

# **Defence Equipment and Support**

## Framework Document

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## **Foreword**

Defence Equipment and Support (DE&S)'s primary purpose is to equip and support the UK's armed forces for operations now and in the future. It is responsible for delivering some of the most complex projects in the world for its military customers, procuring new military equipment, commodities and services and supporting in-service equipment through life.

On 1 April 2014, it was launched as a bespoke trading entity, a unique business model in government that has been tailored to allow it to deliver, cost effectively, the Department's ten year £164 billion equipment and support plans. This marks a key stage in its journey to transforming into a world-class organisation that is more empowered and better equipped to meet the challenges of delivering complex projects.

This framework document sets out in one place what is required from DE&S as a bespoke trading entity. It also sets out MOD's expectations of the organisation and the governance arrangements that are in place to ensure they are met efficiently.

DE&S staff can be justifiably proud of their work and achievements. This document seeks to build on their successes by providing DE&S with a clear framework in which it can operate in meeting the challenges of the future.

Philip Dunne MP

Minister (Defence Equipment, Support and Technology)

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## 1. INTRODUCTION

DE&S was launched as a bespoke trading entity on 1 April 2014 with the remit of equipping and supporting the UK's armed forces for operations now and in the future. It has an annual operating budget of some £1.3 billion and spends approximately £14.7 billion annually to purchase new military equipment and provide the ongoing support that the Royal Navy, British Army and Royal Air Force need to operate effectively. DE&S is responsible for delivering complex projects which often involve innovative technologies, sophisticated supply chains, a mix of market sourcing strategies and outputs. It works closely with industry, including through partnering agreements and private finance initiatives.

This Framework Document sets out DE&S's purpose and role, together with the governance, policy, financial and human resources parameters that guide its day to day operations. These include novel freedoms to manage its workforce, make its own decisions and organise itself to maximise delivery of its strategic objectives. MOD's expectations for DE&S as a bespoke trading entity, including its strategic objectives and the arrangements that are in place to ensure the effective delivery of those expectations, are also captured in this document.

It covers the first year of operation as a bespoke trading entity and includes details of transition arrangements for governance of the organisation as it moves toward its next stage of transformation.

DE&S employs approximately 12,500 people around the UK and overseas and its headquarters are in Bristol. Further information on DE&S and its activities can be found on [www.gov.uk](http://www.gov.uk).

## 2. PURPOSE AND ROLE

### 2.1. Status of Defence Equipment & Support

Defence Equipment & Support (DE&S) is a bespoke trading entity<sup>1</sup> of the Ministry of Defence and was established on 1 April 2014.

### 2.2. Purpose

The primary purpose of DE&S is to equip and support the UK's Armed Forces for operations now and in the future.

### 2.3. Role

In procuring new military equipment, commodities and services, supporting in-service equipment through-life and managing global logistic operations, DE&S is responsible for delivering some of the most complex projects in the world. This often involves innovative technologies, sophisticated supply chains, a mix of market sourcing strategies and outputs that will be used by the UK Armed Forces in uncertain environments and operational roles that are subject to changing requirements.

Activities range from the provision and support of complex equipments, such as nuclear submarines and combat aircraft, through the provision of global logistic operations in hostile environments, to the provision and support of relatively straightforward supplies, such as clothing and food. DE&S's role demands best-in-class business capabilities that, while operating as part of an overall system, can be tailored depending on project value, complexity, risk and criticality.

The Chief of Defence Materiel (CDM), who leads DE&S as its Chief Executive, is responsible for acquiring (procuring and supporting) the equipment, systems and commodities needed to generate military capability. The acquisition function works with Head Office, the Commands, Strategic Programmes and industry to provide the required military materiel to meet the needs of our Armed Forces now and in the future, including Urgent Operational Requirements.

### 2.4. Strategic Objectives

The following are the strategic objectives for DE&S.

- a. **DELIVERY** (ongoing activity through to 2017)  
Deliver the agreed Programme of Work and associated support and services to Commands and Strategic Programmes:
  - Manage delivery within the agreed PCTR (performance, cost, time and risk) envelope and against other metrics included in the SMART Contract 2014 (and for subsequent years the Command Acquisition Support Plans) assessed over the course of a financial year;

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<sup>1</sup> Managing Public Money Chapter 7

- Maintain, and where possible improve, delivery performance during transition and transformation phases;
- Ensure DE&S operating expenditure is within the allocated provision;
- Provide ongoing availability of equipment that is safe to operate.

**b. TRANSITION** (from establishment of the Entity in April 2014 to 1 April 2015)

- (i) Building the capacity to enhance the inherent capability of DE&S to explain what is being delivered, by when, for whom, to what standard and at what price; and the costs and risks of this activity, including:
  - An accurate and auditable baseline and forecast (both in year and long-term) for the Programme of Work which is based on a common, transparent and robust understanding of performance, cost, schedule and risk;
  - The ability to provide DE&S budgeted and actual operating cost information which is consistently classified, robustly measured and correctly attributed in order to demonstrate a clear understanding of the DE&S operating cost base and cost drivers;
  - Enable transformation of the DE&S; including engaging and tasking a set of Managed Service Providers to deliver the agreed functions set out in the Statement of Requirement.
- (ii) Work together with Head Office, Commands and wider MOD in the restructuring of the Acquisition System in order to define and start to implement the role of an accountable, Customer-focused delivery agent that:
  - Is responsive in providing informed advice and services, whilst maintaining a disciplined Customer-DE&S interface;
  - Suitably prepared to negotiate and agree the services to be provided to its customers for a given level of resource as part of the development of agreed Command Acquisition Support Plans;
  - Operates coherently with cross-MOD functions (e.g. Finance, Commercial, HR).
- (iii) Develop a Transformation Plan that explains how DE&S will transform into a 'match fit' organisation by 2017.

**c. TRANSFORMATION to a MATCH FIT organisation** (from 2015 to 2017)

Implement an agreed Transformation Plan to create a match fit organisation defined as:

- A Customer-focused, value-adding, best-in-class acquisition and support organisation recognised for its ability to deliver results and the professionalism of its people;
- A self-confident organisation that is trusted and empowered to get on with its job, through:

- **Individual rather than group accountability:** Individuals are personally accountable for delivery and empowered to get on with it;
- **Constructive partnering with customers:** Challenging conversations happen early in the requirements setting process to agree the “art of the possible” and what represents ‘value’ for Defence;
- **‘Business minded’:** Cost-conscious in everything that is done and every decision that is made;
- **Strong professions and skills:** Active development and management of professional capability and skills;
- **Measuring what matters to drive results:** Performance is measured against what really matters and success is appropriately recognised;
- **Driving value from suppliers:** Commercial models that are sophisticated enough to drive value from the market-place;
- **Flexible delivery model:** Work is delivered by the best person for the job, deployed efficiently;
- **Consistent and coherent delivery:** Processes and tools are used coherently and consistently to deliver reliable outcomes for our customers.

