

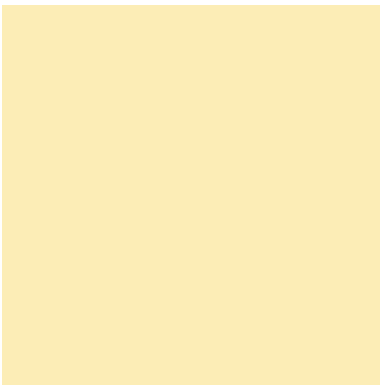


Ministry
of Defence



Defence Equipment & Support Annual Report and Accounts

2018-19



Proudly Equipping and Supporting the UK's armed forces for operations now and in the future

Defence Equipment & Support

Annual Report and Accounts

2018-19

For the year ended 31 March 2019

Presented to the House of Commons pursuant to section 7 of the
Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed 29 January 2020



OGL

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ISBN: 978-1-5286-1598-3

CCS: CCS0719687796

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

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2018-19 Highlights

DE&S has continued to deliver a vast range of equipment and support programmes, putting the needs of our customers at the heart of the organisation.

While our formal transformation programme has concluded, we are taking forward the DE&S@21 Improvement Plan and continue to focus on identifying financial benefits and realising savings back into defence.

Work began on new infrastructure worth £132 million for the new fleet of submarine hunting P-8A Poseidon Maritime Patrol Aircraft at RAF Lossiemouth in Scotland.

We took delivery of the first of a fleet of 25 Commando Merlin, the new helicopter designed for Royal Marine aircraft carrier operations.

The £850 million Sea Ceptor missile system entered service with the Royal Navy; a weapon system designed to provide UK personnel with a shield against airborne targets, including hostile combat jets, helicopters and missiles.

The F-35 Lightning jet landed on UK soil, arriving at RAF Marham two months ahead of schedule.

Royal Navy aircraft carrier, HMS Queen Elizabeth, departed her home port of Portsmouth and the F-35 Lightning jets landed on the deck for the very first time.

Delivery of the 20th next generation A400M Atlas transport aircraft was received by the RAF at RAF Brize Norton – trials tested its ability to deliver cargo by parachute and air-to-air refuelling using the RAF Voyager aircraft.

A £53 million Chinook Mk 6 synthetic training facility opened at RAF Odiham to replicate real-life operations, to train helicopter crews on how to work together in specific flying, emergency and mission capabilities.

Contracts worth up to £5 million each were awarded to three shipbuilding teams to further the plans to build five new Type 31 warships in the UK for the Royal Navy.

A five-year £293 million contract was placed for the support of the existing fleet of 50 Apache attack helicopters used by the British Army.

A new £44 million test facility was unveiled at RAF Cranwell, revolutionising High-G training and used by fast jet pilots in the Royal Navy and Royal Air Force to replicate flight in aircraft.

A multi-million-pound upgrade to the British Army's standard combat rifle to ensure troops are equipped with the best possible battle-winning kit. The SA80 A2 hand held assault weapon is in the process of being upgraded, to ensure the rifle has the enhancements needed to remain in-service until 2025 and beyond.

846 Naval Air Squadron conducting Role Demos with their Merlin MK3 Helicopters at RNAS Yeovilton



Chairman's introduction



by James Dorrian, interim DE&S Chairman

I am delighted to introduce this report, which covers the fifth year of DE&S' operation as a Bespoke Trading Entity (BTE) and Arm's Length Body of the Ministry of Defence.

During the course of the year, the DE&S workforce has continued to procure and support a vast range of equipment for the UK's armed forces. There have been many highlights, some of which are described opposite, illustrating the breadth of DE&S' complex and demanding programme of work. Alongside the tangible delivery for customers, we have also continued to pursue financial benefits stemming from the transformation programme, the formal process of which ran from 2014 - 2018. Of particular note is the fact that by March 2019, DE&S had realised £4.5 billion of transformation efficiency savings against a 2014 target of £3.4 billion¹. This unwavering pursuit of efficiencies and opportunities has been extremely challenging for the DE&S workforce, whose commitment, support and enthusiasm is commendable, and has allowed significant reinvestment in Front-Line capabilities and unprecedented savings for defence.

Building on this success, and with a continued focus on delivery, customers and our people, the DE&S@21 Improvement Plan is now in place, built around the three simple targets of Great People, Great Delivery, Great Place to Work. The plan includes clear success measures designed to ensure that DE&S delivers what we set out to be; a performance-focussed organisation delivering the best for customers, through a diverse, engaged and motivated workforce.

2019 saw the departure of the first DE&S Chairman, Mr Paul Skinner, who came to the end of his tenure in May having provided sterling strategic leadership to DE&S since its launch as a BTE. I am confident that the arrival in November 2019, of our new Chairman, Mr Mark Russell, will underpin DE&S' pursuit of excellence in line with our combined commitment to delivering the best for our armed forces and taxpayers.



James Dorrian, interim DE&S Chairman

¹ Timeframe for transformation efficiencies is FYs 2014-15 to 2023-24. Includes Submarine Delivery Agency efficiencies (within this timeframe) for efficiencies submitted, until it became an autonomous entity on 1 April 2018. Also includes operating expenditure efficiencies.



Section One



Performance
Report

OVERVIEW



Apache touches down on HMS Queen Elizabeth for the first time

Chief Executive statement

by Sir Simon Bollom, CEO and Accounting Officer

In my first year since being appointed as CEO for DE&S I have seen first-hand the continuous improvement of our organisation. This work has progressed alongside delivery of our normal business; an annual programme of work that equates to around £10 billion, delivering vital equipment and support to our armed forces customers. None of this would have been possible without the dedication, talent and support of our people.

The scope of our DE&S business is broad, covering the UK's land, sea and air environments and we have continued to successfully deliver complex projects for our armed forces through our dedicated and highly skilled workforce at every level. Our notable achievements are wide-ranging in scale, scope and innovation across equipment procurement and through-life support as demonstrated in our 2018-19 Highlights page.

Alongside our delivery of equipment and support we have realised substantial benefits to the Equipment Plan through our transformation programme. We are now focussed on the continuous improvement of our business through the DE&S@21 Improvement Plan which aims to further improve our capability and build on our excellent achievements to date. The Plan contains deliverables that have clear measures of success around supporting our people, delivering quality outputs to our customers and making DE&S a great place to work.

We continue to deliver on the intent set out in the Modernising Defence Programme (MDP) through seizing on innovation opportunities so we can adapt and respond to the changing and rapidly evolving military requirement. We must deepen our understanding of the needs of our Front-Line Commands, working with industry to embrace new technology and deliver improved solutions. We will also be supporting BREXIT planning and engaging actively in the Spending Review decision making and implementation.

This is the first ARAC that we have submitted since the Submarine Delivery Agency (SDA) stood up as a stand-alone executive agency in April 2018, operating with similar freedoms to DE&S. This was as a result of the 2015 Strategic Defence and Security Review which set out the intention to strengthen the procurement and in-service support of nuclear submarines, through establishing a new delivery body with the authority and

freedom to recruit and retain the best people to manage the submarine enterprise. Our relationship with the SDA remains strong and we have retained extensive and ongoing links, especially in the maritime area, and continue to work together to deliver the required capabilities for our customers.

I have reviewed the 2018-19 report and accounts and our comprehensive internal controls. I am satisfied that this document accurately reflects the financial status and corporate position of DE&S during the 2018-19 reporting period and am delighted with our achievement of an unqualified audit opinion.



Sir Simon Bollom, CEO
and Accounting Officer

Chief Financial Officer's report

by David Johnson, Director General Resources

Our fifth year of operation as an Arm's Length Body (ALB) within the MOD has been another challenging and exciting year. Our focus has been on delivering for our customers while continuing to develop and improve. We recognise that our customers want us to become increasingly agile and effective in responding to their requirements. We are also highly conscious of the importance of securing the best possible return for every taxpayer's pound we spend. Our DE&S@21 Improvement Plan is designed to ensure our continued growth and success over the next two years and beyond.

The Equipment Plan

This year we spent £9,766 million on acquiring and supporting equipment for the armed forces, as well as a further £770 million on inventory items to support that equipment. We delivered 916 new assets with a Gross Book Value of £9.5 billion to our customers, of which the largest was HMS Queen Elizabeth (£2.9 billion).

During the year we remained within our budgets and delivered efficiencies. On equipment acquisition and support, our outturn of £9,766 million was £146 million (1.5%) under the budget of £9,912 million. On inventory, our outturn of £770 million was £230 million (23%) under the Key Performance Indicator (KPI) budget of £1 billion for Raw Materials and Consumables (RMC), and during the year we reduced the Gross Book Value of our total inventory holdings by a further £233 million.

Looking at the longer term, during the year the projected 10-year costs of the Equipment Plan we manage fell by £1,579 million (1.5%), from £108,025 million to £106,446 million. The bulk of this reduction - about £1.4 billion - represented efficiencies, bringing the total Equipment Plan efficiencies we have delivered for the period 2019-20 to 2028-29 to about £4.5 billion². Examples of the efficiencies delivered include £146 million on the Qinetiq Long Term Partnering Agreement and £134 million on Apache Integrated Operational Support.

Operating expenditure

We have continued to manage our operating expenditure carefully, to remain within our funding envelope. DE&S operating costs (excluding



David Johnson, Director General Resources

communicated costs) out turned at £946 million, 0.7% under the budget of £953 million.

A key area of focus this year has been to be more efficient in our use of Private Sector Support (PSS) by introducing new Industry Delivery Partner arrangements which procure engineering and programme services in a more cost-effective manner. These will contribute to meeting the operating efficiency targets we set for ourselves in our transformation programme, which have cumulatively saved £185 million since 2015-16, of which £61 million was achieved in 2018-19.

Robotic Process Automation

As part of DE&S' digital transformation workstream, we are investing in Robotic Process Automation (RPA) and other automation technologies to:

- Reduce the manual burden of high volume, low complexity transaction activity across the organisation, allowing staff to focus on more intelligent and cognitive activity
- Translate data from legacy and disconnected systems – reducing the amount of valuable staff time that is spent performing 'swivel chair' activity between systems
- Embed automation in our data processes to improve data quality and data consistency through timely and accurate master data management and maintenance.

² Total Equipment Plan benefits delivered since 2016-17 total £5.4 billion for DE&S. This includes financial benefits delivered between 2016-17 to 2018-19 and the £4.5 billion of realised financial benefits for the 10-year Equipment Plan period of 2019-20 to 2028-29.

We currently have two RPA processes live:

- Automation to support the alignment of inventory pricing between the Contracting Purchasing & Finance System and the Integrated Stock Ownership and Pricing System inventory pricing system - this has already processed thousands of transactions, significantly improving data quality and reducing hours spent on manual processing
- Automation of the Inventory Dispositions Process, which determines what should happen to stock/inventory that is no longer needed and triggers the disposal process where appropriate - this is improving data quality and facilitating better planning. It is currently saving the equivalent of four people's worth of manual processing effort, and this is expected to grow to 12 people's worth of effort over the coming year.

As part of DE&S@21 we aim to deliver a minimum of five automated processes and have identified many possibilities. In some cases we will use RPA technology, but in others we will use other automation technologies such as Optical Character Recognition and basic Machine Learning. Automation has enormous potential to improve our data quality, provide new operational metrics by which to measure organisational performance, and to help us increase intelligent productivity.

Investing in Talent

In addition to programmes for developing senior leaders, and training schemes offering professional qualifications to existing staff, DE&S supports graduate and apprentice schemes in five functional areas (Finance, Project Professional, Engineering, Commercial and Corporate Services) and intends to launch similar schemes in the near future for the Information Management & Information Technology and Integrated Logistic Support functions. Our focus has been on entry talent, targeting schools and universities with a diverse population to ensure we are attracting high potential individuals into the organisation. We currently have approximately 800 graduates and apprentices and they are highly sought after as a resource within the organisation, bringing enthusiasm, energy and diversity of thought. Our schemes offer two or three-year development programmes, during which individuals gain both professional qualifications and hands-on experience across the organisation.

