Company LLC.
26. AMEC PLC includes payments made to Amec AGL Ltd, Amec Capital Projects Ltd, Amec Group Ltd, Amec Nucleur UK Ltd and Amec Turner Ltd.
27. Atkins (WS) PLC includes payments made to Atkins Advantage Business Solutions Ltd, Atkins Advantage System Solutions Ltd, Atkins Advantage Technical Consultants Ltd, Atkins Consultants Ltd, Atkins Facilities Management Ltd, Atkins Ltd, Atkins Planning & Management Consultants Ltd, Lambert Smith Hampton Group Ltd, Modern Housing Solutions (Prime) Ltd and WS Atkins PLC.
28. British Energy Group PLC is payments made to British Energy Direct Ltd.
29. Cobham PLC includes payments made to Atlantic Microwave Ltd, Carleton Life Support Technologies Ltd, Chelton Ltd, Chelton (Electrostatics) Ltd, Cobham Advanced Composites Ltd, Credowan Ltd, Culham Lighting Ltd, European Antennas Ltd, ERA Technology Ltd, FB Heliservices Ltd, FBS Ltd, Flight Precision Ltd, Flight Refueling Ltd, FR Aviation Ltd, Micromill Electronics Ltd, Rascal Antennas Ltd, Vector Fields Ltd and Wallop Defence Systems Ltd.
30. HCR Group Holdings Ltd includes payments made to HCR Ltd.
31. International Business Machines Corporation includes payments made to Cognos Ltd, Data Sciences UK Ltd and IBM UK Ltd.
32. Modus Services (Holdings) Ltd includes payments made to Modus Services Ltd.
33. Royal Dutch Shell PLC includes payments made to Shell Aviation Ltd, Shell Marine Products Ltd, Shell UK Ltd and Shell UK Oil Products Ltd.
34. Scottish and Southern Energy PLC includes payments made to EDF Energy Contracting Ltd, Pride (Serp) Ltd and Sse Energy Supply Ltd.
35. Sodexho includes payments made to Primary Management (Aldershot) Ltd, Sodexho Defence Services Ltd, Sodexho Land Technology Ltd, Sodexho Ltd and Sodexho Pass Ltd.
36. Turner & Co (Glasgow) Ltd includes payments made to Mitchell Diesel Ltd, Turner Aviation Ltd, Turner Facilities Management Ltd, Turner Facilities Management (Glasgow) and Amec Turner Ltd.
37. Ultra Electronics Holdings PLC includes payments made to Ultra Electronics Ocean Systems Inc and Ultra Electronics Ltd.

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This section presents information on MOD's commitment to Conflict Prevention, contextual information on NATO countries' defence expenditure and information on the top world-wide military spenders. **Table 1.19** presents the estimated costs incurred by MOD in respect of conflict prevention during the past three financial years. This year **Table 1.19** has been redesigned to include more information on the net direct and indirect costs incurred by MOD operations overseas. **Table 1.20** details the defence expenditure in local currency for each of the NATO countries. **Table 1.21** presents the defence expenditure as a percentage of GDP for each of the NATO countries. **Table 1.22** details the top 15 military spenders worldwide, ranked using Market Exchange rates and Purchasing Power Parity rates.

Main Findings

MOD Operation and Peacekeeping (Table 1.19)

- In 2007/08, the MOD spent around £3.0 billion on conflict prevention worldwide.
- The net additional cost incurred by the MOD as a result of operations in Iraq and Afghanistan was around £1.5 billion each.

NATO Countries Defence Expenditure (Table 1.21)

- USA, Turkey and Greece have the highest Estimated Total Defence Expenditure as a percentage of GDP for NATO Countries at 3.8%, 2.8% and 2.8% respectively.

Top World-wide Military Spenders (Table 1.22)

- In 2007, total worldwide military expenditure is estimated to be US \$1214 billion at 2005 prices and exchange rates.
- The USA is the world's largest military spender accounting for 45% of worldwide expenditure in 2007.
- In 2007, the UK is the second largest military spender, accounting for around 5% of worldwide military spend, behind the USA (using comparisons based on market exchange rates). The UK is fifth, based on purchasing power parity comparisons, after USA, China, Russia and India.

