

**MEMORANDUM FOR THE MINISTRY OF DEFENCE**

**MAIN ESTIMATES 2018-19**

**1. Introduction:**

1.1 This Memorandum covers the Main Estimate (ME) for the Ministry of Defence (MOD) and should be read in conjunction with the Department's ME 2018-19. The Department's spending plans for 2018-19 are based on the third year (of five) of the Spending Review 2015 (Cm 9162) published in November 2015.

1.2 The Department's Expenditure Limit (DEL) (Resource and Capital) for 2018-19 is £37.0Bn (including net budget cover transfers to Other Government Departments (OGDs) in 2016-18 but excluding ring fenced expenditure). In addition, initial funding has been provided from HM Treasury (HMT) Reserve for the net additional costs of Military Operations and Peacekeeping.

1.3 There are no contingencies funded in this Estimate, and contingent liabilities are reported in a separate table in the Estimate.

1.4 There is a separate Estimates Memorandum for the Armed Forces Pensions and Compensation Schemes vote.

1.5 Please note, the figures in the tables within this memorandum have been rounded to one decimal place. In some cases this has caused a minor discrepancy between the figures in the tables and the totals shown due to the rounding of the figures.

## Summary of Resources sought in the Estimate

1.6 Part I of the Estimate sets out the new resource requirements for the Department for the year ending 31 March 2019. The resources requested are set out at Tables 1 and 2 below.

Table 1: Summary of Resource Expenditure Request at 2018-19 Main Estimates

<b>Resource Expenditure</b>	<b>£M</b>
<i>Resource DEL: Provision of Defence Capability</i>	36,379.4
<i>Resource DEL: Operations and Peacekeeping &amp; CSSF</i>	328.1
<b>Resource DEL</b>	<b>36,707.5</b>
<i>Resource AME Provision of Defence Capability</i>	1,382.6
<b>Total Net Request for Resource</b>	<b>38,090.1</b>

Table 2: Summary of Capital Expenditure Request at 2018-19 Main Estimates

<b>Capital Expenditure</b>	<b>£M</b>
<i>Capital DEL: Provision of Defence Capability</i>	8,681.0
Capital DEL: Operations and Peacekeeping	80.0
<b>Capital DEL</b>	<b>8,761.0</b>
<i>Capital AME</i>	136.7
<b>Total Net Request for Capital</b>	<b>8,897.7</b>

### Budget Exchange

1.7 There is no Budget Exchange included as part of the 2018-19 Main Estimate.

## 2 Composition of the Main Estimates:

### How the Main Estimate has been structured

2.1 The Main Estimate has been structured by commodity cost block, based on the latest information available at the time of the HM Treasury deadline for populating the Online System for Central Accounting and Reporting (OSCAR), while also ensuring that the resource request does not exceed the Spending Review agreement. In

addition, the underlying data may require some refinement and adjustment across commodity blocks at Supplementary Estimates to reflect changes as a result of Annual Budget Cycle (ABC) final decisions.

### The Main Commodity Cost Blocks

#### *Resource DEL:*

2.2 Table 3 summarises the RDEL commodity blocks for Defence Capability at Main Estimate.

Table 3: Commodity Block RDEL Request at 2018-19 Main Estimate

<b>Commodity Block<sup>1</sup> (£M )</b>	<b>Administration</b>	<b>Programme</b>	<b>Total MOD</b>
<i>Service Personnel Costs</i>	660.0	8,928.2	9,588.2
<i>Civilian Personnel Costs</i>	430.0	1,626.9	2,056.9
<i>Infrastructure Costs</i>		3,901.8	3,901.8
<i>Inventory Consumption</i>		1,572.9	1,572.9
<i>Equipment Support Costs</i>		7,268.6	7,268.6
<i>Research and Development Costs</i>		168.0	168.0
<i>Other Costs and Services</i>	370.9	2,381.6	2,752.5
<i>Receipts and Other Income</i>		( 1,568.2)	( 1,568.2)
<i>Cash Release of Provisions</i>	12.0	338.0	350.0
<i>Arms Length Bodies (ALBs)</i>		176.3	176.3
<i>DE&amp;S - BTE</i>		894.4	894.4
<i>War Pension Benefit</i>		718.1	718.1
<b>Total Non Ringed Resource DEL</b>	<b>1,472.9</b>	<b>26,406.4</b>	<b>27,879.3</b>
<i>Ring Fenced Non-Cash:Depreciation &amp; Impairments - TLBs</i>		8,496.1	8,496.1
<i>Ring Fenced Non-Cash:Depreciation &amp; Impairments - ALBs</i>		3.9	3.9
<b>Total Core Resource DEL</b>	<b>1,472.9</b>	<b>34,906.4</b>	<b>36,379.3</b>