### 3. THE GOVERNANCE FRAMEWORK

The corporate governance and accountability arrangements for DE&S draw on best practice in the public and private sectors, and reflect its position as part of a Government Department and a professional technical programme and project management organisation.

The governance arrangements centre on a number of key roles, including:

- Secretary of State for Defence, and Minister for Defence Equipment, Support and Technology (Min(DEST)) (the Owner);
- MOD’s Permanent Secretary;
- MOD’s Director General Head Office and Commissioning Services who acts as the MOD formal NED;
- Chair of the DE&S Board;
- CDM as DE&S’ Chief Executive.
- Deputy Chief Defence Staff Military Capability (DCDS (MilCap))

In discharging these roles, those concerned are supported by a number of boards and committees, each of which has a distinct purpose:

- MOD DE&S Owner’s Council;
- DE&S Board;
- DE&S Board Sub-Committees;
- Military Capabilities Board



The work of individuals in these key roles and of all DE&S staff is governed by a series of key governance documents, which include:

- DE&S Framework Document;
- CDM's (as Chief Executive) Accounting Officer Letter of Designation;
- CDM's Letter of Authority.

DE&S will also conduct its business on the basis of its:

- Corporate Plan and supporting Plans;
- SMART Contracts and Command Acquisition Support Plan Agreements with MOD customers.

The Corporate Plan will be published. Additionally, important business decisions which would affect the strategic direction of DE&S, would have significant financial implications, that set precedents are novel or contentious or could cause repercussions elsewhere in the public sector will be set out in a business case submitted to the Owner for appropriate consultation and approval.

As a bespoke trading entity, DE&S is required to prepare and publish an:

- Annual Report and Accounts.

following audit by the Comptroller and Auditor General

The Annual Accounts will be consolidated with MOD's. CDM will (as Chief Executive) be directly responsible to Parliament and held to account for the stewardship of the resources of DE&S.

Each of these key roles, boards and committees, and governance documents is described in sections 4 to 6. The relationship between the individuals in the key roles, boards and committees is illustrated schematically at Annex D.

As a result of DE&S's newly formed and innovative structure as a bespoke trading entity of MOD, transition arrangements have been included in this first Framework Document (further information is in section 5.2.1).

A key principle in the DE&S governance arrangements is to ensure that DE&S can be held to account as a public body in a transparent way.

## **4. KEY ROLES**

### **4.1. Secretary of State for Defence and Min(DEST)**

The Secretary of State for Defence is accountable to Parliament for all aspects of DE&S' performance, including its strategy, operation, performance and the effectiveness of its governance arrangements.

Secretary of State for Defence delegates the day-to-day ownership responsibilities for DE&S to the Minister for Defence Equipment, Support and Technology (Min(DEST)) but remains accountable to Parliament. As such, Min(DEST) is responsible for:

- defining DE&S' policy and financial framework;
- approving its strategy and financial objectives;
- approving the Corporate Plan;
- holding the DE&S' Chief Executive to account for the delivery of the Corporate Plan, supported by the Owner's Council;
- approving the appointments of the DE&S Chair, independent Non-Executive Directors (NEDs) and CDM, and agreeing their remuneration. Min(DEST) may also be called upon to approve the appointments of other senior DE&S staff and DE&S Board members where appropriate and to agree their remuneration, ensuring that this is consistent with the agreed pay policy for DE&S;
- being satisfied that the DE&S' Board is working effectively<sup>2</sup>;
- approving plans, programmes and projects that exceed delegated powers.

### **4.2. MOD's Permanent Secretary (PUS)**

PUS is the senior civilian adviser on defence and MOD's Principal Accounting Officer. PUS designates CDM (as Chief Executive) as the Accounting Officer for DE&S with responsibility for effective management of financial, contractual, safety and environmental protection, pay and personnel aspects of DE&S' operation. PUS is responsible for producing this Framework Document which sets out what MOD requires from DE&S and the associated governance arrangements.

PUS has no day-to-day involvement in the running of DE&S, which is the responsibility of CDM. PUS has line management responsibility for CDM and, in assessing their performance, can draw on the advice of, among others, the DE&S Chair, its customers and MOD's representative on the DE&S Board.

### **4.3. MOD's Director General Head Office and Commissioning Services (DG HOCS)**

DG HOCS represents the Owner's interests on the DE&S Board as MOD's formal Non-Executive Director (NED), and advises CDM on compliance with Government and MOD corporate and fiscal policies. DG HOCS has no direct involvement in DE&S' day-to-day operations but will expect to be consulted on matters that are novel, contentious or may have consequences for MOD or wider Government.

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<sup>2</sup> The Chair will report to the Minister on the effectiveness of the Board.

Specifically, MOD's formal NED is responsible for:

- advising the Owner on the strategic direction and performance of DE&S in the wider departmental and cross-Governmental contexts, including negotiating the DE&S objectives and KPIs, for inclusion in the Corporate Plan;
- advising CDM on the implications of DE&S' activities to ensure support to the delivery of MOD's objectives;
- ensuring that CDM has the necessary delegations of authority for effective delivery and continual improvement of DE&S' outputs;
- ensuring the periodic review of DE&S' business model<sup>3</sup> is undertaken;
- advising Min(DEST) on the effectiveness of the Chair on an annual basis.

This responsibility involves balancing a range of interests that MOD and wider Government has in DE&S, including MOD's interests as:

- sponsor of policy and standards<sup>4</sup> including the responsibilities of Defence Authorities as outlined at Annex B;
- major customer.

DG HOCS is supported in the NED role by MOD's Acquisition System Authority (ASA) team, which also provides the secretariat to the Owner's Council. ASA will take the lead on Ministerial and Parliamentary business where queries relate to DE&S' status as a bespoke trading entity of MOD.

#### **4.4. Chair of the DE&S Board**

The independent non-executive Chair of the DE&S Board is accountable to the Owner for leading the DE&S Board and ensuring its effectiveness in all aspects of its role<sup>5</sup>. The Chair sets the Board's agenda and ensures that adequate time is available on all agenda items, in doing so promoting a culture of openness and debate. The Chair has a personal role in advising the Owner on high-level business issues affecting DE&S, both directly and as a member of the Owner's Council. He or she also reports to the Ministerial Owner on the effectiveness of the Board (further information on measuring the effectiveness of the Board is in para 5.2).

The Chair is appointed by the Owner for a fixed term, normally up to three years, following a process of open competition managed by MOD following the principles of the Code of Practice for Public Appointments<sup>6</sup>. The Chair may be reappointed for a further term, subject to meeting required performance standards, but the total appointment should not normally exceed six years.

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<sup>3</sup> The status and business model of arms length bodies are subject to review every three years;

<sup>4</sup> DG HOCS will also have responsibility for the Acquisition System once this is fully established

<sup>5</sup> Corporate Governance in Central Government Departments :Code of Good Practice. HM Treasury and cabinet Office, July 2011 .