Governance and Counter-Fraud activity

As an organisation which spends billions of pounds of taxpayers' money every year, we take the risk of fraud

very seriously. Our approach to fraud prevention is overseen by our Fraud Board, which I chair. This forum drives delivery of fraud risk mitigations and monitors progress against our Fraud Prevention Plan. In addition, at Executive Committee level we monitor a strategic fraud risk, thereby ensuring that senior oversight and management action is focussed regularly across the breadth of this important issue.

Over the last year we have continued to develop our counter fraud capabilities, including the analytical tools to help detect potentially fraudulent activity across the acquisition spectrum, and have piloted the development of an electronic register to capture declarations of interest within the DE&S Finance function. We continue to support wider MOD initiatives in this area, including a recent North Atlantic Treaty Organisation Peer Review. Publicising the importance of the activity we undertake to counter fraud is also key. As part of International Fraud Awareness Week in November 2018 we published a series of articles designed to inform and guide staff on issues related to spotting and stopping potentially fraudulent activity.

A more detailed analysis of DE&S delivery performance to our customers over the last year is provided in the Performance Analysis section at page 18.

Outlook

Looking ahead to financial year 2019-20, we will continue to deliver against the DE&S@21 Improvement Plan with a focus on supporting the Department and our customers and improving our capabilities and performance.

In addition to this we will seek to:

- Achieve further efficiencies in both our Operating Expenditure and Equipment Plan
- Improve our audit results and financial controls to ensure continued improvements in the quality of our accounts
- Improve our understanding of the development needs of our workforce to build capability to meet the challenges ahead
- Develop our strategic workforce planning to ensure we can continue to meet our customers' needs in an ever-changing world.

2018-19 has been a positive but demanding year, and we enter 2019-20 with a clear vision for our future and the drive and determination to succeed.

About DE&S

Our purpose

Our purpose is to equip and support the UK's armed forces for operations now and in the future.

Who we are

We are a professional defence acquisition organisation which manages a vast range of programmes that provide equipment and support to the UK's armed forces.

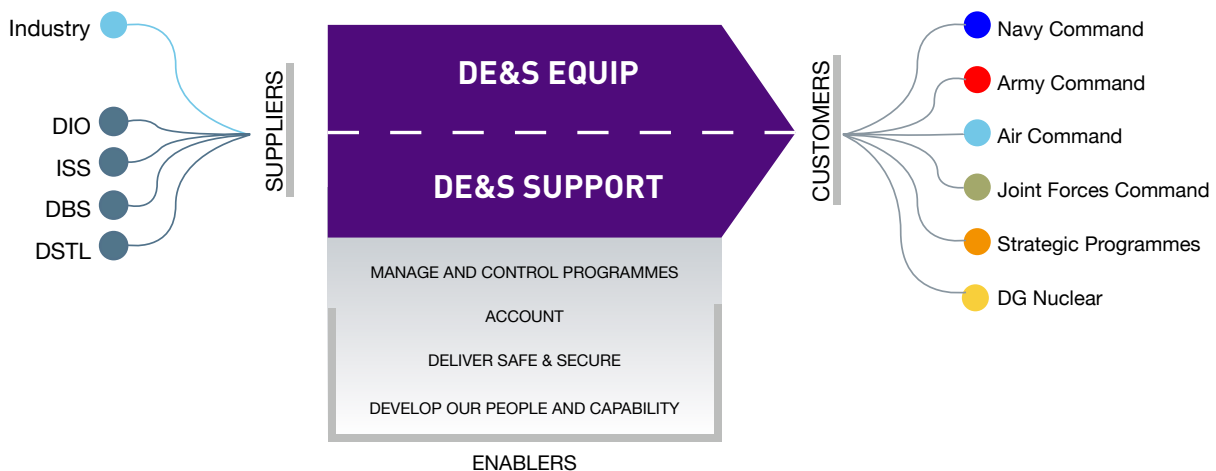
We are part of the MOD but operate as an ALB. We have a unique Bespoke Trading Entity (BTE) status, with delegated management freedoms which provide greater flexibility to manage our business and workforce, thereby improving the quality of delivery to our customers. We are headquartered in Bristol and have people at numerous locations across the UK and overseas, including in support of operations.

What we do

We are responsible for the safe procurement and support of a vast range of equipment – from warships, aircraft and missiles, to armoured vehicles, body armour and field kitchens. We undertake decommissioning and disposal when equipment reaches the end of its service life and we operate a range of services, including the British Forces Post Office, which delivers mail to service personnel in the UK and around the world.

We are delivery focussed and safety driven. We work very closely with our customers in the Front-Line Commands (Royal Navy, Army, Royal Air Force and Joint Forces) as well as MOD Head Office (HO), which includes the Defence Nuclear Organisation and Director Strategic Programmes. Submarines business is now led by the SDA, which is separate from DE&S.

DE&S Operating Model

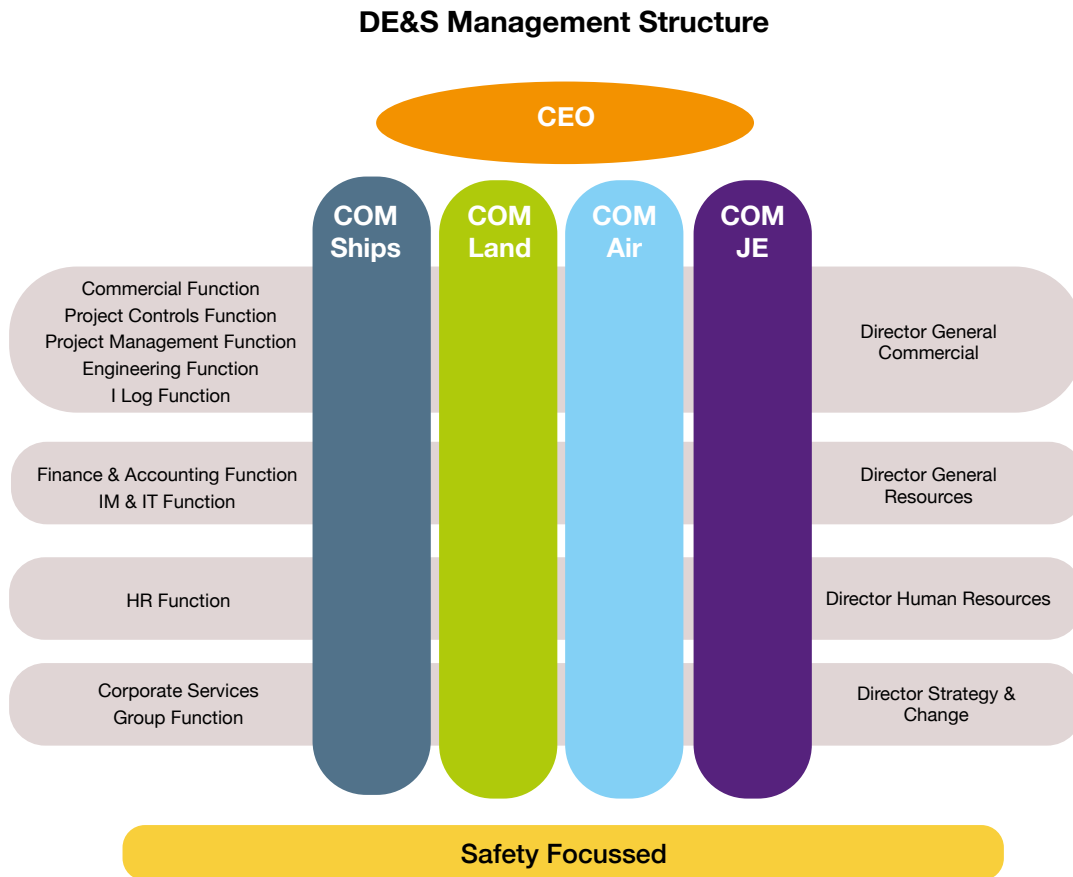


Defence Infrastructure Organisation (DIO)
Information Systems & Services (ISS)
Defence Business Services
Defence Science & Technologies Laboratories

How we are organised

Our organisational structure is designed to support interaction and strong professional relationships with our customers. Under the CEO's leadership, we have four industry facing delivery domains of Ships, Land, Air and Joint Enablers, and each domain is headed by a 3* Chief of Materiel.

Delivery of our business is safety focussed and supported by nine enabling functions. Through the course of 2018-19, each function had an executive-level sponsor as depicted below:



We operate in a balanced matrix, designed to ensure the right people, in the right place, at the right time. Delivering our business requires a range of specialist skills and our people are organised into the following nine professional enabling functions:





Viking Vehicles moving through deep snow in Norway

Our budget

The MOD delegates the bulk of the equipment and support budget to the military commands, giving them responsibility for prioritising what is most critical. As such, DE&S does not hold the budget for the equipment procurement and equipment support plans, but our responsibility is to deliver against these.

Our agreed programme of work is set out in the Command Acquisition Support Plans (CASPs) – individual formal agreements with our customers that capture the outputs against which our teams will deliver. The agreements set out the equipment, support and services DE&S will acquire on our customers' behalf, for what budget and to what timescale. MOD HO holds us accountable for delivery, and measures performance through the use of KPIs which underpin our strategic objectives, as set out in the DE&S Corporate Plan 2018-21.

DE&S is directly responsible for its own operating expenses, and we carry out our business activities within an operating expenditure budget, which flows from MOD HO. Our operating budget includes staff costs, operating support, PSS costs and capital additions. In addition to these main sources of costs we also reflect within the accounts notional communicated costs, which cover the services that are incurred through activities with other MOD organisations. For 2018-19 our operating budget to support our activities was £0.95 billion.

The financial statements at Section 3 have been prepared in accordance with the accounting boundary agreed with the MOD, which delineates between DE&S operating activities reported in our financial statements (staff costs, PSS and other programme costs) and equipment procurement/support activities which are reported in the MOD financial statements. More information regarding the accounting boundary can be found in the Statement of Accounting Policies in the Notes to the Accounts. We comply with Managing Public Money and supplementary instructions issued by HM Treasury (HMT) and we observe the standard financial processes and rules set out by the MOD DG Finance as the Defence Authority.

Operating as a Bespoke Trading Entity

DE&S was launched as a BTE (and ALB) in April 2014, with unique delegated management freedoms allowing the organisation to manage its own business and workforce. As such, DE&S has a separate governance structure and can make use of management freedoms delegated by HMT and the Cabinet Office. These freedoms allow us to manage our outputs and workforce within an operating cost budget which has been set to drive significant efficiencies. Our status has allowed us to strengthen the customer-supplier relationship with our military customers and facilitate a more business-like approach. We have used our management freedoms to implement changes outside of wider Government norms, particularly around the management of our people, to help us to attract, develop, retain and deploy talent as required to meet our customers' requirements.

Our 2018-19 strategic objectives

Our strategic objectives set out the scale of ambition for DE&S and describe what we seek to achieve as a high performing organisation, whilst striving to ensure we are safe in everything that we do and that the equipment we provide is safe to use. Underpinning our strategic objectives are a suite of performance management systems, business plans and corporate strategies, which now includes the Objectives Goals Strategies and Measures (OGSM) framework (described overleaf) and the DE&S@21 Improvement Plan.

Our performance analysis starts on page 18.



Objectives Goals Strategies and Measures 2018-19

Our OGSM framework underpins our strategic objectives and sets out our in-year delivery focus. The CEO's top level OGSM, depicted below, is cascaded through the organisation and is designed to provide a bridge between our strategic objectives and everyone's individual contributions. It provides a clear, concise and simple focus at each level of the business, helping to ensure that our people are aligned and engaged.

1

Objective
Hitting our numbers



by robust financial management and continued delivery of transformation benefits

2

Objective
Perform to plan



by timely CASP signature, leading to the delivery of safe equipment & support to agreed cost & performance parameters

3

Objective
Even more "S" in DE&S



by delivering effective and efficient Support across the lifecycle

4

Objective
Satisfy our customers



by delivering the defence plan and wider government agenda

5

Objective
Transformation becomes embedded



by focusing on embedding new ways of working to deliver benefit

6

Objective
Develop our people & processes



by maximising potential through performance and improved processes



DE&S staff at Abbey Wood



DE&S staff at Abbey Wood

Our transformation

DE&S has now completed the programme of transformation it embarked on in 2014, delivering one of the largest change programmes in government. This wide-ranging programme of transformation was launched under the Materiel Strategy programme, which was designed to address long-standing problems in defence acquisition.