**Note 1:** See Annex A-3 for the breakdown of the major types of commodity costs.

2.3 The Department has allocated £718.1M for War Pension Benefits. The costs for the Armed Forces Pension and Compensation Schemes (AFPCS) are accounted for under a separate vote for the AFPCS Estimate.

2.4 The DE&S Bespoke Trading Entity (BTE) sits outside the wider Administration Costs Regime (ACR) and the Control Totals shown by commodity blocks are in line with the Department's plans. DE&S itself is an executive agency and will publish separate plans and annual accounts at the end of FY 2017-18.

*Capital DEL:*

2.5 Table 4 summarises the CDEL commodity cost blocks for Defence Capability at Main Estimate.

Table 4: Commodity Block CDEL Request at 2018-19 Main Estimate

Commodity Block <sup>1</sup> (£M )	Net CDEL
<i>Fiscal Capital</i>	2,701.5
<i>SUME<sup>2</sup> Capital</i>	4,333.1
<i>Research &amp; Development</i>	1,772.0
<i>Fiscal Asset/Estate Disposal</i>	( 213.0)
<i>Loan Repayments</i>	15.7
<i>Arms Length Bodies</i>	2.5
<i>DE&amp;S - BTE</i>	69.2
<b>Total Capital DEL</b>	<b>8,681.0</b>

**Note 1:** See Annex A-3 for the breakdown of the major types of commodity costs.

**Note 2:** Single Use Military Equipment.

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Transfers between Government Departments:

2.6 Transfers to and from other Government Departments are shown in Tables 5 and 6. In some cases, funding for future years has been agreed in previous accounting periods.

Table 5: Transfers to MOD from Other Government Departments

Exporting Department	Defence Output	£M	Purpose
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<i>Department for International Trade (DIT)</i>	<i>Provision of Defence Capability - RDEL</i>	<i>0.4</i>	<i>Typhoon Export Campaign (DIT)</i>
<i>Security &amp; Intelligence Agencies (SIA)</i>	<i>Provision of Defence Capability - RDEL</i>	<i>35.9</i>	<i>GCHQ</i>
<i>Department for International Development (DFID)</i>	<i>Conflict, Stability and Security Fund</i>	<i>78.1</i>	<i>CSSF funding</i>
<b>Total</b>		<b>114.4</b>	

**Note:** There are transfers from Other Government Departments for previous Estimates impacting on 2018-19.

Table 6: Transfers from MOD to Other Government Departments

<b>Importing Department</b>	<b>Defence Output</b>	<b>£M</b>	<b>Purpose</b>
<i>Security &amp; Intelligence Agencies (SIA)</i>	<i>Provision of Defence Capability - RDEL</i>	<i>( 80.8)</i>	<i>NOCP Programme Funding</i>
<i>Department for International Trade (DIT)</i>	<i>Provision of Defence Capability - RDEL</i>	<i>( 0.3)</i>	<i>Military SCAPE</i>
<i>Security &amp; Intelligence Agencies (SIA)</i>	<i>Provision of Defence Capability - RDEL</i>	<i>( 236.0)</i>	<i>CYBER NCSP</i>
<i>Security &amp; Intelligence Agencies (SIA)</i>	<i>Provision of Defence Capability - CDEL</i>	<i>( 58.4)</i>	<i>CYBER NCSP</i>
<i>Department of Health</i>	<i>Provision of Defence Capability - RDEL</i>	<i>( 13.0)</i>	<i>War Pensions</i>
<i>Cabinet Office</i>	<i>Provision of Defence Capability - RDEL</i>	<i>( 0.1)</i>	<i>Civil Service Live</i>
<i>Cabinet Office</i>	<i>Provision of Defence Capability - RDEL</i>	<i>( 7.5)</i>	<i>CT Accelerator</i>
<i>Cabinet Office</i>	<i>Provision of Defence Capability - RDEL</i>	<i>( 0.4)</i>	<i>Civil Service LOCAL</i>
<i>Cabinet Office</i>	<i>Provision of Defence Capability - RDEL</i>	<i>( 29.5)</i>	<i>Integrated Activity Fund</i>
<b>Total</b>		<b>( 426.0)</b>	

