



National Audit Office

OVERVIEW

Ministry of Defence

Departmental Overview 2022-23

We are the UK's independent public spending watchdog

November 2023

What this guide is about

This guide has been produced to support the House of Commons Defence Committee in its examination of the Ministry of Defence's (the MoD's) spending and performance. It summarises the key information and insights that can be gained from our examinations of the MoD and its bodies and the MoD's annual report and accounts. The MoD's running costs in 2022-23 were £47 billion in support of its objectives to provide security for the citizens of the UK and its Overseas Territories by defending them, including against terrorism, and to act as a force for good by strengthening international peace and stability.

The guide includes:

- ➔ how the department is structured and where it spends its money;
- ➔ insights into current operations, inventory management and vetting.
- ➔ specific issues highlighted in this year's annual report and accounts; and

How we have prepared this guide

The information in this guide draws on the findings and recommendations from our financial audit and value for money programme of work, and from publicly available sources, including the annual report and accounts of the MoD and its bodies.

We have cited these sources throughout the guide to enable readers to seek further information if required. Where analysis has been taken directly from our value for money or other reports, details of our audit approach can be found in the Appendix of each report, including the evaluative criteria and the evidence base used.

Other analysis in the guide has been directly drawn from publicly available data and includes the relevant source as well as any appropriate notes to help the reader understand our analysis.

Other relevant publications

More information about our work on the UK Defence sector in England, as well as information about our other recent and upcoming reports on can be found on the NAO website.

More information about central government accounting and reporting.

You may also be interested in our interactive guide to *Good practice in annual reporting* (February 2023) which sets out good-practice principles for annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.



This report updates our previous overview, *The Ministry of Defence: Departmental Overview 2021-22*, published in December 2022.

Departmental Overview 2022-23

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About the National Audit Office

The National Audit Office (NAO) is the UK's independent public spending watchdog. We scrutinise public spending for Parliament and are independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services.

The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. We audit the financial accounts of departments and other public bodies. We also examine and report on the value for money of how public money has been spent.

In 2022, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £572 million.

If you would like to know more about the NAO's work on the Ministry of Defence, or are interested in the NAO's work and support for Parliament more widely, please contact:

Parliament@nao.org.uk
020 7798 7665



Part One • Overview

About the MoD

The Ministry of Defence (MoD) is a government department led by the Secretary of State for Defence. It includes:

- a department of state, responsible for supporting ministers, developing policy, developing and delivering plans and generating military capability; and
- a military strategic headquarters. This is a specialised role, unique to the department, that directs and carries out military operations on behalf of the government.



Focus of NAO value for money work on defence

Since our previous overview, we have published two reports: *Investigation into the Performance of UK Security Vetting*, January 2023; and *Defence Inventory Management*, September 2023.

The MoD's purpose is to protect the nation and help it prosper. Alongside other government departments, the MoD provides security for citizens of the UK and the Overseas Territories, including against terrorism, and acts as a force for good by strengthening international peace and stability.

The priority outcomes are to:

- 1 protect the UK, its Crown Dependencies, and its Overseas Territories, and contribute to the collective deterrence and defence of the Euro-Atlantic area: able to deter and, if necessary, defend against and defeat, attacks on the UK homeland (including our Overseas Territories) and our NATO allies;
- 2 pursue a campaigning approach to counter the threats from state and non-state actors, wherever they manifest in the world, working in an integrated way with allies and partners to achieve focused and impactful results;
- 3 promote our national interests globally, building influential relationships, and maintaining engagement and access; and
- 4 secure strategic advantage, achieve greater economic and industrial resilience, and contribute to national prosperity.

Part One - Overview

How the MoD is structured

The MoD's Head Office works with other parts of government to develop and periodically review the UK's national security policy and strategy, which are approved by the Prime Minister. These reviews set the top-level defence policy that the department must enact.

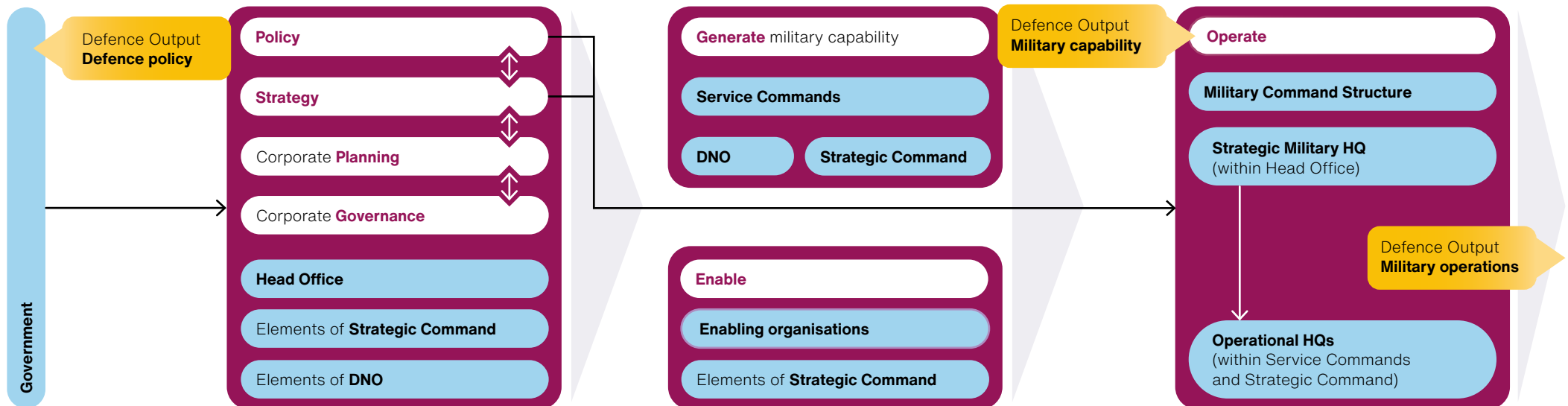
The department then develops its strategy, setting out its strategic and enabling outcomes. The strategy directs how the department conducts and organises its activities to deliver the outcomes on behalf of the Secretary of State for Defence. This strategy is reviewed periodically and is typically reset after a review of wider national security policy and strategy.

From the strategy, the department develops an annual defence plan, which sets out what each part of defence must do to contribute to the outcomes.

In March 2023, the government published the *Integrated Review Refresh 2023: Responding to a more contested and volatile world* policy paper, an update to its 2021 Integrated Review in response to the changing global context. Details of how Defence will deliver on the Integrated Review Refresh were published in July 2023 in *Defence Command Paper 2023: Defence's response to a more contested and volatile world*.

The Ministry of Defence's (the MoD's) operating model

The MoD's organisations and business functions carry out seven core activities (policy, strategy, planning, governance, generate, enable and operate) to deliver three defence outputs (military capability, defence policy and military operations).



Notes

- 1 'Operate' describes conducting military operations.
- 2 'Generate' military capability describes work conducted with Head Office to develop future capability.
- 3 'Enable' describes the activity of the organisations that work within the MoD but at 'arm's-length' from Head Office.
- 4 Functions are cross-cutting activities, such as finance and digital, carried out in various parts of the MoD.
- 5 DNO - Defence Nuclear Organisation.