The DE&S Executive Committee confirmed that our initial transformation programme objectives had been achieved in April 2017. Since then the focus has been on maintaining momentum and embedding change. In May 2018 the programme was independently reviewed by the Infrastructure and Projects Authority who confirmed that it had successfully met its aims and could therefore exit the Government Major Projects Portfolio.

During 2018-19 we have made further improvements to how we work and continued the process of embedding transformation changes. The bespoke approach to performance and reward, based on four principles – simple, sustainable, fair and competitive - has been further improved, against the aims of rewarding our people for their performance and competing with industry, helping us to attract and retain the people we need in a competitive employment market, and reducing our reliance on PSS.

We have continued to mature and embed our functional management system with our people deployed flexibly to task by the professional function to which they belong, in line with our customers' priorities. Our new Business Management System has been further updated and we continue our progress towards achieving ISO 9001 accreditation (the international standard for quality management systems). We have been further improving our people's understanding and use of the new ways of working and corporate performance processes, supported by the new Project, Programme and Portfolio management (P3M) toolset that provides the project controls data we need and which will improve our project and programme management. We have also commenced the roll-out of smart working, embracing the flexibilities new technology gives us to enable our people to work more effectively wherever they may be.

The 1000+ strong Change Advocate Network, with volunteers from across our sites, grades and functions, continues to help us embed the new ways of working, tools and behaviours, while creating positivity about working in DE&S.

Our focus now is on building an enduring culture of continuous improvement and we have a plan in place to help realise the future state as laid out in the DE&S@21 Improvement Plan. A range of continuous improvement activities are already underway, to deliver a DE&S characterised as Great People, Great Delivery, Great Place to Work.



Four of Britain's new cutting-edge F-35B Lightning Jets

Improving our delivery: our new ways of working

During 2018-19 we continued our drive to improve our project performance management capabilities. With the P3M toolset rolled out, the focus this year has been on reviewing and improving the baselines for our Order Book Items (OBIs) (our programme of work), further refining and integrating our delivery processes and on deepening our understanding of the capabilities now available to us through the new tools and processes widely in use.

We now have delivery partners in place for engineering and programme delivery, who are providing us with the additional resources, tools and techniques to further improve our delivery in a more efficient and effective way.

We have piloted an improved delivery framework across DE&S to provide direction, oversight and decision making to manage the delivery of OBIs. The delivery framework seeks efficiency and effectiveness improvements by applying the following principles:

- Delegating accountability and decision making to the lowest viable level.
- Tailoring governance and assurance based on risk, complexity and value.
- Empowering the workforce to operate freely, within clear boundaries.
- The ability to scale the approach and thus realise the benefit for all types of work, all financial categories and all permutations of risk and complexity.

The pilots have indicated the following:

- Time savings ranging from three to six months from initial approvals.
- Increased efficiency as issues are addressed earlier, thus removing the need for re-work.
- Project Teams, particularly Project Managers, that were involved have all remarked that they feel trusted and empowered and now have a better understanding of how delivery 'fits together'.

As we develop and spread the framework further over the next year, we will continue to ensure that it aligns with other initiatives, e.g. Project MAID (the MOD approvals transformation programme) and the MOD Acquisition Review.

Commercial Improvements

Our focus on driving commercially led business improvement continued at pace throughout 2018-19. The Commercial Improvement Programme directly supports the objectives of the DE&S@21 Improvement Plan by commercialising our operations and injecting 'cost consciousness' into the DE&S delivery model. We are systematically challenging costs and driving sustained savings through process discipline and organisational capability.

Indirect Cost Optimisation Programme: A new operating model for indirect and direct cost recovery in sole source procurement is now in place, with the team actively working on managing over 100 supplier business units and corporate cost centres. Work to enhance the team's capability and capacity continues.

Routes to Market & Category Management: We are leading the integration of Routes to Market processes and Category Management into the MOD Centre's revised approvals processes and the Acquisition Review Tailored Routes & Category Management. Category Management seeks to improve value for Defence through reducing capability costs and increasing agility to meet challenges, and is an approach that segments and focuses on business activity by discrete groups of services or products (a category). We are also pro-actively leading the MOD-wide Category Management programme on behalf of defence and have the first wave of DE&S category pilot projects in development.

Delivery Partners: Our commercial, engineering and programme delivery partners are all in place and will enable the business to deliver a step change in the way that products and services are delivered across DE&S. These arrangements will realise significant benefits in the years to come.

Looking forward, the team is working with our commercial delivery partners to establish a range of products and services specifically targeted at driving greater efficiency and effectiveness into our commercial/acquisition operations. In turn, this will enable significant business delivery benefits.



DE&S apprentices taking part in the Tom Nevard event

Our people

In October 2018, we conducted our annual staff engagement - the People Survey - which enabled our civilian and military staff to highlight what they think we are doing well and where we need to improve. The survey is part of the Civil Service-wide staff engagement exercise. 78% of staff completed the survey this year, compared to 85% in 2017.

This year saw reductions of between 1 to 8 percentage points across all nine drivers of engagement. Our overall engagement score was 44%, which represents a decrease of 7 percentage points from the previous year's survey and so has been a key focus for the Executive Committee.

Since the results of the People Survey, we have worked hard to address the issues that staff raised. This has included a revised and improved performance management process, investing in our pay and performance award, placing more focus on diversity and inclusion in our workplace and continued investment in learning and development for all our people.

Going forward, we have moved from a position of organisational transformation to continuous improvement in our workplace and have developed a two-year Improvement Plan - DE&S@21 - to achieve our aims of Great People, Great Delivery, Great Place to Work.

Our Executive Committee hold roadshows and town hall events to update staff on our progress on the actions we have taken in response to their feedback and our progress to achieving our DE&S@21 vision. Additionally, we provide regular updates in our monthly communications "Face to Face" cascade brief.

The next DE&S People Survey will take place during autumn 2019.

Delivering for our customers: our performance, risks and issues

Corporate performance for the 2018-19 financial year is set out in the Performance Analysis chapter. Corporate performance – and performance against our KPIs, financial performance, management of risk and safety performance – is assessed each month by the Executive Committee and DE&S Board. Performance is also reviewed in detail in the monthly Domain Performance Committees, which are individual

performance management conversations between the CEO and each Chief of Materiel, where delivery against the CASP and KPIs are standing agenda items. The CEO uses the Function Performance Committees to hold the Function Managers to account. In addition we are held to account by HO, on behalf of the Minister for Defence Procurement - who has formal oversight of our performance - through our Performance and Risk Review, which is chaired by the Vice Chief of Defence Staff and the MOD Chief Operating Officer. We also hold regular CASP performance reviews with each of our customers.

DE&S' Corporate Plan 2018-21 presents our rolling three-year strategic outlook including the OGSM framework and provides the 2018-21 in-year delivery focus for the organisation. It can be found here*.

More information on our governance structures and activity for 2018-19, as well as information on our key risks and issues, is set out in the Governance Statement which forms part of the Accountability Report.

* https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/707889/DES-Corporate-Plan-2018-HighRes.pdf

PERFORMANCE ANALYSIS



Delivery to our military customers remains our purpose and our priority. Overall, we continue to perform well on delivering procurement projects.

Performance of our delivery and customer objectives is formally measured through the CASPs agreed with each of our customers. The CASPs set out metrics and targets which are used to measure our delivery performance and feed into the corporate KPIs outlined in our 2018-21 Corporate Plan. Our aggregate performance against the CASP metrics has a significant bearing on how well DE&S performs against its corporate KPIs.

For 2018-19 DE&S achieved or exceeded the majority of the CASP targets which were measured and monitored throughout the year. For the third successive year we achieved all of our Key User Requirements (KUR) (KPI 1.2). Although £9.4 million cost growth was reported overall across the assessment, demonstration and manufacture phase (KPI 1.3), this is predominantly attributable to cost growth on the Queen Elizabeth Class (QEC), offset by large cost reductions achieved on the AJAX and Typhoon Centurion projects.

This is the first year DE&S has reported on forecast against Equipment Delivery Dates (EDD) rather than In-Service Date (ISD), recognising that this metric more accurately represents delivery performance within our control. A total of 42 months delay across a population of 65 EDDs was reported during the year, 2.6% above the time threshold limit. 12 months delay was attributable to River Class Batch 2 Offshore Patrol Vessel due to quality issues and 15 months delay was reported to Future Anti-Surface Guided Weapon Heavy due to technical and integration challenges.

We achieved our support targets for Availability, Reliability, Sustainability and Safety in three of the five Commands; Air, Joint Forces Command and Strategic Programmes. We failed to achieve the Army

Sustainability target during the year and a demanding operational tempo was a significant contributing factor for the Navy Command support targets not being met. Rectification plans are in place with the aim of improving performance outcomes over the next reporting period.

We achieved our operating expenditure efficiency KPI, with expenditure outturning at £946 million, 0.7% under the budget of £953 million. We exceeded our targets for reducing inventory holdings, achieving a further gross reduction of £233 million, and for controlling inventory RMC purchases where we outturned £230 million under baseline.

During the year, on behalf of our customers, we spent £9,766 million on delivering the Equipment Plan³, against a budget of £9,912 million, a variance of -£146 million or -1.5%. We achieved forecast reductions totalling £1,181 million across all Commands in 10 year support costs and forecast reductions in 10 year procurement costs totalling £399 million with reductions in three of the Commands.

This year our customer satisfaction survey maintained the previous year's score of 6.4. We achieved improvements in two of the five Commands although our aim was to continue to achieve an overall year-on-year improvement. Further work is in hand to support this aim.

There is no change in the overall Amber assessment of health, safety and environmental protection compliance this year although DE&S is now compliant in four elements, an increase of two. An upward trajectory in both Acquisition Safety and Environment (ASE) and Occupational Health, Safety and Environment (OHSE) results each quarter, demonstrates that we are steadily moving towards overall compliance.

DE&S KPIs with supporting information are provided on the following pages.



Pacific 24 Mark-4 Seaboot

³ Assurance of the Sea Ceptor FLAADS T23 project costs for the Equipment Plan 2019 identified a -£374,000 variation from 2017-2018 that was omitted from the DE&S ARAC 2018. To ensure accuracy of accounts and transparency, the decision was taken to include this cost saving in the 2018-2019 financial year for reporting in KPI 1.3.2.

KPI 1 – CASP DELIVERY PERFORMANCE

1.1 Achievement of CASP milestones	Metric	Navy	Army	Air	Joint Forces Command	Strategic Programmes	DE&S
	Green ≥90% Amber ≥80% <90% Red <80%	76% (16 of 21)	100% (13 of 13)	88% (15 of 17)	100% (16 of 16)	89% (17 of 19)	90% (77 of 86)

Each CASP included a number of strategic milestones due to be delivered in-year and agreed with our customers as a significant measure of a project's success. In total, DE&S delivered 82 of 86 milestones during the year, of which 77 were achieved on time or early. The four remaining milestones across Navy and Air were moved for completion in 2019-20, mainly due to technical or commercial issues.

Procurement projects

DE&S monitors delivery performance of all procurement projects, and our KPIs measure performance on all projects with an expected value of more than £20 million and a limited number of lesser value projects which are critical to the delivery of the Command Plan. These are identified and agreed in the appropriate CASP. Defence procurement projects are managed on a lifecycle model known as the CADMID (Concept, Assessment, Demonstration, Manufacture, In-service, Disposal) cycle which incorporates four procurement planning and delivery phases, an in-service phase and, finally, disposal. Procurement projects are approved with quality, cost and time constraints and are categorised by their phase in the procurement cycle.

As well as tracking whether projects are on track to meet the users' requirements (KPI 1.2), we monitor them in terms of both cost (KPI 1.3) and time (KPI 1.4), both for demonstration and manufacture phase projects (those projects that have passed the main investment decision) and assessment phase projects (those which are yet to reach that point) as an average per project in the population. Variances in forecast cost or time can arise from technical challenges or opportunities encountered by the supplier, commercial and procurement processes, international collaboration, accounting adjustments and dependencies in associated projects.