**Note:** There are transfers to Other Government Departments for previous Estimates impacting on 2018-19.

### Arms Length Bodies:

2.7 Under Clear Line of Sight (CloS), Arms Length Bodies (ALBs) now form part of Departmental DEL. Table 7 summarises the funding requested by MOD ALBs and is based on information received from the sponsoring Top Level Budget (TLB).

Table 7: Breakdown of the Non Departmental Public Bodies (NDPBs)  
Request for Resources at 2018-19 Supplementary Estimate

Organisation	Resource DEL £M	Capital DEL £M
<i>Commonwealth War Graves Commission</i>	52.8	
<i>National Army Museum</i>	7.7	
<i>National Museum of the Royal Navy</i>	4.6	0.1
<i>Royal Air Force Museum</i>	9.3	
<i>Royal Hospital, Chelsea</i>	13.5	
<i>Single Source Regulations Office</i>	6.1	
<i>Territorial, Auxiliary and Volunteer Reserve Associations established under s 110 of the Reserve Act</i>	86.2	2.3
<b>Total</b>	<b>180.2</b>	<b>2.4</b>

**Note 1:** also known as CRFCA: Council for Reserve Forces & Cadets Associations

### 3 Operations:

3.1 The MOD's total request for the initial net additional costs of military operations is set out in Table 8.

Table 8: Summary Cost of Operations and Peacekeeping at 2018-19 Main Estimates

Operation	Total Resource DEL £M	Capital DEL £M	2018-19 ME £M	2017-18 SE Request £M
<i>Afghanistan</i>	34.0		34.0	84.9
<i>Wider Gulf</i>	29.0		29.0	62.0
<i>Counter Daesh</i>	153.0	80.0	233.0	612.0
<i>Enhanced Forward Presence/NATO Reassurance</i>	16.0		16.0	43.1
<i>DMAP<sup>1</sup></i>	8.0		8.0	25.0
<i>Other Operations</i>				53.3
<i>Cabinet Office Transfer</i>	10.0		10.0	26.4
<i>Conflict, Stability and Security Fund (CSSF)<sup>2</sup></i>	78.1		78.1	127.9
<b>Total</b>	<b>328.1</b>	<b>80.0</b>	<b>408.1</b>	<b>1,034.6</b>

**Note 1:** Deployed Military Activity Pool

**Note 2:** Conflict Stability and Security Fund. This replaced the Conflict Pool.

#### Operations and Peacekeeping Summary:

3.2 A total of £408.1M in resources for Operations and Peacekeeping and the MOD's share of the CSSF is requested. A breakdown of the initial cost of operations

is at Table 8. Additional resources will be requested at Supplementary Estimates to cover the remaining net additional costs of military operations.

### 3.3 Afghanistan:

An allocation of £34M is requested to cover the initial costs of the UK's contribution to the NATO Resolute Support Mission in Afghanistan and our support to the Afghan National Army Officer Academy.

### 3.4 Wider Gulf:

An allocation of £29M is requested to cover the initial net additional costs of UK forces deployed to the wider Gulf to support security in the region, reassure our regional allies and support access and over flight for operations in Afghanistan, Iraq and Syria.

### 3.5 Counter Daesh:

An allocation of £233M is requested to meet the initial net additional costs of counter Daesh activity. This includes airstrikes and airborne intelligence gathering operations in Iraq and Syria, helping train local Security Forces and a contribution to coalition operations in Iraq.

### 3.6 Deployed Military Activity Pool (DMAP):

The DMAP is a joint HM Treasury and MOD initiative to make available resources to fund the initial and short term costs of any unforeseen military activities, as authorised by the National Security Council. An initial £8.0M of the £50.0M Near Cash for the year is requested from the HM Treasury Special Reserve at the Main Estimate, this will be matched by £50.0M from the MOD's Defence Capability resources.