Part One - Overview

How the MoD is structured continued

The MoD's organisation structure is made up of Head Office, four military commands, the Defence Nuclear Organisation, UK Space Command and Enabling organisations

The core departmental group

Head Office provides the department of state function and political and military strategic direction for the whole MoD.

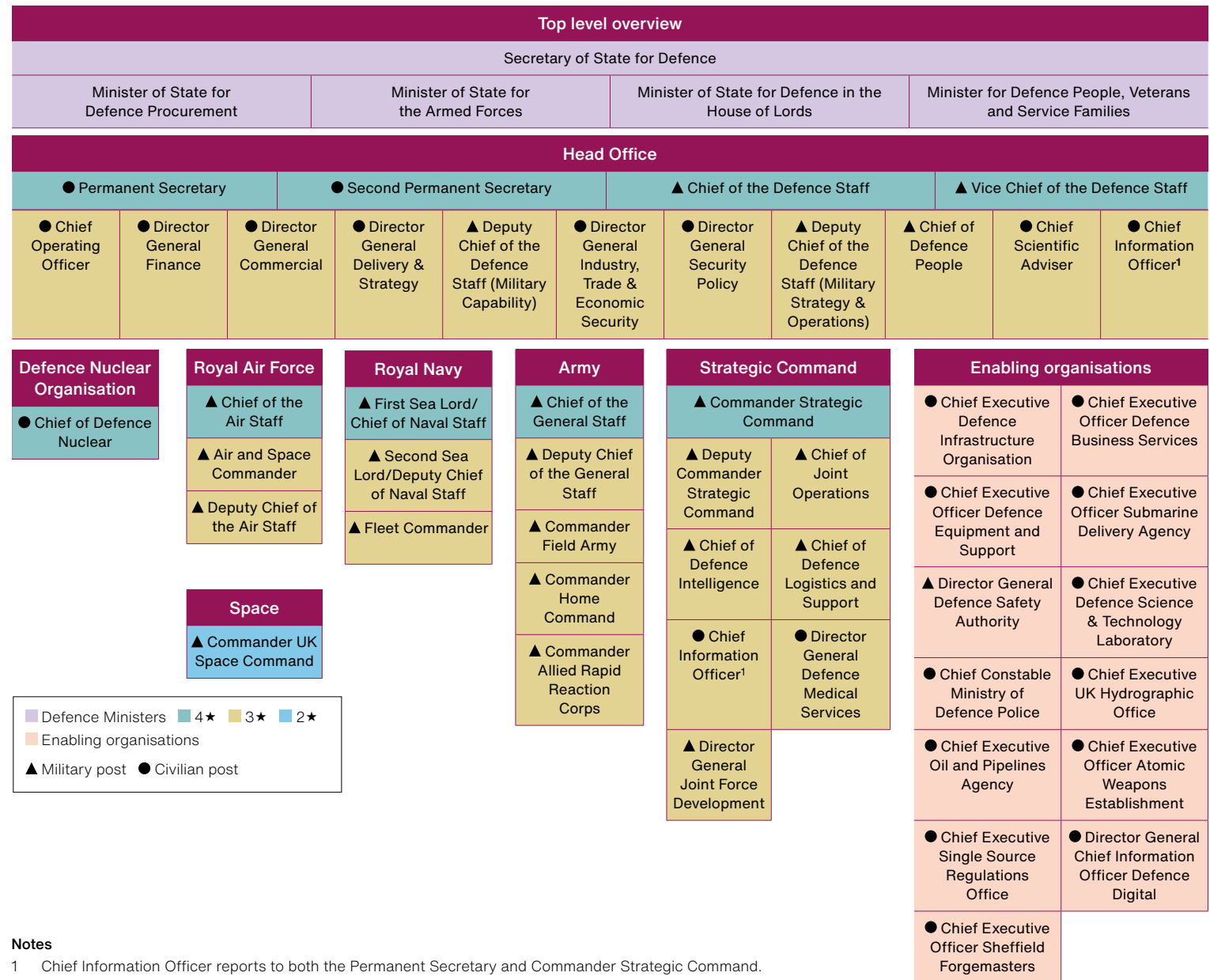
Military Commands generate military capability and operate in accordance with Defence policy objectives as directed by Head Office. The Royal Navy, Army and Royal Air Force (the single Services) are each led by a chief who is both the head of the Service and the budget holder for the organisation.

UK Strategic Command exists to support the joint nature of warfare conducted by the Armed Forces across five war-fighting domains – land, sea, air, cyber and space. It develops, operates and integrates unique and pan-Defence capabilities.

The Defence Nuclear Organisation manages the defence nuclear portfolio, ensuring coordination and coherence of nuclear business. This includes the Submarine Delivery Agency and AWE, who design, manufacture, maintain and safely disassemble nuclear warheads.

UK Space Command is staffed from the Royal Navy, Army, Royal Air Force, civil service and commercial sector. It was formed on 1 April 2021 and is responsible for operations, workforce and capability (equipment programmes) in the space domain.

Enabling organisations provide a range of essential supporting services to the department. These services include procurement and maintenance of military equipment platforms, research and development, and planning and maintaining the Defence estate.



Part Two • Spending and financial management

Where the MoD spends its money

In 2022-23, the MoD spent £47 billion on its running costs, up from £43 billion in 2021-22. The £47 billion includes day-to-day resources such as staff costs, maintaining military equipment and management of the Defence estate, as shown in the diagram to the right.

Key areas of spending in 2022-23

£15 billion

Staff costs make up a significant proportion of the MoD's operating expenditure at more than £15 billion (32%); 76% of these staff costs were for military personnel.

£7 billion

Equipment management costs were more than £7 billion and include expenditure to keep military equipment functioning.