1.2 Key User Requirements	Metric	Navy	Army	Air	Joint Forces Command	Strategic Programmes	DE&S
	Green ≥97% Amber ≥96% <97% Red <96%	100% (77 of 77)	100% (47 of 47)	100% (147 of 147)	100% (24 of 24)	100% (49 of 49)	100% (344 of 344)

The quality of new equipment is measured by how well it will fulfil its KURs. KURs are agreed with our customers when a project is approved and specify the essential core characteristics the equipment must fulfil when in operational use. KURs will be achieved when an equipment enters into service. Under all five CASPs we are forecasting to achieve 100% of KURs.

1.3 Cost	Metric	Navy	Army	Air	Joint Forces Command	Strategic Programmes	DE&S
1.3.1 1.3.1 Demonstration and manufacture phase projects – aggregate cost variance	Green ≤ 0% Red > 0%	+0.2% (+£33.3M)	-0.2% (-£21.4M)	-0.1% (-£12.5M)	0.0% (£0.0M)	+0.3% (+£10.2M)	+0.2% (+£9.7M)
1.3.2 Assessment phase projects – aggregate cost variance	Green ≤ 0% Red > 0%	0.0% (£0.0M)	-0.2% (-£0.3M)	0.0% (£0.0M)	0.0% (£0.0M)	0.0% (£0.0M)	-0.1% (-£0.3M)

The cost variances under KPI 1.3.1 show how much the forecast cost to complete this phase of work changed over the year. In 2018-19, DE&S managed 51 large demonstration & manufacture phase projects, with a total combined forecast in excess of £42.1 billion, against which DE&S incurred an overall aggregate cost growth of £9.7 million (0.2%) across all Commands. Three of the five CASPs reported no variation or an aggregate forecast cost reduction. Navy Command and Strategic Programmes both reported an overall cost increase. This was mainly caused by a £35 million cost growth reported on QEC for the revised estimate to completion. A revised delivery schedule resulted in increased integration costs on Future Anti-Surface Guided Weapon Light. Revised risk cost estimates and retirement of risks resulted in savings on the AJAX project and Typhoon Centurion received income from one of the collaboration partners which reduced their forecast costs.

In KPI 1.3.2 there are 19 assessment phase projects in our programme of work with a total forecast cost of £420.3 million. The aggregate forecast costs metric was achieved across all CASPs.

1.4 Time	Metric	Navy	Army	Air	Joint Forces Command	Strategic Programmes	DE&S
1.4.1 Demonstration and manufacture phase projects – aggregate time variance	Green ≤0.6 months Amber >0.6 months ≤0.8 months Red >0.8 months	+0.7 months (13 months total)	0 months (0 months total)	+0.2 months (3 months total)	-0.4 months (-3 months total)	+2.1 months (29 months total)	+0.6 months (42 months total)
1.4.2 Demonstration and manufacture phase projects – time variance per project	Green ≤15% Amber >15% <25% Red ≥25%	11.1% (2 EDD)	0% (0 EDD)	5% (1 EDD)	0% (0 EDD)	21% (3 EDD)	+9.2% (6 EDD)
1.4.3 Assessment phase projects – aggregate time variance	Green ≤2 months Amber >2 months ≤3 months Red >3 months	0 months (0 months total)	0 months (0 months total)	0 months (0 months total)	0 months (0 months total)	0 months (0 months total)	0 months (0 months total)

The only change in the KPIs for this year is in the demonstration and manufacture phase projects time measure (KPI 1.4.2). This measure now reports the project's EDD, rather than ISD, and provides a more representative assessment of DE&S performance.

In KPI 1.4.1 we achieved our target in three out of five CASPs, with only Navy Command and Strategic Programmes reporting a greater average time slippage than the metric threshold (principally linked to River Class batch 2 Offshore Patrol Vessel and Future Anti-Surface Guided Weapon Heavy as described earlier). Under KPI 1.4.2 there were a total of 65 EDDs in the demonstration and manufacture phase of which six exceeded the two-month slippage threshold.

For our assessment phase KPI 1.4.3 project population, there were no reported time variances across the five Command CASPs.

Support projects

This KPI measures how well we support in-service equipment against the performance measures set individually in each CASP. It takes into account availability, reliability and sustainability, and also measures how well we administer safety processes (i.e. the percentage of in-service equipment where the safety case report or assessment has been signed off and remains current).

We routinely work with customers to determine how they define availability, reliability and sustainability and agree relevant performance thresholds with each of them. We also measure the status of safety case reports or assessments in a safety metric. Together, these four metrics provide an overview of our performance in supporting in-service equipment. As the customers deal with very different operating environments, and as each CASP is negotiated on a bilateral basis, direct comparison of performance between different CASPs is not appropriate.

	Metric	Navy	Army	Air	Joint Forces Command	Strategic Programmes
1.5.1 Availability	Green ≥80% Amber ≥70% <80% Red <70%	77%	92%	87%	90%	94%
1.5.2 Reliability	Green ≥80% Amber ≥70% <80% Red <70%	66%	88%	97%	100%	97%
1.5.3 Sustainability	Green ≥80% Amber ≥70% <80% Red <70%	57%	79%	97%	100%	84%
1.5.4 Safety Process Admin	Green ≥80% Amber ≥70% <80% Red <70%	95%	96%	93%	97%	94%

For this KPI, no overall DE&S target is set, as the performance thresholds for individual equipment's are negotiated separately with each customer.

DE&S delivery performance to in-service platforms was consistently good throughout the year with all KPIs being met under Air and Joint Forces Command CASPs. DE&S achieved all Army Command KPIs with the exception of sustainability. This is due to the high number of items on the critical outstanding spares list and poor contractor performance affecting a vast number of platforms or outputs throughout the year. The Navy Command availability, reliability and sustainability targets were not met, primarily due to the number of outstanding Operational Defects, technical issues and failures across multiple platforms over the course of the year. A full contract-letting plan is in place to address shortfalls and improve contractor performance. Stock availability is expected to significantly improve as a consequence during the next financial year.

KPI 2 – OPERATING EXPENDITURE EFFICIENCY

	Performance
Reduce the total DE&S operating expenditure in line with agreed resource profile in the DE&S Corporate Plan	<p>Our target was to live within our operating cost budget, which we achieved. Our final costs were £946 million against a closing budget of £953 million. During the year the original operating cost budget was also adjusted to reflect a number of budgetary transfers that are part of normal business.⁴</p> <p>The delivery of an operating budget that outturns at year end a variance of just £7 million (0.7%) under budget is clear evidence of the robust and effective financial management exercised by DE&S.</p>

⁴ These figures exclude non-budgetary costs which cover services that are incurred through activities with other MOD organisations, for example payroll services and guard services.

KPI 3 – INVENTORY MANAGEMENT

	Metric	Performance
3.1 Inventory holdings to be no greater than £24.5Bn	Green \leq £24.5Bn ⁵ Amber $>$ £24.5Bn \leq £24.7Bn Red $>$ £24.7Bn	£24.521Bn
3.2 RMC Purchases to be no greater than £1Bn	Green \leq £1Bn Amber $>$ £1Bn \leq £1.025Bn Red $>$ £1.025Bn	£0.770Bn

Both targets were achieved in 2018-19⁶:

- Closing Inventory: During 2018-19, we achieved a gross book reduction of £233 million of inventory holdings from the opening balance through disposal of £3.2 billion of raw material and consumables and capital spares which were unserviceable, surplus or obsolete.
- Raw materials and consumables purchasing: In 2018-19, there was a further purchasing saving of £230 million against the £1 billion target.



Javelin missile live firing exercise

⁵ Green metric threshold is £24.537Bn to three decimal points.

⁶ The Inventory Management targets exclude fuels, SDA and ISS.

KPI 4 – FORECAST ACCURACY AND STABILITY

	Metric	Navy	Army	Air	Joint Forces Command	Strategic Programmes	Unallocated EP	Total
4.1 Forecast accuracy (in year) – outturn below baseline	Baseline	£2,437M	£1,887M	£3,661M	£757M	£994M	£175M	£9,912M
	Overspend: Red Underspend: Green <0% ≥-1.5% Amber <-1.5% ≥-2% Red <-2%	-3.0% (-£72M)	-0.0% (-1M)	-1.2% (-£43M)	-2.8% (-£22M)	-0.1% (-£1M)	-4.4% (-£8M)	-1.5% (-£146M)

The equipment programme outturn was £9,766 million against a budget of £9,912 million, which includes adjustments for foreign exchange movement and scope change. DE&S achieved the forecast outturn target (within 1.5% of the budget) in three of the five Commands. Significant in-year underspend against the Navy programme was impacted by contractor performance issues on the Merlin Crowsnest programme. Underspend in Joint Forces Command was attributed to Reaper Foreign Military Sales activities being delivered at a lower cost than originally predicted.

	Metric	Navy	Army	Air	Joint forces command	Strategic programmes	Other EP	Total
4.2 Forecast stability – 10-year equipment procurement plan – variance to costing	Costing	£8,632M	£14,173M	£8,615M	£3,762M	£8,684M	£0M	£43,866M
	Overspend: Red Underspend: Green	0.1% -£5M	-2.0% -£280M	+0.4% +£35M	+0.8% +£30M	-2.1% -£179M	0.0% £0M	-0.9% -£399M

The 2018-19 forecast of DE&S' 10-year equipment procurement plan was £43,866 million against an adjusted baseline of £44,265 million, a total reduction of £399 million. Forecast reductions have been achieved in three of the Commands.

	Metric	Navy	Army	Air	Joint forces command	Strategic programmes	Other EP	Total
4.3 Forecast stability – 10-year equipment support plan – variance to costing	Costing	£15,953M	£11,276M	£25,323M	£5,741M	£2,953M	£1,334M	£62,580M
	Overspend: Red Underspend: Green	-3.0% -£480M	-2.7% -£310M	-1.1% -£282M	-1.9% -£109M	0.2% -£6M	0.5% +£7M	-1.9% -£1,181M

The 2018-19 forecast of DE&S' 10-year equipment support plan was £62,580 million against an adjusted baseline of £63,761 million, a total reduction of £1,181 million was achieved. Forecast reductions were reported in all Commands.

KPI 5 – CUSTOMER SATISFACTION 2018-19

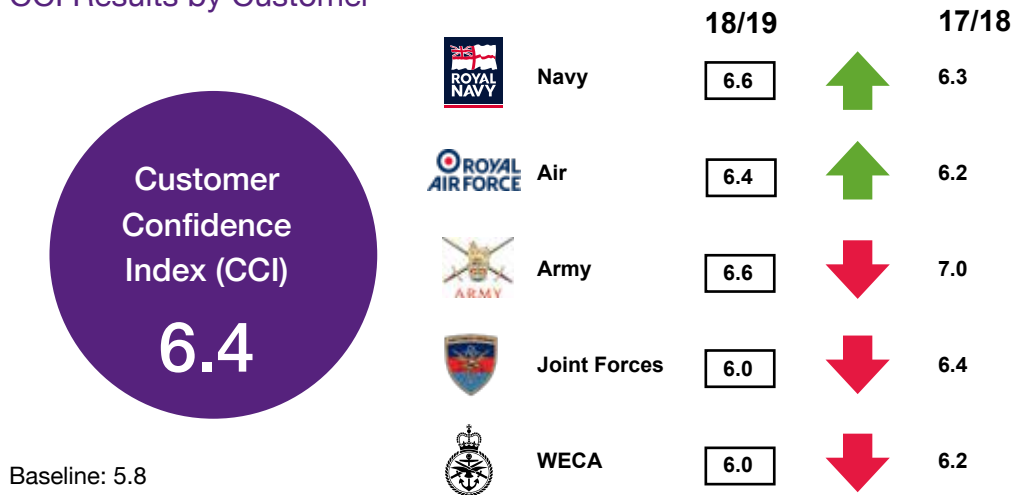
The DE&S customer satisfaction survey is conducted annually. The 2018-19 survey achieved an 84% response rate, an increase of 3% from 81% in 2017-18.

DE&S maintained the Customer Confidence Index (CCI) score⁷ of 6.4 for 2018-19, consistent with the results from 2016-17 and 2017-18. This is a 10% increase from the 2015-16 survey baseline score of 5.8.