Sources of international defence data

International Defence statistics are available in a variety of publications and on a substantial number of websites. A selection of the sources, which may prove useful in making these sorts of comparisons are listed in the Bibliography and Useful Websites sections. Defence Analytical Services and Advice (DASA) has no control over the quality, reliability and coverage of data contained within these sources and does not endorse any specific output.

Data provided in Tables 1.20, 1.21 and 1.22 fall outside the scope of National Statistics and as such, must be regarded as illustrative only.

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Limitations of international defence data

Data on defence expenditure are associated with a number of limitations, which are of three main types: reliability, validity and comparability. 43

The main problems associated with reliability stem from the limited and varying definitions of defence expenditure. The coverage of official data on defence expenditure varies significantly between countries and over time for the same country and, furthermore, in some countries actual expenditure may be very different from budgeted expenditure. These factors limit the utility of international defence expenditure.

A second reason for their limited utility is the very nature of expenditure data. The fact that they are merely input measures gives them limited utility as an indicator of military strength or capability. In reality, the composition of military expenditure has a major impact on the military capability it provides, as does the technological level of military equipment, the state of maintenance and repair, and so on. The most appropriate use of defence and military expenditure data, even when reliably measured and reported, is therefore as an indicator of the economic resources consumed for military purposes.

Comparisons of the defence spending of different countries confront two significant problems. Firstly while there are standard definitions of defence spending and accounting conventions used by the international organisations, principally the UN, not all countries record and publish their defence spending in accordance with such definitions and conventions. Secondly conversion into a common currency using market exchange rates (MER) tends to undervalue the currency and hence the scale of expenditure of lower income countries. Attempts are often made to circumvent this problem using purchasing power parity (PPP) measures. These use currency conversion rates which equalise the overall price of a bundle of goods and services in each country. However PPP measures can be highly inaccurate because of the difficulty of allowing for differences in quality and devising appropriate and relevant “weighting” of individual goods and services. Civilian based PPPs may also not be representative of defence goods and services.

While these problems are fairly insignificant in relation to the comparison of defence spending of NATO members in **Table 1.20**, they are substantial in relation to the global comparison in **Table 1.22**.

Note on NATO definition of defence expenditure

The NATO definition of defence expenditure differs from national definitions so the figures quoted may differ from those given in national budgets. Expenditure is included for countries that provide Military Assistance. Expenditure is not included for countries receiving assistance. The financial year has been designated by the year which includes the highest number of months. For example year 2006 represents 2006/07 for Canada and the United Kingdom and 2005/06 for the United States (where the financial year for United States runs from October through to September).

Defence expenditures as of 2002 have been calculated on the basis of the revised NATO definition agreed in 2004, which excluded expenditure on Other Forces from the totals reported to NATO, except in the case of those elements of Other Forces which are structured, equipped and trained to support defence forces and which are realistically deployable. Most nations have reported defence expenditures according to this new definition, and in some cases (Greece, Hungary, Portugal and Turkey), this has resulted in a significant apparent decrease in defence expenditures. A few, however (France, Italy and Luxembourg), continue to have difficulty meeting this requirement and the data provided by these countries did not fully accord with the new NATO definition on defence expenditures. Consequently figures in **Table 1.20** for “NATO Total”, “NATO Europe” and “North America” are only indicative.

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Table 1.19 MOD Operations and Peacekeeping Costs¹

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This table shows a breakdown of the net operating and capital costs for the three main Operations alongside the Departmental Allocation for this year and the outturn for 2007/08. These costs cover the net additional costs (both direct and indirect) incurred by MOD as a result of major military operations: that is, those costs over and above those that the Department would have incurred had the operation not been undertaken. For example, expenditure on wages and salaries or savings from cancelled training exercises are deducted from the total cost of the operation.