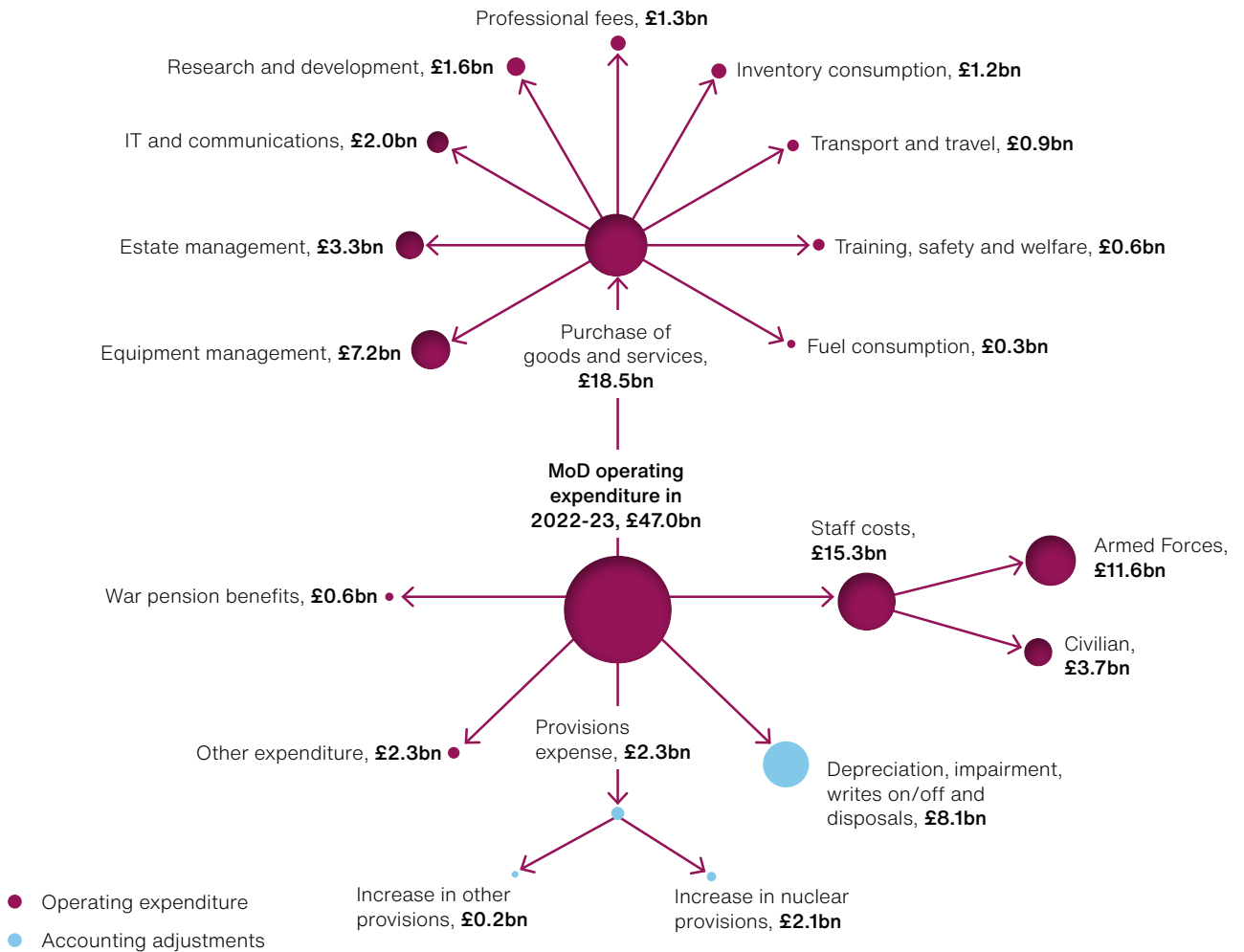
£3 billion

Estate management costs of more than £3 billion were required to maintain the land and buildings across the MoD's estate.

Included within the £47 billion are accounting adjustments (shown in blue) which are not cash transactions. These include increases in nuclear decommissioning provisions as well as non-cash depreciation (reduction in value of an asset due to wear and tear) and impairment (reduction in value of an asset due to an event) of military equipment and property.

In addition to the £47 billion spent on running costs, the MoD also spent just over £20 billion on additions and improvements to its estate and operational assets (up from £14 billion in 2021-22), including £8.5 billion on the provision of military equipment, £7.7 billion of other additions (including assets under construction and addition of leased assets) and £2.1 billion of research and development costs. The following page shows how this capital expenditure compares with previous years.

The Ministry of Defence's (MoD's) running costs for 2022-23



Note
1 Figures have been rounded to one decimal place.

Source: Consolidated Statement of Comprehensive Net Expenditure, Ministry of Defence Annual Report and Accounts 2022-23

Part Two • Spending and financial management

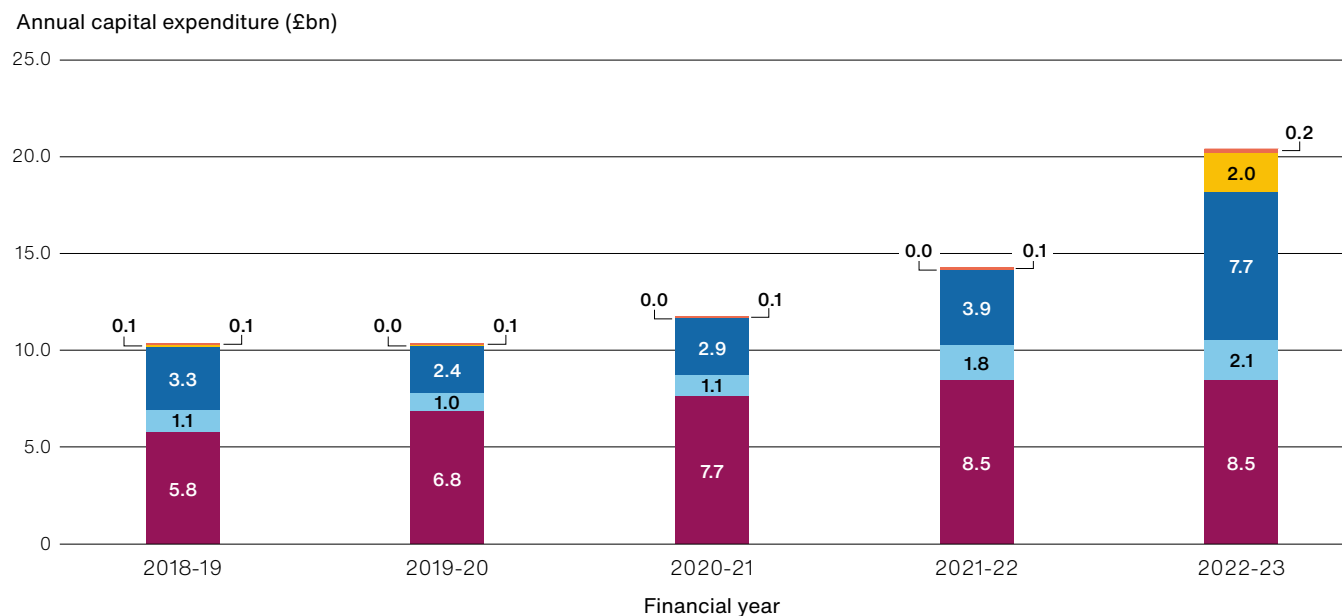
Capital expenditure trends

- In 2022-23, the MoD incurred £20.4 billion of capital expenditure, an increase of 43% compared with £14.3 billion in 2021-22. The trend over recent years is of accelerated growth each year, with a year-on-year increase of 14% in 2020-21, 21% in 2021-22 and then 43% in 2022-23.
- Capital expenditure on military equipment has gradually grown each year from £5.8 billion in 2018-19 to £8.5 billion in 2022-23.
- The MoD incurred £7.7 billion of other capital expenditure in 2022-23, an increase of 98% compared with £3.9 billion in 2021-22, after relatively consistent expenditure from 2018-19 to 2021-22. This increase is due to the impact of the implementation of IFRS 16, the new lease accounting standard rather than a significant increase in activity.
- Capital expenditure on operations relates to equipment provided to Ukraine.