A number of common themes were identified and action plans produced covering: prioritising deployment of Suitably Qualified Experienced Person (SQEP) resources; the management of CASPs; improving DE&S' customer focus and flexibility. These action plans will be reviewed regularly with our customers at CASP Customer Reviews and other appropriate fora.

Senior two-way DE&S-customer relationship assessments have also commenced to identify further joint actions to improve the relationship between DE&S domains and their customers.

CCI Results by Customer



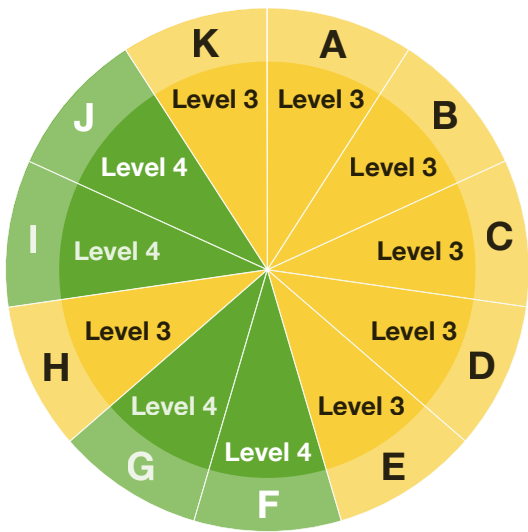
Customer Confidence Index is a score derived from numerical responses to the theme and relationship questions (against a 1 to 10 scale where 1 is the 'most negative' and 10 the 'most positive').

⁷The CCI Index is scored out of 10.

KPI 6: HEALTH, SAFETY & ENVIRONMENTAL PROTECTION 2018-19

DE&S' overall KPI metric is assessed at Amber and shows that more work is required across a number of areas to achieve overall compliance. This is measured across eleven different elements, each of which is assessed against the Defence Maturity Model. All eleven elements must be assessed as compliant (level 4) or above for the KPI to be Green.

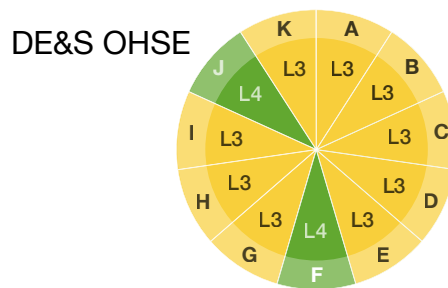
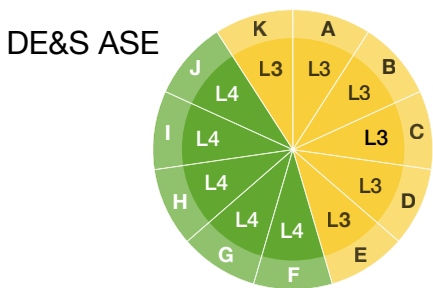
DE&S is reported as compliant (level 4) against four elements: Equipment/Material & Infra Design & Manufacture, Equipment/Material & Infra Maintenance, Incident Management & Learning from Experience, and Emergency Arrangements. This is an increase of two from 2017-18.



- A - Legislation, Regulations, Policy & Guidance
- B - Information Management
- C - Leadership, Culture, Capability & Change
- D - Personnel Competence & Training
- E - Risk Assessment & Safety Cases
- F - Equipment/Materiel & Infra Design & Manufacture
- G - Equipment/Materiel & Infra Maintenance
- H - Supervision & Control of Activities
- I - Incident Management & Learning From Experience
- J - Emergency Arrangements
- K - Self Assurance

Key: Defence Maturity Model	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6
	Serious weakness(es)	Significant weakness(es)	Minor weakness(es)	Compliant	Developed	Excelling

Each element is based on an average of both the OHSE and ASE assessments provided by each Operating Centre. The diagrams below provide these breakdowns and show that DE&S is compliant (level 4) in five elements for ASE in comparison to just two for OHSE. It is also worth noting that element D for OHSE has increased from level 2 to level 3.



The KPI 6 results are steadily moving the organisation towards compliance with an upward trajectory in both ASE and OHSE, as demonstrated in the table below.

ASE and OHSE		ASE				OHSE			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A	Applicable legislation, Defence regulations, policy & guidance	3.25	3.40	3.44	3.60	3.30	3.30	3.50	3.60
B	Information Management	3.10	3.00	3.11	3.20	3.10	3.10	3.20	3.40
C	Organisational leadership, culture, capability & change management	2.90	3.60	3.67	3.70	2.90	3.20	3.30	3.60
D	Personnel competence & training	2.60	3.00	3.11	2.90	2.60	2.50	2.70	3.10
E	Risk assessment & safety cases	3.10	3.50	3.56	3.70	3.10	3.20	3.50	3.40
F	Equipment / material & infrastructure design & manufacture	4.00	3.89	4.00	4.10	4.00	4.00	4.00	4.00
G	Equipment / material & infrastructure maintenance	3.14	3.78	3.89	4.00	3.10	3.10	3.40	3.50
H	Supervision & control of activities	3.20	3.80	3.88	3.90	3.20	3.40	3.30	3.40
I	Incident management & learning from experience	3.40	4.20	4.22	4.20	3.40	3.40	3.40	3.60
J	Emergency arrangements	3.80	3.80	3.89	3.90	3.90	4.00	4.10	4.00
K	Self-assurance	3.10	3.70	3.78	3.70	3.10	3.10	3.30	3.30

Overall KPI as sourced by RAG status is Amber as one or more elements are level 3	3.20	3.60	3.70	3.70	3.20	3.30	3.40	3.50
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A number of activities are underway, as described in the following section, which underline our pursuit of achieving full compliance, despite some challenging areas. While our initiatives will inevitably take time, they are expected to deliver significant improvements for 2019-20 and beyond.

SAFETY, SUSTAINABILITY AND SECURITY



Safety and environmental protection

DE&S is committed to ensuring that we provide safe equipment to the armed forces and protect the environment in which our equipment operates. We also reduce the risk of harm to people so far as is reasonably practicable, minimise the impact on the environment from our business activities, and are committed to providing our people with a safe place to work. Oversight of these areas is provided by the DE&S Safety, Health and Environmental Committee, with performance also reported to the Executive and Performance Committees, and the DE&S Board.

Acquisition Safety and Environment

The DE&S Corporate Plan 2018-21 set out our determination to maintain a robust safety culture. Following a study that reported in April 2018, we identified a need for additional clarity on acquisition safety responsibilities, which we addressed in 2018-19 through our Acquisition Safety Project. This introduced new safety arrangements that give specific responsibilities to individuals who sign off safety cases and assessments, while also affirming that everyone in DE&S has a role in safety. To embed this message, we delivered awareness-raising training to over 5000 staff, and matched every role in the organisation to our new taxonomy of safety responsibilities. This has allowed us to produce new, more focussed management information to support executive oversight and decision making.

We have continued to build competence in our organisation by supplying system safety and environmental protection training for project staff, and delivering a range of masterclasses and workshops to enhance understanding of more specialist areas such as noise and vibration exposure and management of hazardous materials.

Occupational Health, Safety and Environment

As well as providing safe and compliant equipment, DE&S has a legal and moral duty to ensure the potential harm presented to our people and to the environment by our business activities and infrastructure is minimised. An organisational change implemented in-year saw the OHSE function become a specialism within the Corporate Service Group (CSG) function. This does not lessen the importance to which DE&S places on effective OHSE management in the business: the DE&S Chief Environmental and Safety Officer (CESO), supported by the CESO Centre of Expertise (CoE), is Head of Specialism for OHSE and, as a CSG specialism, continues to promote professionalism, training and best practice while providing independent, specialist advice on matters to assist the business in meeting its responsibilities. Every DE&S employee has a role to play and the OHSE specialism aims to encourage and enable all personnel to understand and take responsibility for safety and environmental protection and, by doing so, enhance organisational and personal values, behaviours, actions and wider organisational culture.

The CoE developed and delivered an organisational Safety and Environmental Management System, including an Organisation and Arrangements statement and enhanced policy statements for both Occupational Health and Safety and Environmental Protection, ensuring a standardised approach and appropriate legislative and regulatory compliance for our people's health and safety at work. An OHSE competency pathway was also developed to ensure our people are trained to a level comparative with industry. In June 2018 we held our fourth annual safety day which built on the success of previous events and reinforced the message about our safety vision and commitment. All our people were actively encouraged to take part and to respond to the Safety Culture Survey which was also released on the day and achieved an improved response rate over previous years.

The DE&S Incident Notification Cell continued to provide an effective accident and incident reporting system which satisfied both statutory and MOD policy requirements. Throughout the year, these reports were monitored for trends and relevant statistics were reported monthly to the DE&S Executive Committee through the Occupational Health and Safety dashboard. This ensured that senior management were kept informed of organisational performance and any emerging issues that required attention.

OHSE governance has been strengthened with the establishment of the Occupational Health, Safety and Well-Being and Occupational Environmental Protection Steering Groups, both chaired at 2* Director level. An OHSE focussed audit and assurance programme at the corporate level was introduced for the first time which will continue into subsequent years. All DE&S sites have environmental management systems in place which are regularly assessed and audited. We are focussed on improving overall environmental management maturity across the sites.

As transformation activity has become business as usual, the CESO CoE is focussed on improving and maturing the corporate OHSE policy and processes, including developing a strategy for increasing near miss reporting rates across the organisation.

Sustainability

During 2018-19, we continued to work hard in support of our commitment to sustainability. Our sites' Environmental Management Systems are now being strengthened through an increased level of second party auditing and internal reviews; we undertook reviews into biosecurity arrangements (controls in place to ensure equipment / goods coming in from overseas are not contaminated with harmful organic matter or non-native species) and waste management this year. We are working with the DIO as part of ensuring that all our fuels infrastructure is compliant with the requirements of the MOD Fuels and Gases Safety Regulator.

Work continued to address requirements on both infrastructure and office related sustainability targets including domestic flights and paper use. DE&S has published guidance on reducing Consumer Single Use Plastics (CSUP) in line with a Government requirement to reduce CSUP across the Government office estate. We are currently pursuing different opportunities to reduce plastic through waste prevention and behaviour change schemes including grass roots initiatives. We have continued to ensure compliance with Government Buying Standards where they are relevant to defence acquisition. This is overseen by the DE&S Greening Government Commitments Steering Group, a 2* committee responsible for ensuring DE&S meets requirements under the Government sustainability targets.

Addressing sustainability through the DE&S equipment acquisition programme is overseen by the Acquisition Environment Steering Group. This is a separate 2*-led committee, focussed on addressing DE&S' key environmental and sustainability risks affecting the acquisition of equipment and support services. A key

part of recent activity has been to strengthen knowledge and reporting on hazardous materials and F-gas procurement.

We refreshed our overarching guidance on sustainable procurement, published on the Knowledge in Defence portal, to provide MOD personnel and industry partners with up-to-date policy guidance on the different sustainability risks affecting defence acquisition. Sustainability is also part of the MOD investment approvals guidance which was updated during the year. Other recent initiatives have included work to embed the new MOD Defence Standard 00-051, 'Environmental Management Requirements for Defence Systems' which was introduced to ensure environmental issues are considered when contracting for defence systems.

We continue to refine the sustainability guidance which has been incorporated in the Project Orientated Environmental Management System which is part of the Acquisition, Safety and Environmental Management System. This is a web hosted resource which includes guidance and policy and is mandated for all DE&S equipment acquisition projects, providing a framework for our delivery teams to identify, review and escalate environmental risks. Work has continued to update the environment training delivered by Cranfield University which is provided for DE&S equipment acquisition delivery teams.

Sustainability was a major theme in the Environmental and Safety Assurance Symposium held at DE&S Abbey Wood in September 2018, with over 400 delegates from the MOD and defence industry. We continued to work with key suppliers through the DE&S-sponsored joint MOD and industry Sustainable Procurement Working Group, which provides a forum to consult on how best to promote and embed sustainability in the defence supply chain.

Security

The security of our people, information and the supply chain remain of utmost importance and we strive to achieve a robust safety and security culture. Governance and oversight of DE&S security activity is driven by our Security Committee, which reports regularly into the Executive Committee and DE&S Board. The Committee sits on a quarterly basis to define the priorities and issue guidance for security provision of all elements of security within DE&S, including physical, personnel, cyber, and business resilience.