<sup>6</sup> The role is outside the remit of the Office of the Commissioner for Public Appointments

The Chair is specifically responsible for:

- providing advice to the Owner on DE&S' strategic direction, objectives and risks, its business performance and its governance arrangements;
- providing advice and counsel to CDM;
- advising on the appointment of CDM, including as selection panel member;
- determining and agreeing the composition of the Board with CDM and the Owner, taking into account its diversity and ensuring a balance of relevant expertise and experience, and obtaining approval for the appointment of new independent NEDs;
- ensuring that the Board is supported by effective and properly constituted Audit, Remuneration, Nomination and Safety subcommittees (further information at paras 5.3.1, 5.3.2, 5.3.3 and 5.3.4);
- ensuring there is a Board Operating Framework in place consistent with the Government Code of Good Practice for Corporate Governance and a code of practice for board members, consistent with the Cabinet Office *Code of Conduct for Board Members of Public Bodies*;
- ensuring that the Board as a whole is effective, including assessing the performance of the Board and of individual NEDs, and making recommendations on areas of development;
- encouraging all board members to express their views frankly and challenge constructively in order to improve the standard of discussion in board meetings;
- managing the frequency, content and conduct of Board meetings, ensuring that systems are in place to provide members with accurate and timely information of good quality to allow the Board to consider properly all matters before it.

As set out in section 4.5 below, CDM, as the Chief Executive, is the Accounting Officer for DE&S and retains a direct line of reporting to the Owner and to the MOD Permanent Secretary.

The Chair has a standing right of access to the Owner and will maintain a regular dialogue, including through the Owner's Council and at least quarterly face-to-face meetings each year.

The Chair may seek to resolve any issues relating to CDM's role as Accounting Officer by first raising the matter with CDM. If it is not possible to resolve the issue at this stage, the route for escalation is through the MOD formal NED, PUS and ultimately the Owner as appropriate.

#### **4.5. DE&S' Chief Executive**

MOD's Permanent Secretary designates CDM in his capacity as Chief Executive as Accounting Officer for DE&S. This confers the responsibility for ensuring that the requirements of Managing Public Money are met and that proper procedures are followed for securing the regularity, propriety, value for money and feasibility in the handling of the public funds administered by DE&S. CDM is directly responsible to Parliament for the stewardship of DE&S' resources (see also section 6.2).

To discharge these responsibilities, CDM has delegated authority from PUS to lead and manage DE&S<sup>7</sup> (see also section 6.3). CDM is responsible for DE&S adherence to MOD's policies on Safety, Health and Environmental Protection, Sustainable Development and Security, as detailed at Annex B.

The appointment of the Chief Executive is managed by MOD, with the agreement of the Owner, taking into account advice from the Chair. As a senior post, the appointment also requires the agreement of the Head of the Civil Service and the Government's Senior Leadership Committee.

Specific responsibilities of DE&S' Chief Executive include:

- delivering the strategic objectives of DE&S as set out in section 2.4;
- leading and motivating the DE&S Executive team and other staff;
- developing the Corporate Plan, for endorsement by the Board and approval by the Owner;
- developing, with the support of the Board, business plans to deliver the Corporate Plan;
- developing appropriate internal strategies, policies and capabilities;
- reporting regularly to the DE&S Board and Owner's Council on business performance (including delivery of the programme of work) and on any matters requiring their attention;
- embedding independent audit mechanisms that give assurance on the state of internal control throughout the organisation and the integrity of its financial systems;
- preparing an audited Annual Report and Accounts for endorsement by the Board before being laid before Parliament, in accordance with Government Financial Reporting Manual, Managing Public Money and any HM Treasury instructions that may apply.

In the event that CDM believes that the position of the DE&S Board is in conflict with his or her responsibilities as Accounting Officer, CDM will seek to remedy this in discussion first with the Chair of the DE&S Board, then through PUS and ultimately with the Owner.

## **5. KEY BOARDS AND COMMITTEES**

### **5.1. MOD DE&S Owner's Council**

The MOD DE&S Owner's Council supports and advises the Owner on the review and setting of DE&S' strategic objectives, the approval of the Corporate Plan and novel or contentious decisions<sup>8</sup>, and on performance. It is an internal MOD committee, comprising a majority of ex-officio members.

The Owner's Council is chaired by Min(DEST) and meets as necessary, and at least quarterly. Membership includes MOD PUS, DG Finance, DG HOCS as the MOD formal

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<sup>7</sup> The Chief Executive should have regard to the Civil Service Management Code in exercising these delegations

<sup>8</sup> Relating to the operation of DE&S

NED on the DE&S Board and DCDS (Mil Cap) as the customer representative. The DE&S' Chair and CDM attend. The Cabinet Office Chief Procurement Officer has a standing invitation to attend.

## 5.2. DE&S Board

The DE&S Board provides the strategic leadership for DE&S in delivering its objectives. As such it enables non-executive approval of the Corporate Plan for submission to the Owner's Council and oversight of the delivery of DE&S business. The DE&S Board provides a forum for independent, non-executive, support and constructive challenge to CDM and DE&S Executives; it will adjust its approach over time as necessary, to meet the needs of the organisation as it matures. To strike the right balance of skills, experience and objectivity, the Chair will agree the size and composition of the Board with CDM, taking into account guidance and best practice on Boards in the public<sup>9</sup> and private sectors, subject to approval from the responsible Minister. As a minimum, it will comprise:

- an independent, non-executive, Chair;
- independent non-executive directors (NEDs) with a range of experience and expertise appropriate for the activities that DE&S undertakes. The role of the NEDs is to provide expert advice, guidance and challenge to the Executive team;
- DG HOCS the MOD formal NED;
- the DE&S Chief Executive;
- the DE&S Finance Director;
- Executive(s) as agreed between the Chair and CDM.

The scope of the Board's support and challenge will include:

- DE&S' purpose and role, the policy and commercial constraints under which it operates, and relevant good practice across the Government and private sectors;
- development of the DE&S Corporate Plan, business plans and budgets;
- DE&S' performance against the Corporate Plan and SMART Contracts;
- the allocation of financial and human resources to achieve the Corporate Plan outcomes and thus to address the customers' long-term capability requirements;
- approval of the DE&S pay strategy on advice from the Remuneration Committee (see section 5.3.2), ensuring it is consistent with DE&S pay freedoms<sup>10</sup>;
- DE&S' risk appetite and the controls that are in place to manage risks and threats and to address opportunities;
- the DE&S' Annual Reports and Accounts.