Capital expenditure by the Ministry of Defence (MoD) from 2018-19 to 2022-23, split by category

There has been a significant increase in capital spend in 2022-23, primarily due to increases in spend on operations and other capital



- Military equipment
- Research and development
- Other capital
- Operations
- Other, including Defence Equipment and Support and arm's-length bodies

Source: National Audit Office analysis of Ministry of Defence Annual Report and Accounts 2022-23

Part Two • Spending and financial management

Financial position of the MoD

The MoD holds significant assets and liabilities:

In 2022-23, the MoD had assets worth a total of £184.2 billion, including:

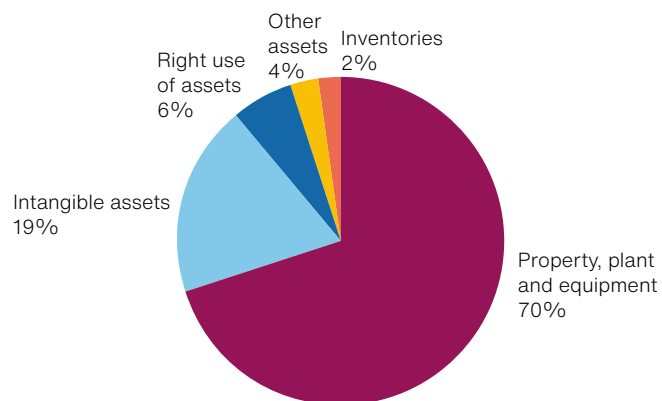
- **property, plant, and equipment** with a value of £129.2 billion, including £33.1 billion of **land and buildings** and £72.4 billion of **military equipment**. This included £12.1 billion of new assets for 2022-23;
- £33.8 billion of **intangible assets**, such as development costs for equipment platforms, including £2.4 billion of new assets in 2022-23;
- **inventories** had a value of £4.1 billion consisting of raw materials and consumables; and
- **other assets** of £6.0 billion including total receivables (money owed to the MoD) of £4.2 billion.

In 2022-23, the MoD had liabilities (future obligations or amounts owed by the MoD) worth £36.7 billion, including:

- **total payables**, for example cash due to suppliers of £23.5 billion, of which, £14.6 billion is due within one year; and
- **provisions** with a value of £12.3 billion, of which £11.3 billion relates to nuclear decommissioning. Provisions are future liabilities where the value or timing is uncertain.

Ministry of Defence (MoD) total assets as at 31 March 2023

The majority of the MoD's total assets are classified as property, plant and equipment



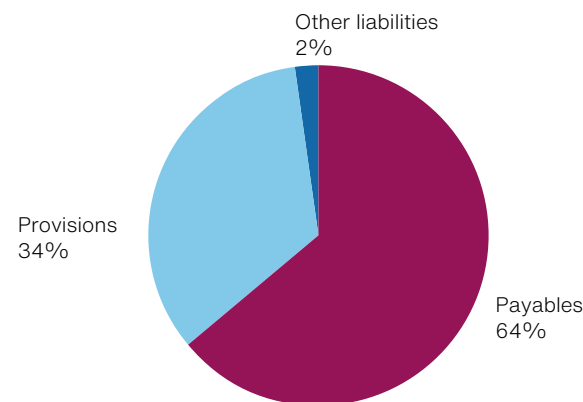
Notes

- 1 The MoD's total assets were £184 billion as at 31 March 2023.
- 2 'Other assets' refer to receivables, retirement benefit scheme net assets, cash, financial assets and non-current assets held for sale.
- 3 Percentages do not sum to 100 due to rounding

Source: National Audit Office analysis of Ministry of Defence Annual Report and Accounts 2022-23

Ministry of Defence (MoD) total liabilities as at 31 March 2023

Approximately two-thirds of the MoD's total liabilities are payables and approximately one-third are provisions



Notes

- 1 The MoD's total liabilities were £37 billion as at 31 March 2023.
- 2 'Other liabilities' refer to financial liabilities and retirement benefit scheme net liabilities.

Source: National Audit Office analysis of Ministry of Defence Annual Report and Accounts 2022-23

Part Two • Spending and financial management

Operations and peacekeeping expenditure

The MoD reports additional costs of military operations in its annual report (*Ministry of Defence Annual Report and Accounts 2022-23*, page 10). These costs do not include planned expenditure such as salaries. In 2022-23 MoD incurred net additional costs for a variety of operations, most significantly in support to Ukraine.

The funding sources include:

- Deployed Military Activity Pool (DMAP), a joint HM Treasury and MoD initiative to make resources available to fund initial short-term costs of unforeseen military activity;
- Conflict, Stability and Security Fund (CSSF), a cross-government fund enabling funding for conflict prevention, stabilisation, security and peacekeeping activities, under the direction of the National Security Council (NSC); and
- Special Reserve, a HM Treasury fund to meet the costs of large-scale and/or enduring military operations as directed by the NSC.

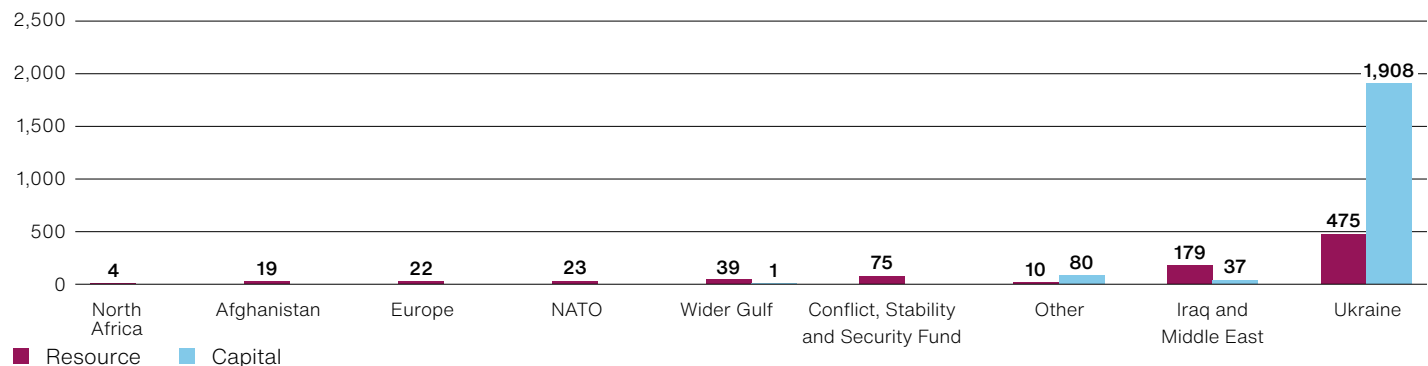
In 2022-23 MoD incurred net additional costs for a variety of operations, most significantly in support to Ukraine.