DE&S has launched a revised Corporate Security and Resilience Strategy for 2019-21 which establishes its aims and objectives to enhance the security culture and

an ability to deliver assured capability. Responsibility and accountability for security and resilience has also been clarified at the DE&S corporate and domain levels to enhance transparency. A DE&S security and resilience risk appetite⁸ has also been developed to advance the use of sound risk principles in the pursuit of DE&S objectives. This work is underpinned by the continuing development and professionalisation of the security specialism, which has positioned security professionals across the business to develop understanding of this discipline and deliver appropriate assurance to DE&S risk owners.

This year has seen DE&S move towards the ISO 27001 information security standard through implementation of a framework of control standards across DE&S. There is an operating target for achieving accreditation against both this framework and ISO 9001 during 2019. These improvements to organisational governance will further enhance management of risk and protection of information assets.

DE&S continues to deliver a rigorous assurance programme for its Defence Critical National Infrastructure. Under the direction of the Security Committee, improvements have been delivered to Business Continuity Management at the domain and corporate levels, culminating in a revised corporate Business Continuity plan and IT Disaster Recovery strategy and the delivery of a funded programme to enhance IT resilience.

A significant programme of work to run until 2021 has been established by the DE&S Chief Information Officer, engaging with stakeholders across DE&S and the wider MOD and Government to develop cyber resilience process and good practice, supported by SQEP, to deliver appropriate assurances across our acquisition and support projects.

Much work has been done this year to reinforce good security culture. The modernisation of the annual mandated security training and corporate induction programme for all new staff into DE&S ensures a common day-one baseline of understanding. Additionally, awareness campaigns have been delivered throughout the year, to correspond with national campaigns, such as Counter Terrorism and Business Continuity weeks to raise the bar in terms of our security behaviours. The culture campaign continues to directly support achieving zero security breaches across all domains.

Aged infrastructure and constraints in resourcing within Policing and Guarding services have posed a challenge; however at the direction of the Security Committee, a prioritised programme of work has been launched to deliver security improvements over the next 10 years. DE&S has also been able to use its freedoms to deliver cost effective, major and rapid improvements.

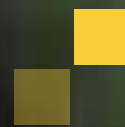


Soldier testing an unmanned aerial vehicle

⁸ Risk appetite is the amount and type of risk that DE&S is willing to take in order to sustain outputs.



LOOKING FORWARD



In July 2019 we published our Corporate Plan for 2019-22. The Plan sets out our strategic outlook, programme of work and improvement plan, which continues our transformation journey and builds upon our significant achievements to date – with the aim of further improving delivery to our Front-Line customers. The 2019-22 Corporate Plan is available online here*.

During 2019-20 we will continue to deliver a complex and varied programme of work to our military customers, acquiring new equipment and capabilities and supporting those in-service to ensure the armed forces have what they need, when they need it. Our organisational structure is designed to support interaction and strong professional relationships with our customers; this enables us to deepen our understanding of their needs, whilst continuing to work with industry to deliver innovative solutions that ensure we are able to react to the evolving threats to our nation. Safety cuts across all areas of our business and is everyone's responsibility. It will continue to be at the heart of everything we do as we work to further embed a measurably capable safety organisation with a strong safety culture, clear governance and clear safety assignments.

Effective delivery of our ambitious programme of work depends on our ability to continually evolve and improve as an organisation. Our DE&S@21 Improvement Plan, which sets out our simplified vision of Great People, Great Delivery, Great Place to Work, focuses on giving our people the skills and tools they need to get the job done both now and in the future. The two-year plan is benefits-led and owned by the workforce, with clear success measures in place to ensure we deliver what we set out to be: a performance-focussed organisation that delivers the best for our customers through our diverse, engaged and motivated workforce. DE&S@21 activities are underpinned by a robust schedule of work, with responsible owners held to account for delivery. This builds upon the significant efficiencies already achieved through our transformation programme, and will continue to ensure the realisation of savings for vital re-investment back into Front-Line capabilities.

The conclusion of the MDP recognised the need for capability investments and policy approaches that will help deliver the right UK defence for the challenges of the future. As part of this, the MDP review of DE&S in 2018 acknowledged that the freedoms helpful to us in delivering transformation should be maintained; this enables us to build on our successes and further improve the business as I highlighted earlier. The wider defence transformation programme seeks to

build on the foundations of MDP through activities to mobilise, modernise and transform defence. The MOD's approach to adopting transformation will improve the way MOD does business and maximise investment into the Front-Line, with an initial focus on functional areas of support, people, acquisition and digital and information technology. DE&S, through the lessons we have learned from our own transformation programme, can be of real benefit to defence transformation. Much of what we have achieved, and continue to improve on, is aligned with the MOD's approach: sustainable longer-term savings through simplified processes and policies; building change management capability; empowerment to the workforce and; ensuring the Department has the necessary people and skills to deliver value for money. We must therefore continue the strong working relationship with our MOD colleagues to provide support, and remain aligned to, delivery of defence transformation.

Delivering our programme of work and ongoing improvements must continue at pace, whilst supporting BREXIT planning and remaining ready to react to the changing domestic and international landscape. Our simplified vision as set out in the DE&S@21 Improvement Plan will ensure we remain focussed on supporting our people to do their job, in delivering the best solutions for our customers at value for money to the taxpayer.



Sir Simon Bollom
Accounting Officer
6 January 2020

* <https://www.gov.uk/government/publications/defence-equipment-and-support-corporate-plan-financial-years-2019-to-2022>



Challenger Vehicle and Apache helicopter at
Salisbury Plain - Copehill Down demo

Section Two



Accountability
Report

CORPORATE GOVERNANCE REPORT



Directors' report

Management

Details of the DE&S Chairman, the CEO and more information on the composition of the DE&S Board and Executive Committee are set out in the Governance Statement, and the Remuneration and Staff Report.

Directorships and significant interests

DE&S senior executives must declare any outside business and financial interests and other private, charitable and commercial activities they have, that may conflict with their official duties. There have been no reported conflicts of interest or related party transactions between the senior executives and their activities that have impacted on the conduct and consideration of Board business by its members.

Personal data related incidents

No personal data related incidents were reported to the Information Commissioner's Office in 2018-19. General Data Protection Regulations (GDPR) and the new Data Protection Impact Assessment (DPIA) form and process, which was issued by the Ministry of Defence (MOD) Data Protection Officer in March 2019, are now fully embedded as business as usual. The new DPIA process will allow us to take the next step forward in understanding, managing and protecting our personal data assets. Work is in hand to transfer all the existing Privacy Impact Assessment forms onto the new DPIA form. Going forward the Information Management (IM) and Information Technology (IT) function are establishing a Centre of Expertise (CoE) which will embed Local Data Protection Advisors into the business. This will further increase knowledge sharing on data protection matters and ensure consistency.

Statement of Accounting Officer responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury (HMT) has directed DE&S to prepare, for each financial year, resource accounts detailing the resources acquired, used, held or disposed of during the year, a statement of accounts in the form and on the basis set out in the Accounts Direction issued by HMT on 4 March 2019. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of DE&S and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- Observe the Accounts Direction issued by HMT, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards, as set out in the Government FReM, have been followed, and disclose and explain any material departures in the accounts.
- Prepare the accounts on a going concern basis.

The Permanent Secretary of the MOD, as Accounting Officer, has designated the CEO of DE&S as Accounting Officer for DE&S. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, keeping proper records and safeguarding DE&S assets, are set out in Managing Public Money, published by HMT.

Accounting Officer Confirmation

I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the DE&S auditors are aware of that information. As far as I am aware, there is no relevant audit information of which the DE&S auditors are unaware.

The Annual Report and Accounts as a whole is fair, balanced and understandable. I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

Governance Statement

I, Sir Simon Bollom, Chief Executive and Accounting Officer of DE&S, am responsible for maintaining a sound system of corporate governance and internal control to support DE&S' purpose and high-level objectives, while safeguarding the public funds and MOD assets for which I am personally responsible. I have obtained assurances from my teams that enable me to conclude that the system of internal control in DE&S complies with the HMT Code of Good Practice on Corporate Governance in Central Government Departments.

This Governance Statement represents my assurance that, as Accounting Officer, I am satisfied that DE&S finances are adequately controlled through sound financial management systems, processes and controls.

Our governance structure

The DE&S governance hierarchy begins with the Performance and Risk Review (P&RR), which was introduced following the dissolution of the Owner's Council in September 2018. The DE&S Board, along with associated sub-committees, exist to provide suitable assurance that DE&S is fulfilling its responsibilities to stakeholders, and being managed in accordance with the framework, procedures and plans that have been set.

Performance and Risk Review

The P&RR aims to meet on a quarterly basis to provide DE&S with support and challenge on key strategic issues. In addition to the standing P&RR members, Permanent Secretary and Chief of Defence Staff (CDS) are invited to attend, and Chair, every other meeting, with others attending at the discretion of P&RR members.

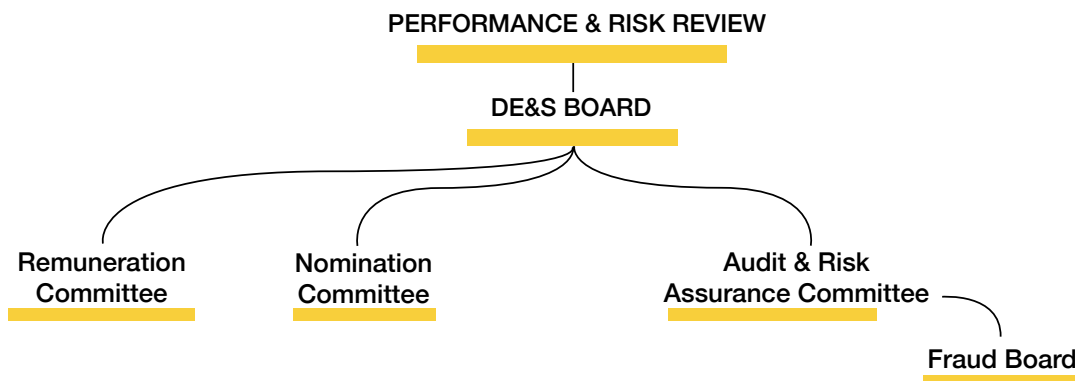
Attendance

- Vice CDS, Chair
- MOD Chief Operating Officer (COO), MOD Sponsor & Chair
- UKGI Director General (DG) Finance
- Deputy Chief of Defence Staff (DCDS) Military Capability
- DE&S Chairman
- DE&S CEO
- DE&S DG (Resources)

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 ahead of Minister for Defence Procurement approval, 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 the DE&S CEO and Executive Committee.

To strike the right balance of skills, experience and objectivity, the Chair agrees the size and composition of the Board with the CEO, taking into account guidance and best practice on boards in the public and private sectors, subject to approval from the Minister for Defence Procurement.



Membership

- Mr Paul Skinner, DE&S Chair⁹
- MOD Permanent Secretary
- MOD COO
- DCDS Military Capability¹⁰
- DE&S CEO¹¹
- DE&S DG (Resources)¹²
- Mr James Dorrian, Non-Executive Director (NED)¹³
- Dr Ros Rivaz, NED
- Mr Iain Lanaghan NED
- Mr Gerard Connell, NED¹⁴
- Mr Andy Lord, NED¹⁵

DE&S Board as at 31 March 2019



⁹ Mr Skinner's tenure came to an end in May 2019.

¹⁰ Lt Gen Sir Poffley was on the Board as DCDS Mil Cap until December 2018, and was replaced by Air Marshal Knighton.

¹¹ Mr Bradley was interim CEO at the April & May 2018 DE&S Boards. Sir Bollom attended the Board as CEO from June 2018.

¹² Mr Johnson was interim DG Resources at the April 2018 Board. Mr Bradley resumed his role as DG Resources at the June to September 2018 Boards. Following Mr Bradley's departure in October 2018, Mr Johnson resumed the role of interim DG Resources.

¹³ Mr Dorrian assumed the role of interim Chairman upon Mr Skinner's departure.