DE&S' independent NEDs will be appointed with the agreement of the Owner, following a process of open and fair competition. Appointments are normally for a fixed-term of up to three years which may be extended for a further term up to a maximum of six years, subject to their meeting required performance standards. Individual independent NED

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<sup>9</sup> E.g. Corporate governance in central government departments: Code of good practice. HM Treasury and Cabinet Office, July 2011

<sup>10</sup> DE&S annual pay remit will be consistent with its freedoms on pay and will be discussed with the Owner prior to approval by the Board

appointments totalling more than six years will be considered only in exceptional circumstances and justified in the Annual Report and Accounts. DE&S will ensure that new NEDs (independent and formal) receive an appropriate induction and the support to enable them to contribute effectively to the Board's activities.

The members of the DE&S Board will be expected to comply with the Government's code of conduct for board members of public bodies<sup>11</sup>.

The effectiveness of the Board and its sub-committees will be assessed annually by the Chair; at least every three years, the review will include input that is independent from that of DE&S Board members. Any deficiencies in the Board's performance or composition, or of its sub-committees, will be addressed by the Chair.

The performance of the independent Chair and the independent NEDs will be assessed annually on whether each continues to demonstrate appropriate commitment to the role (including commitment of time for board and committee meetings and other duties) and contributes effectively and corporately, including measurement against:

- amount and level of strategic challenge provided;
- scrutiny of management decisions and ensuring controls in place;
- ensuring effective decisions are made based on sound management information (risk);
- ensuring appropriate challenge on the skills of the management team (people);
- behaviour and engagement.

The performance of the Chair will be assessed by the MOD formal NED on behalf of the Owner, while the Chair will assess the performance of the independent NEDs.

The quorum necessary for the transaction of business is three NEDs (which includes the Chair or a lead NED appointed in the absence of the Chair) and two Executives. If a NED has a direct or indirect interest in any proposed discussion, he or she has a duty to declare both the nature and extent of that interest to the other Board members. NEDs are required to update their declarations of interest as and when they change.

### **5.2.1. Transition arrangements**

Until the Board has sufficient members to form a quorum, the Board will meet in interim form in order to take any essential business decisions that may be required. As a minimum, the 'interim quorum' for the Board during transition will consist of the Chair, the MOD formal NED, CDM and the transitional independent NED. In the event the Chair has not been appointed by 1 April 2014, the lead independent NED on the Defence Board will act as the Chair of the DE&S Board to ensure that it is able to function. The Defence Board lead independent NED may also be a source of guidance and advice to the DE&S Chair when appointed to assist with transition arrangements.

The transitional independent NED, who will be selected from MOD's existing non-executive Directors on other departmental Boards, will be appointed for a period of 24 months into one of the independent NED roles. As such, he or she will continue to act as

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<sup>11</sup> Code of Conduct for Board Members of Public Bodies, Cabinet Office, June 2011.

a member of the full Board once it has sufficient members to form a quorum up to a maximum period of 24 months to support the functioning of the Board.

### **5.3. DE&S Board Sub-Committees**

In discharging its role and responsibilities, the Board delegates some activities to sub-committees of the Board. These are the Audit, Remuneration, Nomination and Safety Committees. The DE&S Chair will ensure that the Board receives adequate and timely feedback on the work of these sub-committees and that it is able to consider their recommendations.

#### **5.3.1. Audit Committee**

The role of the Audit Committee is to support the DE&S Board and Chief Executive, as Accounting Officer, in monitoring the organisation's corporate governance and control systems. It is chaired by an independent NED with relevant experience.

Members are responsible for reviewing the comprehensiveness, reliability and integrity of controls and reviewing the financial statements.

The Audit Committee advises the Board and CDM on<sup>12</sup>:

- the strategic processes for risk, control and governance, and the Governance Statement;
- the accounting policies, the accounts, and the Annual Report, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- adequacy of management response to issues identified by audit activity;
- assurances relating to the corporate governance requirements for DE&S;
- proposals for tendering for external audit services or for purchase of non-audit services from contractors who provide audit services;
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

The Audit Committee comprises a minimum of three NEDs (including the Chair of the Audit Committee and MOD's formal NED): CDM, the Chief Finance Officer of DE&S (DG Resources) will be in attendance, and a representative from the National Audit Office (NAO). Defence Internal Audit (DIA) may attend as observers.

The Audit Committee will annually review its own effectiveness and report the results of that review to the Chair and to the Board.

The quorum necessary for the transaction of business is two NEDs (including the Chair of the Audit Committee).

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<sup>12</sup> Audit and Risk Assurance Committee Handbook. HM Treasury. April 2013.



### **5.3.2. Remuneration Committee**

The Remuneration Committee advises the Owner, Chief Executive and the Board on matters relating to the proper application of DE&S pay strategy, including the freedoms (as set out in Annex A) and on the remuneration of CDM, the top civilian executive team and other senior staff where these are not set by SCS and Departmental guidelines<sup>1314</sup>.

Specific responsibilities for the Remuneration Committee include<sup>15</sup>:

- review the DE&S pay strategy to ensure that it is financially sustainable, takes into consideration the longer term spending position and ensures the organisation retains control of the payroll;
- have regard to, but not bound by the pay and employment conditions elsewhere in the Civil Service and the public sector pay policy, especially when determining annual salary increases;
- reviewing DE&S' application of its pay freedoms ensuring these are applied effectively and appropriately to meet business needs;
- reviewing and commenting on the DE&S pay strategy and providing advice to the DE&S Board, ensuring that it is consistent with the pay freedoms, financially sustainable, evidenced-based and appropriately incentivised;
- any other remuneration and conditions of employment issues as directed by the DE&S Board or requested by the Chair or CDM;
- advising on the remuneration of CDM;
- the framework and broad policy for the remuneration packages of the Executives and senior staff as appropriate;
- based on recommendations from CDM, considering individual reward packages of the Executives and other senior staff;
- reviewing the objectives of all the Executives as proposed by CDM. The remuneration committee should consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination.

The Remuneration Committee comprises a minimum of three NEDs, one of whom should be the MOD NED, and Committee is chaired by a non-executive Director. CDM, the DE&S HR Director and other Executives may be invited to attend as appropriate.

### **5.3.3. Nomination Committee<sup>16</sup>**

The Nomination Committee meets as necessary to advise the DE&S Chair and Chief Executive on appointments to the DE&S Board (except for the Chair, whose appointment is the responsibility of the Owner).

Specific responsibilities for the Nomination Committee include:

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<sup>13</sup> Guidance on Terms of Reference Remuneration Committee. Institute of Chartered Secretaries and Administrators (ICSA), October 2010. And the Corporate Governance Code for Central Government Departments.

<sup>14</sup> Corporate Governance in Central Government Departments: Code of Good Practice. HM Treasury and Cabinet Office, July 2011.

<sup>15</sup> Guidance on Terms of Reference Remuneration Committee. ICSA, October 2010.

<sup>16</sup> In due course this committee could be combined with the Remuneration Committee

- supporting the Chair to evaluate regularly (at least every three years) the balance of skills, knowledge and experience of the DE&S Board;
- succession planning for independent NEDs.