Cost of military operations by conflict area in 2022-23

The majority of the cost of military operations in 2022-23 relates to Ukraine

Cost of operations (£mn)



Note

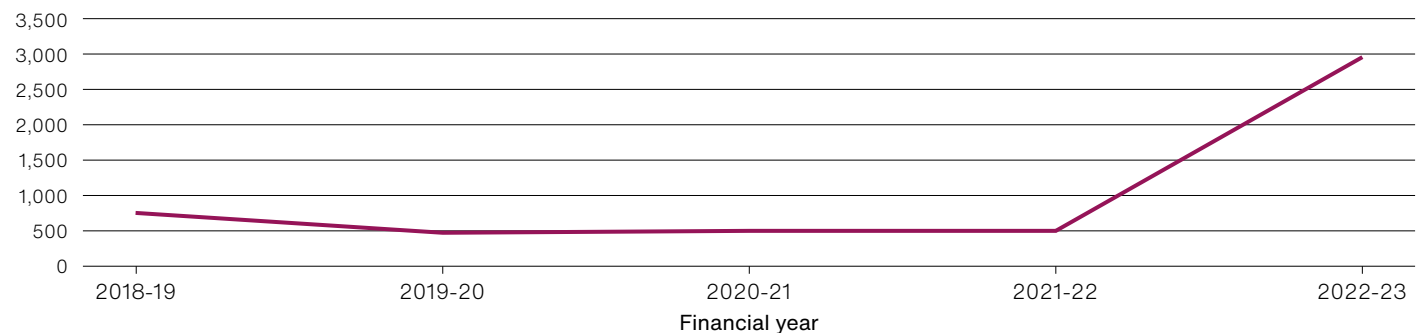
1 The Conflict, Stability and Security Fund is a cross-government fund enabling funding for conflict prevention, stabilisation, security and peacekeeping activities.

Source: National Audit Office analysis of Ministry of Defence Annual Report and Accounts 2022-23

Ministry of Defence (MoD) direct expenditure on military operations from 2018-19 to 2022-23

There has been a significant increase in direct expenditure on military operations in 2022-23

Cost of operations (£mn)



Source: National Audit Office analysis of Ministry of Defence Annual Report and Accounts 2018-19 to 2022-23

Part Two • Spending and financial management

Support to Ukraine

The UK continues to be at the forefront of the provision of military equipment to Ukraine, working with allies and partners to support the self-defence and restoration of Ukraine's sovereignty and territorial integrity. The UK has delivered a wide range of capabilities including anti-tank weapons, air defence systems, and armoured and protected vehicles. The UK has also strengthened its commitment to international partners: in Estonia through bolstering the enhanced Forward Presence Battlegroup, with training and the development of its first divisional-level HQ; in Romania by providing a Quick Reaction Alert capability as part of a wider NATO enhanced Air Policing mission to maintain the security of NATO airspace; and by increasing troop numbers in Poland.

**The MoD
committed
£2.3 billion
to support
Ukraine in
2022-23.**



Support commitments made in 2022-23

- In 2022-23, the MoD committed £2.3 billion to support Ukraine. This support included the provision of more than 10,000 anti-tank weapons, a squadron of 14 Challenger 2 tanks, and more than 200,000 rounds of artillery ammunition. The UK government has committed to providing at least this level of support in 2023-24, if required.
- Operational expenditure on the conflict in Ukraine heavily outweighs spend on other areas of conflict in 2022-23, as shown in the graph on the previous page (Cost of military operations by conflict area in 2022-23); 83% of the total £2.9 billion expenditure was spent in relation to the war in Ukraine.

Collaboration with international partners

- The UK has worked with international partners to establish the International Fund for Ukraine (IFU), to procure equipment and support Ukraine's armed forces. Delivery of the first package, including capabilities such as uncrewed air systems and electronic warfare began in July 2023 and a second round is under way. The UK, Netherlands, Norway, Sweden, Denmark, Iceland and Lithuania have collectively contributed more than £520 million to the IFU, of which the UK contributed £250 million in 2022-23.
- Although training of the armed forces of Ukraine under Operation ORBITAL has paused, the UK continues to deliver a major training operation for Ukrainian forces under Operation INTERFLEX. Working with up to nine partner nations, training of Ukrainian personnel is progressing across sites in the UK with more than 18,000 Ukrainian personnel trained since Russia's illegal invasion, with the ambition for up to 20,000 in 2023.

Other issues arising from the war in Ukraine

- The war in Ukraine has increased global competition in the supply chain which, coupled with inflationary pressures, has affected the acquisition of components and raw materials. The MoD is monitoring and building resilience in the supply chain through the implementation of an extensive MoD-wide Supply Chain Resilience Programme, which prioritises the mapping of the MoD's most critical dependencies.

Contingent liabilities

Contingent liabilities are either:

- possible financial obligations arising from past events and dependent on the occurrence or non-occurrence of uncertain future events outside of the MoD's control; or
- present financial obligations where it is not probable that money will need to be spent to settle the obligation.

The MoD reported £1.3 billion of contingent liabilities in its 2022-23 financial statements. The majority of this balance (£997 million) relates to contingent liabilities that cannot be publicly disclosed due to commercial or security reasons. Of the remainder, £212 million relates to contractor claims for the costs associated with the closure of production lines in the event of contract termination. In addition, the MoD has a number of contingent liabilities which are more difficult to quantify. See the table (top right) for examples of unquantifiable contingent liabilities.

The MoD is also obliged to report remote contingent liabilities. These can be found in the accountability report section of the MoD's annual report and accounts. These total £2.7 billion as at 31 March 2023 – in addition to several which are unquantifiable. These are contingent liabilities that are significantly less likely to occur than those required to be reported in the financial statements and the MoD estimates that the likelihood that an obligation will need to be settled has an approximate probability of 5–10%.

Examples of unquantifiable contingent liabilities as at 31 March 2023

Decontamination

The MoD has several sites where it may be necessary to carry out decontamination work. It is not practicable or cost-effective to identify all contamination at these sites, therefore any possible liability is not quantified.

Shipwrecks

The MoD has environmental and safety responsibility for UK military shipwrecks both in UK waters and globally. The timing, scope and value of any necessary interventions remains uncertain.

Indemnity for the chair of the Ajax Review

The MoD has reported an unquantifiable contingent liability for indemnity for the chair of the Ajax Review against third-party claims. This is the only new unquantifiable contingent liability disclosed in the 2022-23 annual report and accounts.

Examples of remote contingent liabilities as at 31 March 2023

Special and generic risk indemnities

These contractual indemnities can lead to contingent liabilities. Special risk indemnities for the MoD cover areas such as aircraft flight and taxiing trials, research and development contracts for guided weapons, and helicopter support risks. The total value disclosed is £883.5 million, in addition to unquantifiable contingent liabilities.

Nuclear

Indemnities have been provided to several companies (such as Rolls-Royce, BAE Systems, and Babcock Group) relating to the handling of fissile materials, nuclear risk and risks under the Nuclear Installations Act 1965. These liabilities are unquantifiable.

Contract terms

The total value disclosed by the MoD is £765.4 million, the majority split between limits or indemnities provided relating to companies such as Babcock Group and Lockheed Martin for non-nuclear risks resulting from claims for damage to property or death and personal injury to a third party (£662.2 million) and indemnity in respect of submarine production by BAE Systems (£101 million).