¹⁴ Mr Connell joined the Board 1 June 2018.

¹⁵ Mr Lord joined the Board 1 October 2018.

DE&S Board activity

The Board met ten times during 2018-19. This included two away days to Land and Navy Commands (held following the May and January meetings respectively), and a Board strategy day which was held in March 2019.

Number of meetings attended 2018-19¹⁶	
Mr Paul Skinner	10(10)
Mr Stephen Lovegrove or Mr David Goldstone as his representative ¹⁷	10(10)
Lt Gen Sir Mark Poffley (DCDS MilCap until December 2018)	5(7)
AM Richard Knighton (DCDS MilCap from December 2018 - present)	3(3)
Mr Michael Bradley (as CEO) (as DG Resources)	2(2) 2(3)
Sir Simon Bollom	8(8)
Mr David Johnson ¹⁸	6(7)
Mr James Dorrian	10(10)
Dr Ros Rivaz	9(10)
Mr Iain Lanaghan	9(10)
Mr Gerard Connell	7(8)
Mr Andy Lord	4(5)

DE&S Board processes

Board process and procedure is managed by the Board Secretary. Formal records of all Board meetings are prepared and distributed promptly and, between meetings, other information is circulated as necessary to ensure that Board members are informed about relevant issues. At its meetings, the Board takes regular written reports from myself as CEO, the Chief Financial Officer (CFO) and the Chairs of the Board sub-committees, as well as on other areas of the business as required Board papers are prepared and presented by those with the seniority and experience to enable them to report with authority on each subject. Where the Board is presented with options for endorsement, our papers adopt the principles of evidence-based decision making. This helps us to ensure that the information to which the Board has access is current, balanced and accurate.

Board performance

By James Dorrian, interim DE&S Chairman

Having served on the Board as a NED since October 2014 and latterly in my role as interim Chairman, I have observed the Board's continued evolution and development. This positive trajectory has continued over the fifth year of the Board's operation. The appointment of Mr Lord and Mr Connell has further enhanced the Board's range of skills and experience, underpinning Board stability, resilience and expertise. Our annual effectiveness review resulted in a number of positive initiatives being taken forward, including the introduction of a common format for business updates, focussed on key issues, milestones and risk; and we have taken steps to strengthen engagement between our Non-Executives and Executives to improve transparency and visibility of issues as they

¹⁶ The figures displayed are the number of meetings attended by each individual, with the total number of meetings available to attend in brackets.

¹⁷ Where Mr Lovegrove is unable to attend the Board, Mr Goldstone acts as his representative.

¹⁸ Mr Johnson attended the April Board as Director Financial Planning and Analysis. He was stood down from the May Board. From October 2018, he attended the Board as interim DG Resources (5/5 meetings).

emerge. The maturity of the Board, together with the arrival of a new Chairman in November 2019, provides the opportunity to now undertake an early formal, externally facilitated review, the results of which will be helpful in identifying further improvements as the new Chairman joins and over the course of the next year.

Key business discussed at the DE&S Board during 2018-19

Subject	Discussion	Outcomes
Strategy	The Board held a strategy day in March 2019 to discuss the route to DE&S@21. The Board focussed on the key themes of 'Great Delivery, Great People, Great Place to work'. Defence transformation, Objectives, Goals, Strategies and Measures (OGSM) and the Corporate Plan were also discussed throughout the year.	The Board reviewed the strategic context and financial outlook from both the equipment programme and operating expenditure perspectives; and agreed the focus for DE&S' continuous improvement and OGSM principles.
Risk	DE&S strategic risks were scrutinised and discussed throughout the year. Risk management practices have continued to evolve.	A strategic risk workshop, involving Executive Committee members and Board NEDs, was held on 15 October 2018. This workshop reviewed the scope and nature of the risks managed by the business at Executive Committee and discussed at Board level.
Transformation and Change	Over 2018-19, DE&S transformation was pursued on a business footing rather than an overhead and was taken forward as the Change Plan in early 2019, in preparation for DE&S@21. DE&S@21 would explore six key themes: Developing People; Improving Delivery; Ensuring DE&S People were valued and treated fairly; providing improved IT and IM; delivering further efficiencies and; improving the working environment.	The Board reviewed progress against transformation and change throughout the year.
Corporate documents	The Board tracked the progress and publication of the DE&S Annual Report and Accounts and contributed to the development of DE&S@21 and the Corporate Plan.	The DE&S Annual Report and Accounts for 2017-18 was published in December 2018.
DE&S Committees	The Board received reports on the progress, themes and membership of its sub-committees and considered the work being taken forward. The Board noted the introduction of the Director Support and Deputy Chief Executive roles.	The Board recognised the value of the NEDs on the DE&S Committees and identified an additional NED for the Audit and Risk Assurance Committee.
DE&S Business Updates	The Board received regular business updates from the domain Chiefs of Materiel and from function leads including Safety, Commercial, HR and Information Technology.	The Board engaged with the business and evaluated the IT Strategy, HR People Strategy and Recruitment and Retention, providing appropriate challenge to the Executives.

DE&S Board Sub-Committees

The DE&S independent NEDs attend the following sub-committees:

Name	Committee (meetings attended) ¹⁹
Mr Paul Skinner ²⁰	Nomination Committee Chair (2/2) Remuneration Committee (1/1)
Mr James Dorrian	Remuneration Committee (7/7) Nomination Committee (2/2)
Dr Ros Rivaz	Remuneration Committee (6/7)
Mr Iain Lanaghan	Audit and Risk Assurance Committee Chair (4/4)
Mr Gerard Connell	Audit and Risk Assurance Committee (3/4)

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee’s remit is to review and challenge the adequacy of internal controls and risk management assurance processes in DE&S. Where assurance is ineffective, the Committee will make

recommendations to the DE&S Board for appropriate action to be taken.

The Audit and Risk Assurance Committee met four times during 2018-19. All meetings were chaired by Mr Lanaghan and formal membership comprised of a MOD NED, Mr Goldstone (or alternative), and a DE&S NED, Mr Connell.

The meetings were attended by DG Resources; Director Strategy and Change; Director Financial Plans and Analysis; Director Commercial Capability; Director Chief Information Officer and the Head of Financial Accounting. Representatives from the National Audit Office (NAO) and Defence Internal Audit (DIA) were also in attendance.

The Audit and Risk Assurance Committee’s programme of business over the course of the year primarily focussed on DE&S’ Annual Report and Accounts and monitoring the progress of implementing the recommendations raised in the NAO management letters. It also reviewed the DIA outputs and findings, whilst monitoring the progress against agreed management actions. The Committee discussed the DE&S Whistleblowing and Raising a Concern policy, which is designed to provide employees with the confidence to raise concerns about wrongdoing



¹⁹ The number in brackets represents the number of meetings attended/the number of meetings available to attend.
²⁰ As Chairman, Mr Skinner has an open invitation to all Committees.

or malpractice at work; and assure people that it is safe and acceptable to raise concerns. The Committee received advice on the number and types of whistleblowing referrals and was briefed on the communications effort, which included support to the cross-government Whistleblowing Awareness Day and DE&S' own Fraud Awareness Week. In addition, the Committee reviewed strategic risk, contingent liabilities, losses and special payments, the change in legislation on GDPR and Assets Under Construction.

Fraud Board

The Fraud Board is a sub-committee of the Audit and Risk Assurance Committee. It's remit is to protect DE&S' business reputation, assets and finances from fraud, corruption, theft and misappropriation.

The Fraud Board met four times during 2018-19. The meetings were chaired by Mr David Johnson, DG Resources. In attendance were the Director-level risk owners responsible for managing the principal DE&S fraud risks, together with representatives from the DE&S corporate finance team, the MOD Director of Performance, Analysis, Risk, Assurance & Counter-Fraud, DIA, Fraud Defence and the MOD Police.

The Fraud Board's programme during 2018-19 primarily focussed on assessing fraud risks and the appropriate mitigation activities (policies, systems and controls). The Fraud Board also received updates on fraud, corruption and theft investigations. During International Fraud Awareness Week in November 2018, a series of articles were published on the DE&S intranet focusing on what fraud is, how DE&S is identifying and fighting fraud, how to raise a concern and the consequences of fraudulent behaviour.

A summary report of Fraud Board activity was provided to the Audit and Risk Assurance Committee after each meeting. Updates were also provided to the MOD Fraud Defence Board.

Remuneration Committee

The Remuneration Committee advises the Minister for Defence Procurement, the DE&S Board and the CEO on matters relating to the proper development and application of the DE&S total compensation strategy, including its pay structures within its freedoms, as set out in the DE&S Framework Document. It also advises the Board on the remuneration of the CEO, the top civilian executive team and other senior staff as appropriate, where these are not set by Senior Civil Service (SCS) or Departmental guidelines.

During the 2018-19 period the Remuneration Committee met seven times. Discussion included a broad range of people strategy issues, including pay and performance policy; senior executive performance assessment and outcomes and lessons learnt from people issues more generally.

DE&S has continued to use its pay freedoms to manage its pay and reward strategy in line with the needs of the organisation. The Remuneration Committee has provided advice and support about the application of these pay freedoms, which includes the ability to pay up to 23 civilian members of staff more than the senior salary cap set by HMT. As at 31 March 2019 there were seven staff in this category, the employment of whom was enabled by DE&S' enhanced ability to recruit specialist skills in a highly competitive market.

Nominations Committee

The Nominations Committee meets as necessary to advise the DE&S Board and the CEO on appointments to the DE&S Board (except for the Chair, whose appointment is the responsibility of the Minister for Defence Procurement) and on senior leadership roles in the Executive.

Issues covered by the Nominations Committee during the 2018-19 period include senior level succession planning, NED recruitment, and longer-term workforce planning.

DE&S Executive Committee

The DE&S Executive Committee is the primary accountable body and reports to the DE&S Board. It advises and supports the CEO in the discharge of delegations and responsibilities as set out in the CEO's Letter of Delegation as Accounting Officer and Letter of Authority from the MOD Permanent Secretary. The primary focus of the Committee is 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 Minister for Defence Procurement and within the remit prescribed in the Framework Document.

DE&S Executive Committee as at 31 March 2019

Sir Simon Bollom was appointed as the new DE&S CEO on 21 May 2018. Over the course of the year, the CEO revised the construct of the Executive Committee to reflect the development and evolution of the organisation. The new, more streamlined structure is depicted below. It includes Nick Elliott as the Deputy Chief Executive (a role he assumed on 1 April 2019, in addition to his role as DG Commercial). The Executive Committee construct is designed to support the balanced matrix and a more integrated approach to business planning. During 2018-19 the Executive Committee considered the following key issues:



DE&S Executive Committee as at 1 April 2019



Embedding Change: The Committee continued to encourage the embedding of change across the organisation. Discussion included the organisational changes required to implement DE&S@21, improving the operation of the balanced matrix and the response to the Modernising Defence Programme outcomes. Progress on improving the Earned Value Management and delivery partner procedures and processes were discussed, along with technology development and innovation. The Committee also reviewed the Adopting Open Architectures in Defence Acquisition document to ensure that the DE&S role in exploiting technology was clear and aligned to customer requirements.

Safety and Security: The Committee reviewed the safety dashboards, which cover Occupational Health, Safety and Environment, Equipment Safety and Acquisition Safety. The Committee also considered the safety culture survey results, and discussed how to improve safety culture and behaviours. The Annual Safety and Environment Report was discussed, together with progress on the Acquisition Safety Project more generally. As well as agreeing to hold the annual DE&S Safety Day, the Committee reviewed and supported the Spotlight on Safety event; an engaging and interactive live theatrical event that focussed on real defence incidents to help bring Acquisition Safety to life. Through the year, the Committee reviewed physical and information security and business continuity. It also received a briefing on the cyber threat and agreed proposals to work toward accreditation to ISO 27001 Information Security Standard.

Commercial: The Committee reviewed a number of commercial initiatives as part of ensuring that the overall DE&S approach was coherent and supported the delivery of Equipment Plan efficiency benefits. Specific

issues included the MOD Acquisition Review, Routes to Market and Managing Approvals in Defence and a review into the efficacy of the commercial function.