The Nomination Committee comprises a minimum of three NEDs and is chaired by a non-executive Director. The quorum necessary for the transaction of business is two NEDs.

#### **5.3.4. Safety Committee**

The Safety Committee is the DE&S' senior safety leadership group and will:

- provide support and advice to the Chief Executive in his role as the Senior Duty Holder, in the discharge of his delegations and responsibilities as set out in his Letter of Authority from PUS;
- ensure DE&S has suitable arrangements in place to protect employees, those who may be affected by DE&S activities, the users of equipment and services procured for the Armed Forces and the environment from unintentional harm.

The DE&S Safety Committee will report to the Board either through the Chief Executive or through its Chair, as decided by the Board.

The specific responsibilities of the Safety Committee are set out in the Committee terms of reference but principally the Safety Committee will:

- Act as the senior safety leadership for DE&S, including the leadership of a health, safety and environmental protection communications strategy and tactical plan by overseeing, directing and leading the embedding of the eight Key Safety Messages (see attached) into DE&S so that they describe the way we do business around here.
- Oversee, direct, contribute to and monitor delivery of all work to make DE&S the 'best in class' organisation described in the Chief Executive's Vision Statement (see attached). This to include the development and implementation of strategy, policy, plans and processes which generate and motivate a best in class health, safety and environmental protection performance and culture throughout DE&S and set these matters out in a rolling two year Delivery Plan.
- Monitor, review and direct work against the Delivery Plan quarterly including an auditing programme.
- Report to the DE&S Board assessment of health, safety and environmental protection performance including achievements and challenges. In this, to develop a set of meaningful metrics for the measurement of performance and business targets; and regularly to review performance against the targets.

The Safety Committee comprises Chief of Materiel (Air) as Chair, Chiefs of Materiel for Land, Fleet and Joint Enablers, a NED, Director Technical, Director Human Resources, Head of Quality, Safety and Environmental Protection.

#### **5.4. DE&S Governance Arrangements**

CDM will be supported by an internal governance framework in discharging his responsibilities outlined in Section 4.5. This governance framework will be established by CDM, with support from the Chair, and consist of any Boards and Committees deemed necessary for the Executive to:

- provide collective leadership for the organisation;
- ensure the business operates safely and securely, reviewing performance and managing risks;
- manage business delivery and financial performance;
- take actions necessary to ensure overall business performance is to the standards set by the Owner and within the remit prescribed in this Framework Document.

Where higher-level approval or endorsement is required, the DE&S Executive will make recommendations to DE&S' Board through its internal governance mechanisms.

#### **5.5. MOD Customer Relationship**

The primary means to govern the future DE&S/Customer relationship and to drive output performance will be the individual Smart Contracts (SC) (Command Acquisition Support Plans (CASP) from 1 Apr 15), reviewed and updated annually between the Commands/Strategic Programmes and the DE&S. Measurement of performance will be through quarterly review meetings between the Customer and the DE&S, supported by suitable business intelligence systems and processes. Should there be a failure (DE&S or the Command) to deliver against the SC/CASP, there will be two potential escalation routes: to DG HO&CS as manager of the overall acquisition system; or directly to PUS and CDS through the extant TLB Holding to Account process.

Command perspectives on DE&S performance in delivering against the SC/CASPs will be discussed in the Military Capabilities Board (MCB) prior to meetings of the Owner's Council. The DE&S Chair and the MOD NED will be invited to these discussions. Where necessary, issues discussed at the MCB can be raised to the Armed Force Committee, giving the Service Chiefs an opportunity to discuss collective trends in delivery of the Equipment Plan, beyond their individual SC/CASPs. DCDS (MilCap), who chairs the MCB, will be the Customer representative on the DE&S Owner's Council.

#### **5.6. Acquisition Systems Authority**

DG HOCS has responsibility for the processes by which the Acquisition System operates as part of the Defence Operating Model. This includes defining the contractual arrangements between DE&S and the Commands as its customers, the arrangements by which the DE&S will be held to account for delivery and establishing a process of continuous improvement in the light of experience.

## **6. KEY GOVERNANCE DOCUMENTS**

### **6.1. DE&S Framework Document**

MOD will maintain and publish this Framework Document setting out DE&S' aims and objectives, the monitoring, accountability and reporting patterns with MOD, CDM's financial and personnel management responsibilities, and the governance, policy and financial framework under which it operates.

Prepared by MOD and approved by the Owner following clearance from HM Treasury officials and in consultation with the Cabinet Office, this Framework Document will be reviewed following the first year of operation as a bespoke trading entity and then at least every three years. It will also be refreshed if appropriate following each formal review of the status/business model of the organisation<sup>17</sup>.

The Framework Document is published on the MOD website ([www.gov.uk](http://www.gov.uk)).

### **6.2. Chief Executive's Letter of Designation as Accounting Officer**

The MOD's Permanent Secretary as Principal Accounting Officer for the Department designates CDM in his capacity as the Chief Executive as the Accounting Officer for DE&S. In this role, CDM must ensure that there is an acceptable standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals; and risk is considered in relation to assessing value for money<sup>18</sup>.

As Accounting Officer, CDM must also prepare and sign a statement of the accounts in respect of each financial year and a governance statement, both of which are included in the Annual Report and Accounts. DE&S's Annual Accounts will be consolidated with the MOD's Annual Report and Accounts.

### **6.3. Chief Executive's Letter of Authority**

The Letter of Authority from MOD PUS complements CDM's designation as Accounting Officer. It requires CDM to ensure the effective, efficient and proper conduct of DE&S' business in accordance with Ministerial direction, to set demanding objectives aimed at improving performance and to give full consideration to the potential Parliamentary, political, policy, and presentational aspects of all proposals and to the interests of defence, consulting as necessary with the appropriate policy staffs and Ministers.<sup>19</sup>

The letter sets out CDM's authority on financial, audit, safety, counter-fraud, commercial, pay and personnel, security and sustainable development matters, including his or her delegation as the Senior Duty Holder for safety matters. It will also set out CDM's responsibility for the delivery of the programme of work (including the Equipment Programme and the Equipment Support Plan). To support this there will be a Service

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<sup>17</sup> The status and business model of arms length bodies are subject to review every three years

<sup>18</sup> Managing Public Money

<sup>19</sup> The Chief Executive must have regard to the Civil Service Management Code and other policies and regulations as appropriate in exercising his or her delegations

Level Agreement between MOD DG Finance and DE&S DG Resources detailing the information that will be required (from both parties) to support the Department's finance processes and corporate reporting arrangements.

#### **6.4. DE&S Corporate Plan**

The DE&S Corporate Plan<sup>20</sup> sets out the strategic direction of DE&S for a rolling period of three years. It is reviewed annually by the DE&S Board, agreed by the Owner, and encompasses:

- the strategy for delivering DE&S' purpose and vision;
- the main activities and investments that will deliver this strategy;
- how success will be measured, including delivery against objectives and milestones;
- the wider context and key underpinning assumptions;
- a financial analysis and projections over the three-year period.