Part Two • Spending and financial management

Losses and special payments

The MoD reports losses and special payments in the annual report, in accordance with HM Treasury guidance. This includes individual cases of more than £300,000.

The MoD only includes limited information in its annual report, particularly when related to sensitive projects. Definitions of the categories included and examples for the 2022-23 financial year are summarised below.

Ministry of Defence (MoD) losses and special payments 2022-23

Categories	Category definition	Example from 2022-23 annual report and accounts
Cash and overpayment losses	Cash losses: physical losses of cash and its equivalents. Overpayment losses: losses arising from overpayments.	£2.5 million exchange rate loss relating to Hellfire Foreign Military Sale.
Constructive losses	These are caused by procurement action. For example, stores or services may be correctly purchased but not needed later in the project, for example due to a change in policy.	£473.5 million loss in relation to the Integrated Review closure of the Warrior Capability Sustainment Programme.
Stores losses	Loss of physical assets or stock.	£84.4 million loss relating to F-35B aircraft ZM152.
Fruitless payments	Payments which cannot be avoided because the recipient is entitled, even though nothing of use to the MoD will be received in return.	£4.7 million loss in relation to the reconstruction of Multi-Threat Wall for Typhoon Synthetic Trainers.
Claims waived or abandoned	Losses occur when claims are waived or abandoned because, although properly made, the department decides not to pursue them.	£0.8 million loss relating to repayments due from HM Revenue & Customs.
Special payments	These include: <ul style="list-style-type: none"> • extra-contractual payments; • extra-statutory and extra-regulatory payments; • compensation payments; • special severance payments; • ex-gratia payments; and • payments to contractors outside a binding contract. 	£14.9 million of special payments for settlements of other personal injury.

In 2022-23, the MoD reported 15,062 losses with a total value of £805.7 million, compared with 15,820 losses with a total value of £133.7 million in 2021-22.

In 2022-23 there were 4,609 special payments with a total value of £114.5 million compared with 3,869 special payments with a total value of £5.0 million in 2021-22. Compensation payments have been included within special payments for the first time in 2022-23, which has contributed greatly to the increase.

In 2022-23, the MoD reported 15,062 losses with a total value of £805.7 million.

VS

The MoD reported 15,820 losses with a total value of £133.7 million in 2021-22.

Part Three • Staff and pay

Senior pay

Public bodies are required to disclose the remuneration of their highest paid directors and the median remuneration of employees in their annual reports. There is significant variation in the highest salaries across the MoD and its enabling organisations. Different regulations govern the enabling organisations, with some having more freedom in their remuneration packages to attract staff with the necessary skills.

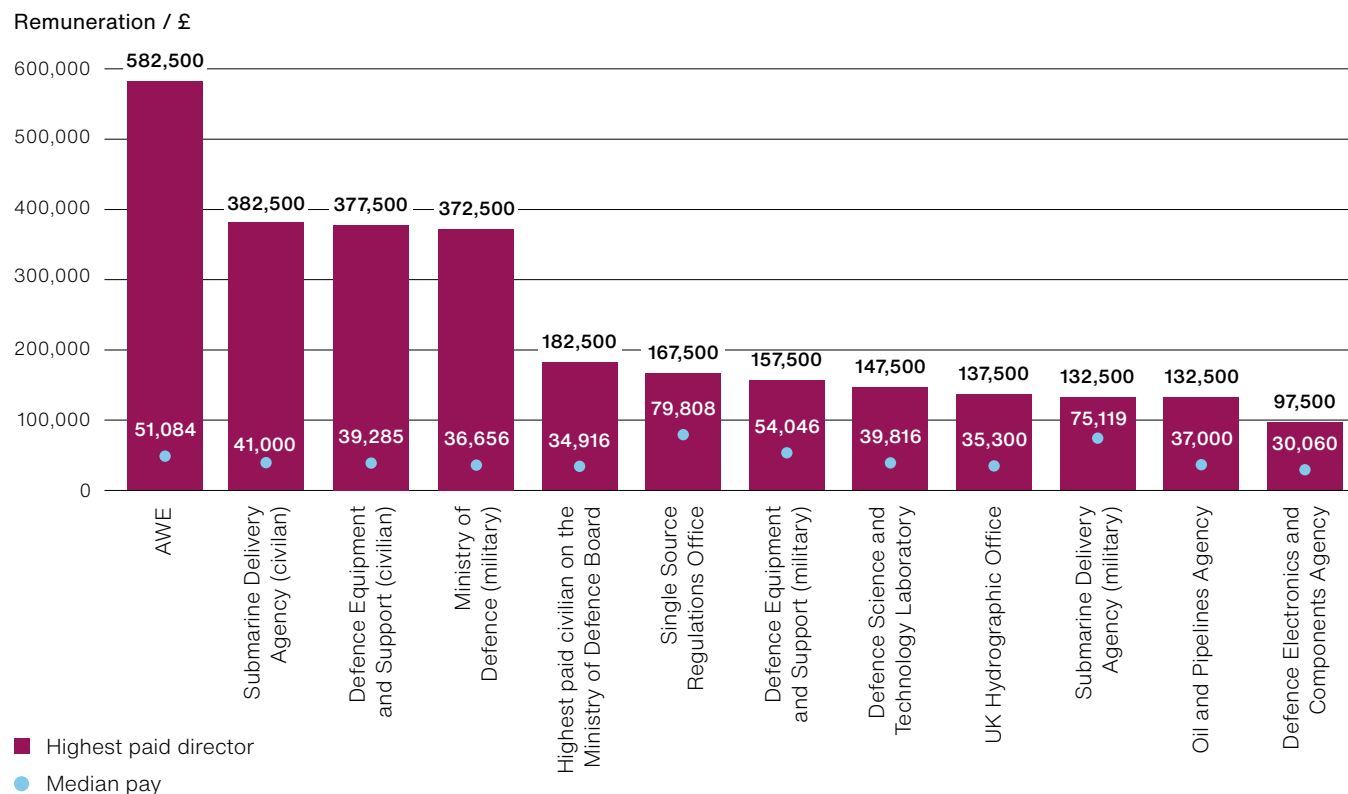
Defence Equipment and Support (DE&S) and the Submarine Delivery Agency (SDA) have pay freedoms. While they have to agree an operating cost framework with the MoD, they can manage their workforce costs within this. They also have the freedom to pay 23 (DE&S) and 11 (SDA) staff more than the senior salary cap set by HM Treasury. AWE plc joined the MoD departmental group in 2021 and is not subject to Civil Service Pay Remit guidance. They are instead required to agree a reward framework with the MoD, HM Treasury and the Cabinet Office.

Pay for senior civil servants and senior officers of the Armed Forces is set by the Prime Minister following independent advice from the Senior Salaries Review Body. This body considers wider economic conditions and affordability. This also applies to the Defence Science and Technology Laboratory and the Defence Electronics and Components Agency.