### 3.7 Conflict Stability and Security Fund (CSSF)

The CSSF replaced the Conflict Pool as the Government's mechanism for funding conflict prevention, stabilisation, security and peacekeeping activities, under the

strategic direction of the NSC. An initial allocation of £78.1M is requested for the MOD's contribution to this activity.

#### 4 Annually Managed Expenditure

4.1 Table 9 sets out our AME Defence Capability Request based on the latest information available.

Table 9: Summary of AME Core Request at 2018-19 Main Estimates

(£M )	ME Total
<i>Depreciation &amp; Impairments</i>	952.6
<i>Cash Release of Provisions</i>	( 350.0)
<i>Financial Instruments Value</i>	300.0
<i>Creation of Provisions</i>	480.0
<b>Total Resource AME</b>	<b>1,382.6</b>
<i>Capital AME</i>	136.7
<b>Total AME</b>	<b>1,519.3</b>

#### 5 Summary Estimates Composition:

5.1 Table 10 summarises the composition of the Estimate, including changes since the Spending Review 2015 Settlement.

**Table 10: MOD 2018-19 MAIN ESTIMATE**



£M	Non Ring Fenced RDEL	Ring Fenced RDEL	Total RDEL	CDEL	Resource AME
<b>Cost of Core Defence Capability incl. WPB (at start)</b>	<b>28,210.7</b>	<b>8,500.0</b>	<b>36,710.7</b>	<b>8,744.5</b>	
<i>Typhoon Export Campaign (DIT)</i>	0.4		0.4		
<i>GCHQ Support Costs (SIA)</i>	35.9		35.9		
<b>Transfers Into Core</b>	<b>36.3</b>		<b>36.3</b>		
<i>NOCP (SIA)</i>	( 80.8)		( 80.8)		
<i>JCKP (JFC)</i>	( 8.0)		( 8.0)	( 19.4)	
<i>War Pensions Transfer (DoH)</i>	( 13.0)		( 13.0)		
<i>Civil Service Live Transfer to CO</i>	( 0.1)		( 0.1)		
<i>CT Accelerator</i>	( 7.5)		( 7.5)		
<i>Military SCAPE (DIT)</i>	( 0.3)		( 0.3)		
<i>Civil Service LOCAL (CO)</i>	( 0.4)		( 0.4)		
<i>Integrated Activity Fund (CO)</i>	( 29.5)		( 29.5)		
<i>CYBER NCSP (SIA)</i>	( 228.0)		( 228.0)	( 39.0)	
<b>Transfers Out</b>	<b>( 367.7)</b>		<b>( 367.7)</b>	<b>( 58.4)</b>	
<b>Net OGD Transfers</b>	<b>( 331.3)</b>		<b>( 331.3)</b>	<b>( 58.4)</b>	
<i>Museum Loan Repayment</i>				( 5.1)	
<i>Resource AME</i>					1,382.6
<i>Capital AME</i>					136.7
<b>Total Other changes</b>				<b>( 5.1)</b>	<b>1,519.3</b>
<b>Cost of Defence Capability in Main Estimate</b>	<b>27,879.4</b>	<b>8,500.0</b>	<b>36,379.4</b>	<b>8,681.0</b>	<b>1,519.3</b>
<b>Operations and Peacekeeping in Main Estimate</b>	<b>250.0</b>		<b>250.0</b>	<b>80.0</b>	
<b>CSSF in Main Estimate</b>	<b>78.1</b>		<b>78.1</b>		
<b>Total Resource after Main Estimate in Budgets</b>	<b>28,207.5</b>	<b>8,500.0</b>	<b>36,707.5</b>	<b>8,761.0</b>	<b>1,519.3</b>

## 6 Supplementary Estimate

6.1 It is anticipated that a number of other adjustments will be required at the Supplementary Estimate (published early February 2019), including:

- Refinement and re-allocation of costs between commodity blocks resulting from the conclusion of the financial planning round;
- Some additional LIBOR funding for eligible projects;

- Additional resources to cover the remaining net additional costs of military operations; and
- Up to £600M from the Dreadnought contingency, as announced by the Prime Minister at Prime Minister's Questions on 28 March 2018.