	Current Prices (£ million)								
	Iraq			Afghanistan			Balkans		
	Total Departmental Allocation 2007-08	Total Outturn 2007-08	Total Outturn 2006-07	Total Departmental Allocation 2007-08	Total Outturn 2007-08	Total Outturn 2006-07	Total Departmental Allocation 2007-08	Total Outturn 2007-08	Total Outturn 2006-07
Operating Cost (by area)									
<i>Direct Costs:</i>									
Service Manpower	93	98	100	79	85	49	3	2	11
Civilian Manpower	15	14	15	8	9	4	2	2	5
Infrastructure costs	109	130	83	163	149	101	8	8	13
Equipment support	357	278	206	220	200	112	3	1	6
Other costs and services	162	162	137	153	160	89	10	7	14
Income ²	5	4	5	18	11	(2)	(1)	(1)	(10)
Stock consumption	263	237	218	237	301	164	6	6	15
<i>Indirect costs:</i>									
Stock write off / (write-on)	2	-	-	6	4	-	-	-	-
Provisions	4	5	6	-	-	-	-	(1)	1
Depreciation, amortisation (including UOR ³) and fixed asset write-off	169	119	14	197	143	39	-	-	-
Cost of capital	24	8	3	22	9	2	-	-	-
Total Operating Costs	1 203	1 055	787	1 102	1 071	560	31	26	55
Capital cost (by area)									
Capital addition (including UOR and Recuperation)	445	403	169	547	433	178	-	-	1
Total by Operation	1 648	1 457	956	1 649	1 504	738	31	26	56

Source: MOD Annual Report & Accounts

1. Excludes programme expenditure grouped in either the African or Global pools.
2. Positive figures on the income line represent the cost of income foregone (loss of receipts) as a result of conducting operations (e.g. food and accommodation receipts in respect of deployed personnel). Negative figures (figures in brackets) on the income line represent income generated on operations (e.g. support to other nations in respect of catering and medical services).
3. UOR = Urgent Operational Requirements.

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Table 1.20 NATO Countries Defence Expenditure 2003 - 2007

This table shows defence payments accrued within financial years 2003-2007 as extracted from the NATO website <http://www.nato.int/docu/pr/2007/p07-141e.html>. Figures are based on the NATO definition of defence expenditure and are stated at 2000 prices and exchange rates.

The NATO definition of defence expenditure differs from national definitions so the figures quoted may diverge considerably from those given in national budgets. Expenditure is included for countries that provide Military Assistance. Expenditure is not included for countries receiving assistance. The financial year has been designated by the year which includes the highest number of months. For example year 2006 represents 2006/07 for Canada and the United Kingdom and 2005/06 for the United States (where the financial year for United States runs from October through to September).

Defence expenditures as of 2002 have been calculated on the basis of the revised NATO definition agreed in 2004. Most nations have reported defence expenditures according to this new definition. A few, however, continue to have difficulty meeting this requirement. Consequently figures for "NATO Total", "NATO Europe" and "North America" for 2003 are only indicative. Total figures for 2004 onwards are not calculated due to unavailability of exchange rate information, for 2000, for the countries new to the Alliance. See page 43 for more information on the new NATO definition.

The data in this table are outside the scope of National Statistics because they are provided by an organisation outside the UK Government Statistical Service.

2000 Prices and Exchange Rates						
Country	Currency Unit (Million)	2003	2004	2005	2006	Estimated 2007
NATO Total^{1,2}	US Dollars	555 247
NATO - Europe^{1,2,3}	US Dollars	162 527
Belgium	Euro	3 245 †	3 177 †	3 062 †	3 039	3 172
Bulgaria ⁴	Levas	*	821 †	850 †	835	899
Czech Republic	Czech Koruny	48 197 †	45 245 †	46 672 †	47 147	45 872
Denmark	Danish Kroner	19 457	19 387	18 421	20 180	18 635
Estonia ⁴	Kroonis	*	2 004 †	2 096 †	2 265	2 787
France ^{5,6}	Euro	38 248	39 505 †	38 699 †	38 650	38 673
Germany	Euro	29 949 †	29 264 †	29 075 †	28 776	28 612
Greece	Euro	3 863 †	4 209 †	4 604 †	4 787	5 043
Hungary	Forint	254 096 †	240 663 †	241 330 †	216 823	192 678
Italy	Euro	23 205	22 309	20 501 †	18 351	17 705
Latvia ⁴	Lats	*	81	90 †	123	145
Lithuania ⁴	Litai	*	908	842 †	903	977
Luxembourg	Euro	164	173	175	175	221
Netherlands	Euro	6 614	6 581	6 599	6 884	6 771
Norway	Norwegian Kroner	29 488	29 957	27 645	27 496	27 368
Poland	Zlotys	14 527 †	15 287 †	15 782 †	16 535	18 717
Portugal	Euro	1 885 †	2 010 †	2 156 †	2 085	1 997
Romania ⁴	Lei - New Lei ⁷	*	20 661 095 †	2 123 †	2 111	2 293
Slovak Republic ⁴	Slovak Koruny	*	18 806 †	20 447 †	21 093	23 166
Slovenia ^{4,8}	Tolars - Euro	*	74 335 †	76 369 †	87 979	381
Spain	Euro	8 461 †	8 660 †	8 552 †	9 016	9 708
Turkey	1000 Turkish Liras- New Turkish Liras ⁷	5 035 733	4 486 689	4 332	4 573	4 734
United Kingdom	Pounds Sterling	24 325 †	24 053 †	26 970 †	27 725	26 415
North America^{1,2}	US Dollars	392 720
Canada	Canadian Dollars	13 393 †	13 717 †	14 204 †	14 800	16 691
United States	US Dollars	383 708	416 195 †	435 883 †	439 304	441 919