When approved by the Owner, it forms the authoritative basis against which all business decisions within DE&S are taken. Individual business decisions flowing from the assumptions contained in the Corporate Plan will be subject to the finance and control framework at Annex C.

Underpinning the Corporate Plan will be annual plans for the delivery of DE&S business, reviewed annually by the DE&S Executive and the DE&S Board and approved by CDM. Business plans will not be published externally.

#### **6.5. Annual Report and Accounts (AR&A)**

CDM, as DE&S Chief Executive, is required to prepare an AR&A in accordance with relevant guidance from HM Treasury and the National Audit Office (NAO)<sup>21</sup>. It provides details of DE&S' business and financial performance over the previous financial year and includes:

- statements from the Chair of the DE&S Board and CDM;
- a governance statement setting out the arrangements for, and management of, business risks;
- a review of performance against objectives and targets;
- a description of significant successes and challenges;
- a sustainability report;
- the biographies and remuneration details of key personnel; and
- a detailed financial statement (the latter meeting the accounting and disclosure requirements set by HM Treasury in the latest published Financial Reporting Manual).

The financial statement is audited by the NAO, and its findings are presented in the AR&A by the Comptroller and Auditor General.

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<sup>20</sup> The DE&S Corporate Plan available at [www.gov.uk](http://www.gov.uk)

<sup>21</sup> DE&S will also produce information in accordance with the instructions issued by the MOD for the consolidated accounts.

The AR&A is presented to Parliament and is available online on the MOD's website. Printed copies are available from TSO (The Stationery Office).

DE&S's Accounts will be consolidated with the MOD's Annual Accounts.

## **7. POLICY FRAMEWORK**

As part of MOD and Government, DE&S is bound by certain policies and standards, the main elements of which are set out in this section and in Annex B.

### **7.1. Parliamentary Accountability**

The responsible Minister remains accountable to Parliament on all matters concerning DE&S and retains the right to intervene in the operations of DE&S if public or parliamentary concerns justify it.

As Accounting Officer, CDM is directly responsible to Parliament for the stewardship of the DE&S's resources. Where a Select Committee wishes to take evidence on matters assigned to DE&S, it will normally fall to CDM to give evidence. MOD PUS has responsibility for assuring him or herself about the capacity and performance of DE&S. Accordingly a select committee may choose to invite MOD PUS and/or policy officials together with representatives of DE&S to give evidence together. Staff within DE&S are subject to Cabinet Office's *Guidance on Giving Evidence to Select Committees* <https://www.gov.uk/government/publications/departmental-evidence-and-response-to-select-committees-guidance>.

Members of Parliament should be encouraged to deal directly with Chief Executives on day-to-day operational matters. Enquiries about DE&S from Members of Parliament who specifically seek a Ministerial response will normally be dealt with personally by the Owner. The responsible Minister may also ask CDM to reply directly to correspondence and about issues delegated to CDM. Parliamentary Questions relating to the operation of DE&S would normally be answered by referring the Question to CDM, whose subsequent reply is published in Hansard once it has been approved by the responsible Minister.

### **7.2. Delegations**

As a matter of policy, CDM has delegated authority in the areas of finance, audit, counter-fraud, commercial, people, pay, health and safety at work, environmental protection, security and resilience, including specifically being the Senior Duty Holder for safety matters. These are articulated in the Letter of Authority issued by MOD PUS and may be sub-delegated within DE&S.

Of note, CDM is authorised to commission contractual commitments but authority to place or amend contracts, or to deal with claims arising, may only be exercised by staff in receipt of a commercial letter of delegation issued by MOD's Director Commercial. In DE&S, this authority rests with its Director of Commercial Operations.

The delivery of the overall Programme of Work will also be delegated to DE&S with budgets flowing through the Commands and Strategic Programmes (in the Head Office), using SMART contracts in the first instance. In addition there is an SLA in place between

MOD DG Finance and DE&S DG Resources (Chief Finance Officer) detailing the information that will be required (by both parties) to support the financial processes. The content of the SLA includes timelines for in year management and the Annual Budgeting Cycle for both the operating costs and the programme of work; provision of information to support the MOD's annual report and accounts particularly on inventory and assets.

## **8. HUMAN RESOURCES**

DE&S operates a Human Resources framework in accordance with Civil Service principles and its delegated freedoms. CDM will maintain a personnel management strategy that enables DE&S to recruit, retain, develop and motivate customer-focussed staff from all parts of the community in the numbers and with the appropriate skills and expertise to meet its aims and objectives, while observing the principle of equitable treatment of all.

### **8.1. Status of Staff and Conditions of Service**

Service personnel will be posted to DE&S in agreement with the Service Secretaries.

DE&S' civilian staff are civil servants and subject to the provisions of the Civil Service Management Code. For day-to-day management of staff, DE&S operates as a discrete entity within the MOD.

Staff will be auto enrolled in the Principal Civil Service Pension Scheme unless they make alternative arrangements.

CDM has authority for setting the terms and conditions of service for all DE&S staff under his or her letter of authority from MOD PUS and in line with the freedoms as set out in Annex A. This is carried out under the provisions of the Civil Service (Management Functions) Act 1992. In exercising this authority, he or she will be cognisant of best practice across the wider Civil Service and Government and MOD policies on Civil Servants' terms and conditions. Remuneration of senior executives will take into account the advice of the DE&S Remuneration Committee. Appointments at SCS Pay Band 3 will be made in conjunction with the Permanent Secretary.

DE&S will manage its workforce through its own HR organisation (which it will create for the purpose), separate from MOD and the wider civil service. It will work with the Chief of Defence Personnel as necessary on matters of Departmental interest.

The terms and conditions of the DE&S Chair and independent NEDs on the DE&S Board are determined by MOD and set out in their individual appointment contracts. While they are paid by DE&S, they are not civil servants or DE&S employees.

### **8.2. Staff Recruitment and Retention**

CDM will ensure the optimum balance of civilian, military and contract staff on permanent and fixed-term appointments achieves the most effective and efficient delivery of DE&S' products and services. He or she has delegated authority to manage DE&S' staff and to recruit to fill vacant posts directly, determining their tenure and other conditions of appointment. Any changes to the total staff complement should be made

within the extent of the freedoms set out in Annex A; any changes outside these freedoms will require external justification and agreement with MOD, HMT and/or Cabinet Office.

### **8.3. Staff Conduct and Discipline**

All DE&S staff will be expected to comply with the civil service code and its standards of integrity, honesty, objectivity and impartiality and uphold the highest professional standards.

CDM will ensure that civilian disciplinary and poor performance cases are handled appropriately. He or she will have full powers, within his delegation, in matters relating to the conduct and discipline of all employees, which include dismissal, demotion, loss of seniority, loss of pay, reprimands and postings.