There is significant variation in the highest paid salaries across the MoD and its enabling organisations, with some having more freedom in order to attract staff with the necessary skills.

The Ministry of Defence (MoD) and its enabling organisations: Highest paid director and median personnel salaries in 2022-23

There is a wide range of salaries of the highest paid directors in the MoD and its enabling organisations



Notes

- 1 Not all enabling organisations publish salary data, therefore we have only considered those which publish their own set of accounts.
- 2 The highest paid director figures in each case represent the midpoint of the total remuneration range disclosed in the annual report and accounts.
- 3 2021-22 data have been used for the Submarine Delivery Agency because its 2022-23 annual report and accounts has not yet been published.

Source: National Audit Office analysis of 2021-22 annual report and accounts of the Submarine Delivery Agency and 2022-23 annual report and accounts of the following entities: Ministry of Defence, Defence Equipment and Support, Defence Science and Technology Laboratory, Single Source Regulations Office, Defence Electronic and Components Agency, UK Hydrographic Office, AWE, Oil and Pipelines Agency

Part Three - Staff and pay

Workforce

The MoD has a whole-force approach to strategic workforce planning in which budget holders have freedoms to design their workforce approach to deliver Defence outputs. It faces challenges in recruitment and retention, which is particularly impacting on the level of specialist skills available.

The MoD must seek parliamentary authority for the maximum number of service personnel to be maintained each year. The maximum number for each Command includes a margin of 10% to cover unforeseen contingencies.

In 2022-23 the numbers of troops maintained were 80% of the voted maximum for the Army, 86% across the Royal Navy and Royal Marines, and 91% for the Royal Air Force.

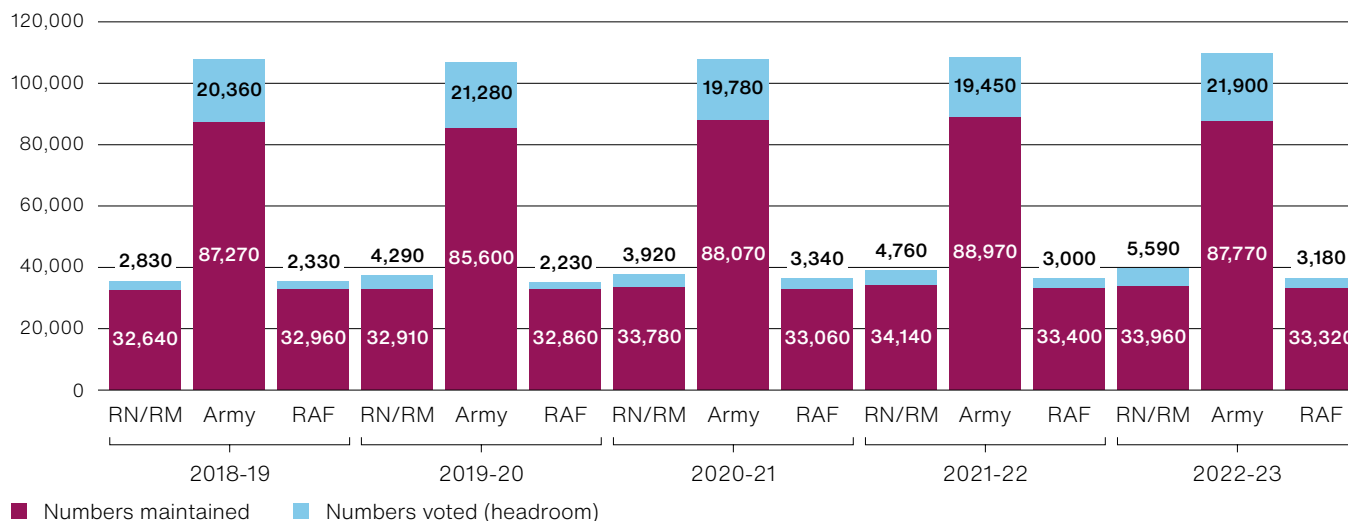
The department has identified four key workforce areas requiring priority action: Cyber/Digital, Intelligence, Health/Medical and Engineering. At the end of March 2023 there were 70 whole-force skills pinch-points assessed as having significant implications for the delivery of Defence outputs, an increase from 48 as at March 2022.

A number of initiatives have been put in place in response to these challenges:

- Increasing the number of apprenticeship places in specialist functions.
- Enhanced pay ranges and allowances for Cyber and Digital, Data and Technology (DDaT).
- The Digital Exploitation for Defence (DX4D) initiative was established in July 2022 to accelerate digital transformation in the MoD.

Maximum service personnel numbers maintained and voted by Parliament from 2018-19 to 2022-23

Personnel numbers for the Army are consistently higher than those for the Royal Navy and Royal Marines (RN/RM) and the Royal Air Force (RAF)



Notes

- 1 Each year Parliament votes on the maximum number of service personnel to be maintained by the Ministry of Defence (MOD) in each Command. Actual numbers maintained differ from this.
- 2 The red element represents the number maintained and the blue represents the headroom between the number maintained and number voted. The total of each bar is the total number voted.

Source: National Audit Office analysis of Ministry of Defence Annual Report and Accounts from 2018-19 to 2022-23



Part Four • Financial statements

Inventory

The MoD holds a wide range of supplies and spares to support its activities, both in the UK and across the world. The majority of these items are held on inventory accounting systems and comprise around 460 million items of around 520,000 types. Types of inventory include:

- guided weapons, missiles and bombs;
- equipment spares, for example engines;
- raw materials, which will be used in the production of assets; and
- consumables, such as ammunition and fuel.

The total net value of all the above categories at 31 March 2023 was £11.8 billion.

Category	Carrying value at 31 March 2023
Munitions	£1,022 million
Clothing and textiles	£180 million
Engineering and technical	£2,367 million
General	£151 million
Medical, dental and veterinary	£70 million
Oil, fuel and lubricants	£352 million
Inventory held by arm's-length bodies	£8 million
Capital spares* and guided weapons, missiles and bombs	£7,700 million

Note

*Capital spares are items of repairable material retained for the purpose of replacing parts of an asset undergoing repair, refurbishment, maintenance, servicing, modification, enhancement or conversion

Source: National Audit Office analysis of Ministry of Defence Annual Report and Accounts 2022-23

Defence inventory management

In September 2023, we reported (*Defence inventory management*) on whether the MoD was achieving value for money from its inventory management. We examined the extent to which the MoD had addressed the long-standing issues on which we had previously reported, and how well set up it was to realise its future ambitions for inventory management set out in its *Support* and *Supply Chain* strategies.

We found that inventory management across the MoD remains fragmented across many different organisations, making it difficult to align the MoD's strategic goals. The MoD has been slow to upgrade its legacy IT estate, and its inventory data still have limitations which undermine its ability to make effective decisions. The MoD's outsourcing has generated improvements in its logistics and commodity procurement; however, the design of the outsourcing contract did not account for the specific needs of medical customers. While the MoD has removed the financial incentives for over-purchasing, weaknesses in its management of commodities remain, in part because commodity managers in the Commands lack all the information they need to scrutinise their commodity purchases and stockpiles.