Source: NATO

1. France, Italy and Luxembourg figures are based on the old NATO definition of defence expenditure, whereas all the other countries are based on the new definition agreed by the member states in 2004. The NATO totals include all countries' expenditure regardless of which definition was used.

2. In the absence of NATO data expressed at 2000 exchange rates and prices for the 'NATO', 'NATO Europe' and 'North America' totals, the individual country totals (expressed in local currencies at 2000 prices) have been converted to US dollars using the 2000 exchange rate for each country supplied by the Bank of England. Where Bank of England data were not available, comparable dollar exchange rates have been sourced from the Pacific Exchange Rate Service (<http://fx.sauder.ubc.ca/data.html>).

3. Iceland is a member of the Alliance but has no armed forces.

4. Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovak Republic, and Slovenia joined the Alliance in 2004.

5. France is a member of the Alliance but does not belong to the integrated military structure and does not participate in collective force planning. The defence data relating to France are indicative only.

6. From 2006 onwards, following the introduction of new budgetary reform and financial law, defence expenditures are calculated with a new methodology.

7. From 2005 onwards, monetary values for Romania and Turkey are expressed in new currency units.

8. Slovenia joined the Euro in 2007, data up to this point are in Tolars.

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Table 1.21 NATO Countries Defence Expenditure as % of GDP 2003 - 2007

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This table shows defence payments accrued within financial years 2003-2007 as a percentage of GDP. The figures are those extracted from the NATO website <http://www.nato.int/docu/pr/2007/p07-141e.html>. Figures are based on the NATO definition of defence expenditure and are stated at constant prices, where the effects of inflation have been removed. Previous publications have used data in the table based on current prices but constant prices are more comparable to the data displayed in **Table 1.20**.

The NATO definition of defence expenditure differs from national definitions so the figures quoted may diverge considerably from those given in national budgets. Expenditure is included for countries that provide Military Assistance. Expenditure is not included for countries receiving assistance. The financial year has been designated by the year which includes the highest number of months. For example the year 2006 represents 2006/07 for Canada and the United Kingdom and 2005/06 for the United States (where the financial year for United States runs from October through to September).

Defence expenditures as of 2002 have been calculated on the basis of the revised NATO definition agreed in 2004. Most nations have reported defence expenditures according to this new definition. A few, however, continue to have difficulty meeting this requirement. More information on the new NATO definition can be found on page 43.

The data in this table are outside the scope of National Statistics because they are provided by an organisation outside the UK Government Statistical Service.

Country	Constant Prices				
	2003	2004	2005	2006	Estimated 2007
NATO - Europe^{1,2}					
Belgium	1.2	1.2	1.1	1.1	1.1
Bulgaria ³	*	2.5	2.5	2.3	2.3
Czech Republic	2.0	1.8	1.8	1.7	1.6
Denmark	1.5	1.4	1.3	1.4	1.3
Estonia ³	*	1.6	1.5	1.4	1.6
France ⁴	2.6	2.6	2.5 II	2.4	2.4
Germany	1.4	1.4	1.4	1.3	1.3
Greece	2.5	2.6	2.7	2.7	2.8
Hungary	1.7	1.5	1.4	1.2	1.1
Italy	1.9	1.8	1.7	1.5	1.4
Latvia ³	*	1.3	1.3	1.6	1.7
Lithuania ³	*	1.5	1.3	1.3	1.3
Luxembourg	0.7	0.7	0.7	0.6	0.8
Netherlands	1.5	1.5	1.5	1.5	1.4
Norway	1.9	1.9	1.7	1.6	1.6
Poland	1.8	1.8	1.8	1.8	1.9
Portugal	1.5	1.6	1.7	1.6	1.5
Romania ³	*	2.0	2.0	1.8	1.9
Slovak Republic ³	*	1.7	1.7	1.7	1.7
Slovenia ³	*	1.5	1.5	1.6	1.6
Spain	1.2	1.2	1.2	1.2	1.2
Turkey	3.8	3.1	2.8	2.8	2.8
United Kingdom	2.4	2.3	2.5	2.5	2.3
North America¹					
Canada	1.2	1.2	1.2	1.2	1.3
United States	3.7	3.9	4.0	3.9	3.8