Any conduct or disciplinary issues involving military personnel working for DE&S will be taken forward in consultation with the appropriate personnel staffs in the Front Line Commands.

### **8.4. Employee Relations and Trade Unions**

CDM will ensure that staff are fully consulted about any proposed changes to terms and conditions of service. DE&S will engage openly and constructively with recognised Trade Unions in discussing proposals for changes affecting DE&S staff. In due course (expected to be 2015 onwards) DE&S will have its own Employee Relations Framework, until such time it will operate under the MOD's Collective Agreement.

### **8.5. Equality and Diversity**

CDM will promote best practice in the area of Diversity and Equal Opportunities, ensuring at a minimum compliance with all applicable legislation and MOD's Equality and Diversity policy. He or she will ensure that DE&S staff are provided with a working environment free from discrimination and harassment.

### **8.6. Welfare**

CDM will ensure the welfare of DE&S' staff and contractors and any visitors to DE&S sites, ensuring compliance with statutory requirements and where not delegated MOD policy.

## **ANNEXES**

- A. Freedoms
- B. Policy framework
- C. Finance and control framework
- D. DE&S governance framework



## FREEDOMS

The principle being applied in this Framework Document is that DE&S will have the fullest possible freedom to manage its workforce and to organise itself consistent with delivery of its objectives. Specifically this freedom of operation will include that:

1. The Department will agree with DE&S an operating cost envelope. The cost envelope will include an agreed level of efficiency and will be set out in the DE&S Corporate Plan. Within this cost envelope DE&S will have the freedom to manage all aspects of its workforce as necessary to meet its business needs. In doing so DE&S' pay strategy will be treated as separate from that of the MOD.<sup>22</sup>
2. DE&S will have the freedom to pay 25 members of its staff more than the senior salary cap set by HM Treasury without further agreement. Should DE&S wish to appoint additional staff (above the 25); at salaries higher than the senior salary cap, individual cases will be made to seek the appropriate agreement.
3. To meet its business needs DE&S will be exempt from the relevant Cabinet Office Controls v3.2. Specifically it is exempt from those controls on:
  - Strategic Supplier Management
  - Advertising, Marketing and Communications
  - External Recruitment
  - Redundancy and Compensation
  - Civil Service Learning
  - Commercial models
  - Consultancy

For Strategic Supplier Management DE&S will continue to work with the Cabinet Office to leverage the Government's relationship with strategic suppliers and will support the work of Crown Representatives. DE&S will contribute data and other information to strengthen the Government's position, both prior to and during projects. MOD and the Cabinet Office may jointly agree to formally badge a number of projects as "collaborative" with dedicated Cabinet Office resource made available.

For external recruitment control will be delegated to the DE&S Chair. DE&S is required to comply with the National Trade Union agreement on surplus staff. However, DE&S can apply for a block exemption for specialist posts.

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<sup>22</sup> Civil Service Management Code paragraph 7.1.3 states that a business case is required for major pay and grading changes. This clause is met by HM Treasury and the Cabinet Office approving the Framework Document and the Corporate Plan for establishing the new DE&S.

On redundancy and compensation DE&S is free to make staff exit arrangements, provided they are compliant with the rules of the Civil Service Compensation Scheme. Any proposals for special severance payments require separate agreement from HMT/ Cabinet Office.

The commitment to transfer expenditure and to work in collaboration with the Crown Commercial Service remains in place DE&S will continue to participate in the wider commercial agenda under the auspices of the Chief Procurement Officer.

In applying these freedoms DE&S and MOD will ensure that they are implemented through PUS and in accordance with his Letter of Authority. DE&S will ensure that the freedoms are exercised transparently and will comply with Government policy to both publish relevant information and provide details both to the Treasury and the Cabinet Office for monitoring purposes.

## POLICY FRAMEWORK

### HM Treasury

DE&S complies with current HM Treasury guidance including [Managing Public Money](#). DE&S will apply any instructions and guidance to Government Departments and to bodies that operate at arm's length, except where it has been delegated freedoms in respect of such instructions and guidance as set out in Annex A.<sup>23</sup>

### Cabinet Office

DE&S follows all relevant Cabinet Office instructions and guidance, except where it has been delegated freedoms in respect of such instructions and guidance as set out in Annex A.

### International Partnering and External Relations

CDM or the DE&S Executives will, if tasked by Government customers, further the interests of DE&S and MOD at national and international fora, in consultation with Head Office. The objective of this is to deliver continually improved products and services for Defence and Government customers and for the benefit of DE&S and MOD's partner organisations.

### Role of Defence Authorities

The MOD is establishing a single, integrated framework of internal controls covering the entire department. This new internal control framework, which came into effect in April 2014 to coincide with full operating capability of the delegated operating model, includes the introduction of designated Defence Authorities, who are formally appointed by PUS. These individuals are authorised to issue general direction concerning specific areas of defence activity and are accountable for the associated internal controls. In discharging these responsibilities Defence Authorities will engage with DE&S to ensure that the general direction they issue will not unnecessarily constrain its ability to operate in line with the freedoms articulated at Annex A.

Defence Authorities: Working List

#### Agreed

- Corporate Design (i.e. the higher organisation of defence)
- Financial Management and Approvals
- People
- Safety
- Health and Medical
- Logistics
- Capability Coherence
- Security
- Business Resilience

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<sup>23</sup> DE&S has been classified as an Executive Agency but it will operate as a Bespoke Trading Entity as per chapter 7 of Managing Public Money.

- Commercial
- Communications
- Statistics
- Public and Parliamentary Accountability
- Information
- Cyber & C4ISR
- Technical and Quality Assurance
- Sustainable Development
- Acquisition System

### **Health and Safety, Environmental Protection and Sustainability**

DE&S will maintain suitable and sufficient policies and arrangements in place regarding health and safety at work and environmental protection in line with legislative requirements and the latest MOD and Government guidance. DE&S is regulated by appropriate external bodies (e.g. HSE, Office of Nuclear Regulation).

DE&S will set out these policies and arrangements in an Organisation and Arrangements (O&A) Statement, which will be owned and signed by CDM as the Chief Executive and reviewed on an annual basis.

The O&A Statement will describe how DE&S plans to ensure that it has suitable arrangements in place to protect employees, those who may be affected by DE&S activities, the users of equipment and services procured for the Armed Forces and the environment from unintentional harm.

DE&S will incorporate sustainable development principles in all its strategies, policies, decision-making processes and associated programmes, projects and activities, as stipulated in the MOD's policy.