## 7 The Department's Public Strategic Objectives:

7.1 The MOD's objectives and commitments for this parliament are set out in its Single Departmental Plan, which has been agreed with HM Treasury and the Cabinet Office. This plan was last updated on 14 Dec 17 and a copy can be found at: <https://www.gov.uk/government/publications/ministry-of-defence-single-departmental-plan/ministry-of-defence-single-departmental-plan>

## 8 Departmental Expenditure Limit (DEL):

8.1 Table 11 shows the core Defence Capability DEL from 2012-13 to 2017-18.

Table 11: The Departmental Expenditure Limit for 2013-14 to 2017-18 - Core Budget (Defence Capability)

	2014/15 Outturn £M	2015/16 Outturn £M	2016/17 Outturn £M	2017-18 SE £M	2018-19 ME £M
Resource DEL	34,104	34,108.0	35,126	34,682	35,661
Resource DEL - War Pensions <sup>Note 1</sup>		794.8	765	737	718
Capital DEL	7,777	7,521.1	8,573	9,559	8,681
Ring-fenced RDEL	( 8,187)	( 7,690.1)	( 8,783)	( 9,030)	( 8,500)
<b>Total DEL</b>	<b>33,694</b>	<b>34,734</b>	<b>35,681</b>	<b>35,948</b>	<b>36,560</b>

**Note 1:** For FY 2015-16 the budgeting treatment for the War Pensions payments was reallocated from AME to Resource DEL.

## 9 DEL Budget Exchange:

9.1 This will be reviewed at the 2018-19 Supplementary Estimates.

## **10 Provisions and Contingent Liabilities:**

10.1 Provisions for liabilities and charges are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations.

10.2 The MOD's provisions cover legal claims, civilian early departure costs, environmental costs, restructuring and nuclear decommissioning and restoration costs. Details of the Department's Contingent Liabilities are set out in a separate table in the published Main Estimate. We are currently assessing the impact on future contingent liabilities, and will provide further detail on this in our 2017-18 Annual Report and Accounts.

## **11 Machinery of Government Changes:**

11.1 A Machinery of Government (MOG) change is made when the responsibility for a service transfers from one Government department to another. There are no new MOG changes for the MOD in 2018-19.

## **12 Permanent Secretary (PUS) Sign off:**

12.1 The information in this memorandum has been approved by Charlie Pate, Director of Financial Planning and Scrutiny, on behalf of Stephen Lovegrove, Permanent Secretary and Accounting Officer at the Ministry of Defence.

**Definition of Terms:**

**Non Ring-Fenced DEL Resource Expenditure:**

This includes current expenditure which covers, for example, pay, purchase of goods and services, net of receipts, within the resource budget. It excludes items such as depreciation and movement in provisions.

**Ring-Fenced DEL Resource Expenditure:**

This control covers items such as depreciation and impairments.

**Administration Cost Regime:**

The current Administration Cost Regime, within DEL, cover departments' current expenditure on civilian staff, and other services used in the administration of central government as agreed in our Spending Review Settlement.

**Total Resource DEL:**

This is the sum of non ring-fenced expenditure and ring fenced expenditure.

**Annually Managed Expenditure (AME):**

Annually Managed Expenditure (AME) includes Programmes that are demand-led, such as War Pensions, and exceptionally, volatile items that cannot be controlled by the Department. AME also includes Programmes that are so large that the Department could not be expected to absorb the effects of volatility within them, such as cash release of provisions.

**Total Net Resource:**

This is the sum of Total Resource DEL and AME.

**Capital Departmental Expenditure Limit (CDEL):**

This is for new investment (SUME and Fiscal), including capital additions, disposals, and the capital repayment of loans.

**Provision of Defence Capability:**

Provision of Defence Capability provides for expenditure primarily to meet the Ministry of Defence's operational support and logistics services costs and the costs of providing the equipment capability required by Defence policy.

**Operations:**

This provides primarily for the additional costs of operations. These are the net additional costs incurred: the costs that the Department would have incurred regardless of the operation taking place, such as wages and salaries, are recorded against provision of Defence Capability.