Source: NATO

1. France, Italy and Luxembourg figures are based on the old NATO definition of defence expenditure, whereas all the other countries are based on the new definition agreed by the member states in 2004.
2. Iceland is a member of the Alliance but has no armed forces.
3. Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovak Republic and Slovenia joined the Alliance in 2004.
4. France is a member of the Alliance but does not belong to the integrated military structure and does not participate in collective force planning. The defence data relating to France are indicative only.

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Table 1.22 Top World-wide Military Spenders: 2007

This table shows the Top 15 World-wide Military Spenders in 2007. Figures are in US billion Dollars and at **2005 Prices and Exchange Rates**. Countries are ranked separately using Market Exchange Rates and Purchasing Power Parity (PPP rates). If a different base year were used, the rankings could change due to fluctuations in exchange rates.

Conversion into a common currency using Market Exchange Rates (MER) tends to undervalue the currency and hence the scale of expenditure of lower income countries, although this may also be because a large part of the economy of a lower income country is domestically based and not based on internationally traded goods and services. Attempts are often made to circumvent this problem using Purchasing Power Parity (PPP) measures. These use currency conversion rates which equalise the overall price of a bundle of goods and services in each country. However PPP measures can be highly inaccurate because of the difficulty of allowing for differences in quality and devising appropriate and relevant "weighting" of individual goods and services. Civilian based PPPs may also not be representative of defence goods and services. As such, this table must be regarded as providing only an illustrative ranking of world-wide military spending.

The data in this table are outside the scope of National Statistics because they are provided by an organisation outside the UK Government Statistical Service.

At constant 2005 Prices and Exchange Rates

Market Exchange Rates					Purchasing Power Parity Rates ¹		
Rank	Country	Spending US\$ Billions	Spending Per Capita US\$	World Share %	Rank	Country	Spending US\$ Billions
1	USA	546.8	1 799	45	1	USA	546.8
2	UK	59.7	995	5	2	China	[140.3]
3	China	[58.3]	[44]	[5]	3	Russia	[78.8]
4	France	53.6	880	4	4	India	72.7
5	Japan	43.6	339	4	5	UK	54.7
Sub-total Top 5		762.0		63	Sub-total Top 5		893.3
6	Germany	36.9	447	3	6	Saudi Arabia ²	52.8
7	Russia	[35.4]	[249]	[3]	7	France	47.9
8	Saudi Arabia ²	33.8	1 310	3	8	Japan	37.0
9	Italy	33.1	568	3	9	Germany	33.0
10	India	24.2	21	2	10	Italy	29.6
Sub-total Top 10		925.4		76	Sub-total Top 10		1 093.6
11	South Korea	22.6	470	2	11	South Korea	29.4
12	Brazil	15.3	80	1	12	Brazil	26.7
13	Canada	15.2	461	1	13	Iran ³	22.1
14	Australia	15.1	733	1	14	Turkey	16.5
15	Spain	14.6	336	1	15	Taiwan	15.8
Sub-total Top 15		1 008.2		83	Sub-total Top 15		1 204.1
World Total		1 214	183	100	World Total		..

Source: Stockholm International Peace Research Institute (SIPRI)

1. The figures in PPP dollar terms are converted at PPP rates (for 2005), based on prices comparisons of the components of GDP.
2. The figures for Saudi Arabia include expenditure for public order and safety and might be slight overestimates.
3. The figure for Iran is for national defence and does not include spending on the Revolutionary Guards Corps, which constitutes a considerable part of Iran's total military expenditure.

[] Indicates SIPRI estimate.