### **Safety and Environmental Performance of Military Systems.<sup>24</sup>**

In addition to CDM's general responsibilities, CDM is also responsible for ensuring that governance, systems and processes are in place to deliver safe and environment performance of military systems and is to ensure that:

- a. Users are fully informed of the requirements, and where appropriate restrictions for the use and deployment of equipment; and understand the skills and competence requirements needed to operate and maintain equipment according to defined procedures, instructions, JSPs, statutory and regulatory requirements and Departmental policy.
- b. Equipment delivered is fit for purpose and complies with legislation and departmental policy, and that the safety and environmental risks when used in accordance with design assumptions are "as low as reasonably practicable" and those risks and impacts are monitored and progressively reduced.

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<sup>24</sup> Source Letter of Delegation to Commands from PUS dated February 2014

- c. Sufficient through-life funding is agreed with sponsors and users to achieve this.

## **Quality Assurance**

CDM is required to:

- Ensure that the appropriate governance systems and processes are in place to ensure and assure the quality of Defence Equipment supplied to the front line.
- Establish the role of an MOD Quality Assurance Authority (MOD QAA) , who is to define the quality policy and requirements across the Department; is required to set the standards and policy for quality assurance, quality management and configuration management, which MOD organisations or individuals will apply in the acquisition of Defence Equipment and through-life support activities across the Department.
- Exercise discretion in setting appropriate limits, but follow government and departmental guidelines at all times. Delegation of MOD quality authority must be undertaken formally in writing to a named individual or individuals who are to formally acknowledge receipt, ideally through some form of contract cascade that they are aware of the extent of delegated authorities.

## **Disposals Authority**

CDM has full authority to agree the selling of surplus stores, equipment and capital items subject to the requirements of JSP 462, Chapter 3. In addition, CDM is to develop effective and efficient policies in respect of the disposal of MOD surplus equipment, and to provide a timely and quality service to OGD and to ensure that all opportunities for improvement are taken. CDM is accountable to PUS for:

- The disposal process for all surplus MOD owned capital assets (excluding, Land, Buildings and nuclear materiel).
- The disposal process of all surplus inventory stock (excluding nuclear materiel).
- The disposal process of all surplus non-inventory stock (e.g. waste and scrap but excluding nuclear material);
- Sales of relevant current stock on a specific repayment basis; and
- The placing of contracts in support of disposal activities (subject to the commercial licence provided by D Commercial).

## **Members of the Public**

DE&S will aim to respond substantively within 20 working days to requests for information from members of the public, ensuring compliance with all applicable statutory requirements.

### **Parliamentary Commissioner for Administration**

DE&S is subject to the jurisdiction of the Parliamentary Commissioner for Administration. The Chief Executive is responsible for the preparation of replies on any matter concerning DE&S.

### **Information Commissioner**

DE&S is subject to the jurisdiction of the Information Commissioner, an independent regulator sponsored by the Department for Justice, in relation to its obligations under the Freedom of Information Act, the Data Protection Act, the Privacy and Electronic Communications Regulations and the Environmental Information Regulations. The Chief Executive is responsible for the preparation of replies to enquiries from the Information Commissioner on any matter concerning DE&S.

### **National Accreditation**

In order to meet best-practice standards as an employer and supplier, DE&S will maintain accreditation under ISO 9001 (Quality Management Standard) and ISO 14001 (Environmental Management Standard).

### **Intellectual Property Rights (excluding Crown Copyright)**

Intellectual Property Rights (IPR) generated in DE&S remain vested in the Secretary of State for Defence. These rights are administered in accordance with the Letter of Authority from PUS to CDM. The IPR (except Crown Copyright) in all work carried out by DE&S is handled in accordance with MOD standard policy and held in the name of the Secretary of State for Defence under the administrative and managerial control of DE&S' Intellectual Property Group, as delegated by MOD's Head of IPR.

### **Complaints**

DE&S complies with MOD and Government guidance on dealing with complaints. Any external complaints or concerns can be raised by telephone, email or post and the complaints procedure, including relevant contact details, is available on the DE&S website at: [www.gov.uk](http://www.gov.uk).

## FINANCE AND CONTROL FRAMEWORK

The broad financial basis on which DE&S operates, and related policies and standards, are set out below.

### **Business Model**

DE&S will comply with Managing Public Money and supplementary instructions issued by HM Treasury. As part of the Ministry of Defence it will comply with the standard financial processes and rules as set by DG Finance as the Defence Authority. At all times it will act within its delegated limits both for its operating costs and the programme of work. The limits are set out in the Letter of Authority.

There is an SLA in place between MOD DG Finance and DE&S DG Resources which details the information is required from DE&S for the MOD to manage its financial processes and corporate reporting arrangements including those associated with asset and inventory management; purchase of stock and the delivery of the programme of work.

For products and services provided to customers, DE&S will set its prices in line with **Managing Public Money**.

### **Equipment approval decisions**

The MOD's Investment Approvals Committee chaired by Director General Finance will consider Category A and novel and contentious equipment, infrastructure and support approval decisions. Category B approvals will be delegated to Commands from April 2014. Category C and D approvals were delegated to the Commands in April 2013. Category D projects with a value below £10M, will be managed on behalf of the Commands by DE&S because of their volume and materiality.

### **Capital Investment**

Where appropriate DE&S' capital investment planning is set out in the Corporate Plan.

### **Audit**

CDM and the Audit Committee shall establish and maintain arrangements for internal audit in accordance with the Public Sector Internal Audit Standards

The Head of Defence Internal Audit (DIA) is tasked by PUS and the Defence Audit Committee to carry out audits on all MOD departments. DIA should have continuous unrestricted access to all records, personnel, property and operations of the MOD including its arms length bodies, with strict responsibility for confidentiality and safekeeping, and compliance with all statutory instruments relating to the use, retention and disclosure of data. DIA may attend Audit Committee meetings as observers and their views will be represented by the MOD formal NED at DE&S Audit Committee meetings.

DE&S will use the services of DIA.

### **Internal Control**

As Accounting Officer, CDM has responsibility for reviewing the effectiveness of the system of internal control in accordance with Government guidance. This review shall be informed by the work of the internal auditors and by the senior managers within the organisation who have responsibility for the development and maintenance of the internal control framework. This is augmented with advice from the NAO.

CDM provides regular updates to the DE&S Board and Audit Committee to address any weaknesses, lessons learned and to ensure continuous improvement.

### **Risk Management**

DE&S operates risk management processes at all levels from strategic risks through to project delivery. The Audit Committee reviews the risk management strategy and, in particular, assesses the adequacy of the internal controls operating within all key processes in relation to risk identification, assessment, response and monitoring.

### **Government efficiency constraints**

Government efficiency constraints on Departmental expenditure require HM Treasury and Cabinet Office approval of expenditure above certain limits and the use of centrally-sourced contracts and approved frameworks for procurement of certain common goods and services.

DE&S will publish online information on all organisational expenditure over £25,000, in accordance with the format specified by the Cabinet Office.

DE&S will publish all contracts with a value of over £10,000 in accordance with the instructions issued by the Cabinet Office.



### DE&S GOVERNANCE FRAMEWORK