The MoD is still not consistently disposing of inventory that it no longer requires, resulting in large build-ups of excess and obsolete stock in warehouses. The MoD has put in place short-term initiatives to improve disposals activity, but does not yet have a coherent plan to address disposals across all of its holdings.

The MoD has established transformation programmes to address its challenges, although these face risks from people shortages at the outset. More generally, the MoD does not fully understand the people and skills it needs across its inventory management, and staffing pressures pose risks to delivery to the front-line.

We concluded that while the MoD had made improvements since our last report, many long-standing weaknesses with its inventory management remain which stand in the way of the MoD's ambitions set out in its Support Strategy. As a result, despite recent improvements, the MoD is not yet set up to deliver value for money from its inventory management.

Its transformation initiatives provide opportunities to move towards realising effective, efficient and resilient inventory management, however, the scale of changes needed is substantial. If the MoD does not prioritise the required resources to do this, it will frustrate its ability to build resilience and deploy the people and equipment it needs in the right places. We recommended that the MoD puts in place a management framework to control the demand and consumption of commodities, draws together the best practice from its current projects to identify surplus inventory across its whole inventory estate, and identifies and prioritises the resources it needs to ensure its transformation programmes can be implemented successfully.

We concluded that while the MoD had made improvements since our last report, many long-standing weaknesses with its inventory management remain which stand in the way of the MoD's ambitions set out in its Support Strategy. As a result, despite recent improvements, the MoD is not yet set up to deliver value for money from its inventory management.

Part Five • VFM audit findings

UK Security Vetting

The MoD is the United Kingdom Security Vetting's (UKSV) largest customer, making up 56% of all clearance requests. The Cabinet Office took control of UKSV from the MoD in April 2020. Our January 2023 report *Investigation into the performance of UK Security Vetting* found that UKSV's performance continued to be poor and that longer-term efforts to transform the way security vetting is delivered had made little progress.

UKSV had failed to meet its two main performance objectives since mid-2021 and despite improvements in the latter half of 2022 performance remained well below the required standard and backlogs still remained to be worked through. At the lowest points only 7% of Developed Vetting (DV) clearances were processed within the 95-day target (in April 2022) and 15% of Counter Terrorist Checks and Security Checks (CTC/SC) were processed within the 25-day target (in September 2022). The Cabinet Office was content to extend some DV renewals despite the risk this poses, and there was a poor record of aftercare checks where targets have not been met since the start of 2018-19.

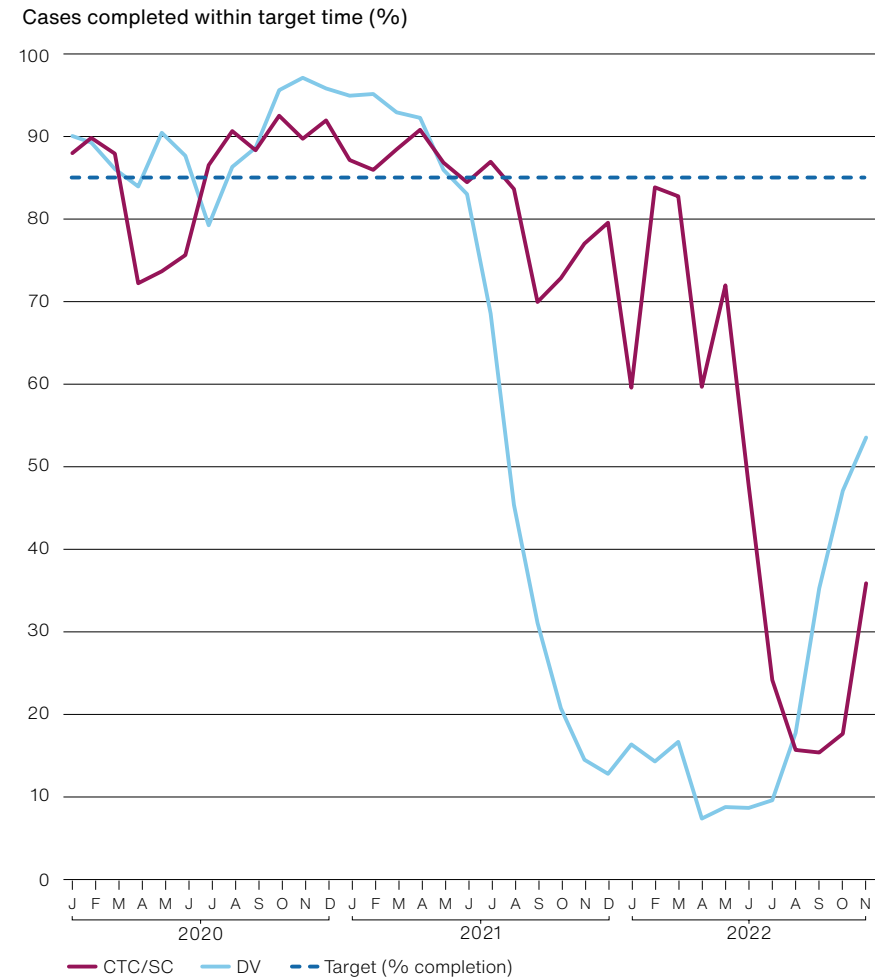
Part of the reason for the increase in UKSV's work related to policy changes which required additional vetting, as well as a sharp rise in demand with COVID-19 recovery, particularly in 2021-22 where DV requests increased by 57% and CTC/SC requests by 60%. UKSV has also been under-resourced, with a shortfall of 32% at the start of 2022-23, and with an outdated IT system with regular outages that slow down clearance processes.

Improvements have been identified in 2022-23, with 49% more DV clearances and 12% more CTC/SC clearances completed compared with 2021-22, and with the average time for new DV clearances to be processed falling from 177 days in April 2022 to 98 days in November 2022, against the target of 95 days.

However, 30% of DV clearances in 2022-23 have taken more than 180 days to process, against a target of 95 days. Processing of new DV clearances has also been prioritised over renewals of DV clearances to help clear the backlog, and the average time for renewals has increased from 190 days in April 2022 to 255 days in November 2022, against a revised target of 200 days. The target of 85% of scheduled aftercare checks completed within 95 days has not been met since the start of 2018-19, and the target for unscheduled aftercare checks has also not been met.

Customers can request 3% of clearances to be prioritised, but UKSV also fast-tracks any clearance requests necessary as part of the UK's response to the war in Ukraine. Prior to April 2022, UKSV aimed to clear 95% of CTC/SC priority clearances within 10 days and 30 days for DV priority clearances, a target which was met in 30 and 23 out of 60 months for CTC/SC and DV priority clearances respectively. UKSV reduced its target to 90% in April 2022 and has met this target every month since then.

Percentage of Counter Terrorist Check/Security Check (CTC/SC) and Developed Vetting (DV) clearances that UK Security Vetting (UKSV) has completed within its service level agreements since January 2020



Source: National Audit Office analysis of UK Security Vetting management information.