**War Pensions Payments:**

War Pensions and Allowances, etc. provides primarily for the payments of pensions and allowances for disablement or death arising out of war or service in the Armed Forces after 2 September 1939, and associated non-cash items.

**Spending Review:**

Spending Review 2015 (Cm 9162)

**Total DEL:**

This is the sum of Resource DEL and Capital DEL less the costs of depreciation. This is used as depreciation and is included as part of Resource DEL and, since Capital DEL includes capital spending, the inclusion of depreciation would lead to double counting.

**Single Use Military Equipment (SUME):**

National Accounts differentiates between single and dual use military equipment. Spending on single use military equipment is classified as current (resource) expenditure. Single use military assets are those that could not be used by civilian organisations for the production of goods and services (i.e. weapons and equipment that supports and delivers such weapons). This distinction will disappear in the next Spending Review.

**Voted and Non Voted Expenditure:**

The introduction to the Supply Estimate now covers both Voted and Non Voted items.

**List of Abbreviations used in the Estimate**

ABC	Annual Budget Cycle
ACR	Administration Cost Regime
ALB	Arms Length Body
AME	Annually Managed Expenditure
ANSF	Afghan National Security Force
BTE	Bespoke Trading Entity
CDEL	Capital Departmental Expenditure Limit
CLoS	Clear Line of Sight
CRFCA	Council for Reserve Forces and Cadets Association
CSR	Comprehensive Spending Review
CWGC	Commonwealth War Graves Commission
DCLG	Department for Communities and Local Government
DOH	Department of Health
DEL	Departmental Expenditure Limits
DFID	Department for International Development
DMAP	Deployed Military Activity Pool
ERNIC	Employer's National Insurance Contribution
GCHQ	Government Communication Headquarters
HMT	Her Majesty's Treasury
LIBOR	London Inter Bank Offered Rate
ME	Supplementary Estimate
MOD	Ministry of Defence
MOG	Machinery of Government
NATO	North Atlantic Treaty Organisation
NDPB	Non Departmental Public Body
OSCAR	Online System for Central Accounting and Reporting
ONS	Office of National Statistics
RDEL	Resource Departmental Expenditure Limit
RHC	Royal Hospital Chelsea
SCAPE	Superannuation Contribution Adjusted for Past Experience
SE	Supplementary Estimates
SIA	Single Intelligence Agency
SR	Spending Review
SUME	Single Use Military Equipment
TLB	Top Level Budget
UK	United Kingdom
UOR	Urgent Operational Requirement

**Current RDEL Commodity Structure**

<b>Commodity Block</b>	<b>Major Cost Categories</b>
<b>Service Personnel Costs</b>	Military and other ranks pay and other allowances; SCAPE; Employer's National Insurance Contributions (ERNIC)
<b>Civilian Personnel Costs</b>	Civilian pay and other allowances; pension contributions; Employer's National Insurance Contributions (ERNIC)
<b>Infrastructure Costs</b>	Property management; service charges; IT & communications costs; utilities costs.
<b>Inventory Consumption</b>	Munitions; stores; fuel (marine & aviation); clothing; other materials consumed e.g. stationary, sundries, general stores etc.
<b>Equipment Support Costs</b>	Equipment support costs, including leases & hire charges for plant, machinery and transport.
<b>Other Costs &amp; Services</b>	Travel & subsistence; professional services & fees; training.
<b>Research and Development</b>	Research and Development expenditure is incurred Supplementary for the future benefit of the Department. Such expenditure is primarily incurred on the development of new single use military equipment (SUME) and on the improvement of the effectiveness and capability of existing single use military equipment.
<b>Receipts and Other Income</b>	Receipts from various sources; costs recoveries; dividends; interest.
<b>Cash Release of Provisions</b>	Nuclear and non-nuclear provisions e.g. staff redundancies, legal costs, environmental, etc.
<b>Arm's Length Bodies</b>	CRFCA; Royal Hospital Chelsea; National Army Museum; RAF Museum; National Museum of the Royal Navy; Commonwealth War Graves Commission. Single Source Regulation Office
<b>Ring-Fenced Non Cash: Depreciation/ Impairments</b>	Depreciation and impairments on Non-current Assets (Property, SUME, dual purpose).