DE&S People: Pay and performance policy was discussed throughout the year. Proposals to improve facilities and infrastructure across DE&S were reviewed and discussed. The Committee also examined proposals for workforce planning and reviewed the results of and response to the 2018 Staff Survey.

DE&S Performance: The Committee discussed progress against Key Performance Indicators (KPIs), Command Acquisition and Support Plan (CASP) metrics and it reviewed financial forecasts. An annual stocktake of strategic risks was undertaken and mitigation activities against selected strategic risks were reviewed at every meeting as part of a rolling programme of assessment. The Committee reviewed the Annual Assurance Report and the outstanding Audit Management Actions (AMAs) from DIA Audit Reports. The CFO Report was developed to include regular reporting on progress against AMAs.

Equipment Support: Throughout the year, the Committee discussed a range of equipment support issues. It also agreed the appointment of a Director Support to ensure DE&S is fully engaged with the work being undertaken on the Defence Support Operating Model (DSOM) and to improve future support metrics, data analysis and management information. The Committee agreed to invest in improving support-related performance metrics, the development of a future support performance metrics hierarchy and the introduction of a supply chain analytics team.

A number of subordinate committees are in place to support the Executive Committee.

Executive Committee Sub-Committees



The **Domain Performance Committee**, chaired by the CEO, provides the forum to review the performance of each domain in terms of its delivery of equipment and support to agreed plans. This includes reviewing the relevant KPI and CASP metrics and any risks and contingency plans. The **Function Performance Committee**²¹, also chaired by the CEO, reviews the performance of each function in terms of capability, capacity and process, ensuring best use of human resources is made across the organisation.

Safety throughout the organisation is governed by our **Safety Health & Environment Committee**, chaired by the Chief of Materiel (Air), which has oversight of organisational key safety risks and directs work to develop and deliver improvement programmes for the business. A NED is invited to attend the Safety Committee as a permanent attendee.

The Chief of Materiel (Land) chairs the quarterly **Security Committee**, which owns and manages strategic-level risk and provides oversight of security across DE&S and industrial partners.

The **Change Committee** replaced the Transformation Committee on 1 March 2019 to reflect the completion of the formal transformation programme. Chaired by the CEO, the Change Committee reports to the Executive Committee on change and continuous improvement activity, focusing on the two-year DE&S@21 Improvement Plan and ensuring it delivers the agreed outcomes and benefits.

The **People Committee**, chaired by the CEO, is charged with driving forward and implementing the important changes to the management of our staff, which underpins our transformation and the balanced matrix structure. In particular, the Committee continued to evolve our approach to performance management and reward, with its recommendations being considered by both the Executive Committee and Remuneration Committee.

Other Executive Committee sub-committees include the **Business Case Review Committee**, chaired by DG Resources, and the **Innovation and Prosperity Committee**, chaired by the CEO. These meet regularly and update the Executive Committee as necessary on matters within their jurisdiction.

Outside of this formal governance structure, the CEO holds one-to-one meetings with the members of the Executive Committee. The CEO also meets regularly with the DE&S Senior Leadership Group (SLG) who are the highest grade in our new structure,

incorporating our senior civil servant and military rank equivalent population, to keep DE&S leaders apprised of developments as our transformation continues. This forum also provides a robust forum for discussion and feedback.

DE&S risk and control framework

Risk management

Managing risk is all about reducing the uncertainty in our delivery to a level that allows successful management through the life of our projects and programmes. In DE&S, successful risk management is achieved through proactive identification, assessment, reduction, mitigation, monitoring and control, and takes place at all levels in the organisation. The DE&S Board and Executive Committee determine the governance and controls we have in place to manage risk, with a focus on strategic and sub-strategic risk. Lower-level project risk management is organised and undertaken by our risk discipline.

High-level achievements in 2018-19 included the launch of a revised risk policy for DE&S, and further development of the sub-strategic risk registers introduced last year. Furthermore, gaps in our Risk Management Road Map were closed, for example by completing the upgrade of our customised risk management tool, Active Risk Manager™ (ARM); aligning project risks with our order book; and launching a new, simpler project risk process and desk instruction for practitioners.

The DE&S Board examines DE&S risk and the controls that are in place to manage risks and address opportunities. It pays particular attention to strategic risks facing DE&S, that is, those risks which might have a negative impact on the achievement of our strategic objectives, or have serious legal, financial, reputational or health, safety and environmental implications.

Management of strategic risks is delegated to the Executive Committee. The Committee regularly reviews, supports and challenges risk owners to manage and reduce the risks as far as is reasonably practical. We continue to apply the MOD's risk management policy to our strategic risks, including reporting significant risks to the Defence Audit and Risk Committee and ultimately the Defence Board.

In 2018-19 we held our fourth annual strategic risk identification exercise, facilitated once again by MOD's Chief Risk Officer, and attended by both Executive and NEDs.

²¹ The Function Performance Committee was established in June 2018 and was formerly known as the Function Holding to Account.

Principal strategic risks and their mitigations during 2018-19

Risk	Potential impact	Progress
Provision of Safe to Operate Equipment (previously Equipment Safety)	A serious accident or incident involving products, systems or services we provide to the Front-Line, and determined as unsafe to operate.	Following last year's Acquisition Safety Study, our Acquisition Safety Project improved clarity on safety responsibilities across the organisation and delivered awareness training to over 5,000 employees, with further work planned to consolidate this. Our annual safety culture survey and regular review of the Organisational Safety Assessment has indicated that safety was not negatively affected as our major change programme – DE&S transformation – was embedded in 2018-19.
Fraud	Financial losses and/or reputational damage to DE&S and the MOD	In 2018-19 we strengthened controls over the inappropriate disposal of assets. We piloted an electronic register to capture declarations of interest and continue to develop more rigorous approaches for approving gifts and hospitality, and to monitor travel and subsistence claims. We also further developed our Fraud Prevention Plan and raised awareness through an organisation-wide communications campaign.
Cyber	Reduced safety, impaired military capability, loss of intellectual property or information asset, loss of business services, financial impact and reputational damage to defence.	DE&S remains committed to further enhancing our cyber and information security capability by building on progress from previous years as well as existing resilience programmes such as the Defence Cyber Protection Partnership through engagement with prime contractors, strategic suppliers, National Cyber Security Centre, and other stakeholders. Work completed during 2018-19 has resulted in closer alignment to ISO 27001, with the commitment to achieving compliance in 2019-20 as sponsored by the DE&S Security Committee. We have prioritised work in areas highlighted by the findings of several DIA reports, successfully closing a majority of the actions. Additionally, we completed a study of supply chain security that has enabled us to better understand the problem and build a programme of work that will deliver a step change in the assurance outcomes that we are able to deliver.
Protective Security	Adverse impact on operational capabilities of the armed forces, damage to the reputation of MOD or erosion of public confidence in defence.	Preserving our strong security culture has proven a significant challenge amidst a period of high staff turnover. A review of our infrastructure priorities against the DE&S risk appetite has been launched and in-year improvements have focussed on protecting firearms and munitions. Security governance has been strengthened through the publication of the DE&S Security Strategy 2019-2021 and security, resilience and risk management guidance on the organisation's Business Management System (BMS).
Workforce Insufficiently Skilled / Lacks Capacity and Capability to Deliver Planned Outputs	Reduced delivery of programmes and increased cost of external resources with reduced confidence in DE&S and our freedoms.	We have taken steps to improve recruitment and deployment to ensure skilled staff are where we need them. We have increased the training budget and are using new competence frameworks to inform career paths and learning plans. We have improved our performance management, implemented an induction programme, maintained outreach activities, designed a new reasonable adjustment approach to support inclusion, established fairness and equality advisers, and overhauled our entry talent scheme management.
Infrastructure Compliance	Loss of life or serious injury, failure to deliver operational outputs with consequential impact and reputational financial penalty.	Through detailed dialogue with stakeholders, we have produced a robust 10-year plan for infrastructure requirements, taking a risk-based approach. Individual elements are captured in ARM against this strategic risk, and significant work has been completed to develop a 'site to ExCo' escalation process. More work is ongoing to better align strategic risks and develop a common approach, and training with site leads including Heads of Establishment, Operating Centre and domain level leads. There is also greater confidence in the management information available to us from the Defence Infrastructure Organisation (DIO) coupled with internal knowledge assisting the senior leadership group's ability to take informed, strategic and holistic decisions across the infrastructure piece so that we can deliver a safe, compliant and rationalised estate to meet the needs of our people. We have now moved into the first full year of delegated funding from the DIO, assisting us in our responsibilities to better direct infrastructure spend against DE&S requirements.

Update on Principal Risks identified in 2017-18

The table above outlines those principal risks in the DE&S strategic risk register in 2018-19. We reported on three others in the 2017-18 Annual Report and Accounts:

Government Furnished Equipment (GFE)

In 2018-19 this item retired from the strategic risk register and was re-allocated for management at a lower-level. Following trials of a Base Inventory Warehouse Management Service in the Air domain, results of DIA audits have been largely positive. Delivery teams have had their awareness raised in their roles and responsibilities in managing and reporting of GFE, and DE&S Financial Accounting and Integrated Logistics have developed associated training plans for implementation. The DIA is conducting a comparison of assets and expired contracts, with findings to be published in 2019-20.

Technology Development and Innovation

This item was retired from the strategic risk register in 2018-19 and was re-allocated for management at a lower-level. Working with MOD's Financial and Military Capability branch, DE&S has championed a new approach to risk appetite across defence. Other initiatives are under way to improve understanding of acquisition risk and technology exploitation paths to increase agility and innovation, including a programme management office for Spearhead Programmes – a portfolio of projects to develop and test our ability to deliver cutting-edge capabilities faster and more effectively. Further activities in 2018-19 culminated in the innovation-themed publication of the DE&S Desider magazine in March, followed by an inspiring innovation event held in May 2019 that showcased innovative technology and encouraged innovation across DE&S.

Operating Cost Budget

This strategic risk was reviewed at the annual risk identification exercise in October 2018 and refocussed on DE&S' funding model. Activities in 2018-19 included the issue of revised indicative control totals to Chiefs of Materiel to enable forward planning and manage pressures on the operating budget, the establishment of partners for our delivery functions to improve control and reduce costs associated with Private Sector Support (PSS), and the delivery of operating efficiencies through oversight of Sprint Workstreams. This item remains on the strategic risk register, but improvements

to its assessed likelihood and impact mean it is no longer one of our principal risks.

Principal Internal Controls

Everyone in DE&S shares accountability for managing their time, protecting public money and delivering their objectives. To enable this, we ensure that we delegate effectively; that people should have the authority to commit resources, with accountability for outcomes, and that leaders and managers monitor progress. Delegation results in objectives that are agreed between individuals, their delivery managers and their function managers and that progress and achievements are reported through the DE&S annual performance management process, with equal weighting given to both delivery (the "what") and behaviours (the "how"). Underpinning this, we exercise a strong system of internal control for specific elements of our business. Where elements are determined to require strengthening, they are reviewed and the appropriate changes are implemented.

Financial

The DE&S Board formally endorses and monitors performance against our annual budget. We practise financial control through a system of financial delegation to senior staff, who then sub-delegate to appropriate senior managers and finance managers to ensure value for money judgements are made at all levels of the business.

DE&S has been granted significant freedom of action for staff pay, remuneration, recruitment and approvals of consultancy and we regularly review the appropriateness of letters of delegation as part of routine business. Board level letters of delegation were updated, to provide greater coherence in the delegation of responsibilities, and reissued to take account of the appointment of Sir Simon Bollom as CEO in May 2018.

Our accounting is subject to detailed audit by both DIA and the NAO to test our compliance with Departmental and HMT policies. No major departures from Government accounting principles were identified during the year.

We now have a well-established set of internal controls which are continually improved. These were extended in 2018-19 financial year to include compliance testing, to ensure our staff were correctly interpreting and applying Departmental policies and processes.

The freedoms granted to DE&S as a Bespoke Trading Entity (BTE) mean that the organisation is exempt

from all Cabinet Office controls except for information communication technology and property. The Cabinet Office has clarified that these exemptions include both equipment programme and BTE operating activities. Information about Cabinet Office controls can be found [here](#)*.

Assured delivery and support

DE&S is committed to providing the most effective equipment and services to our armed forces safely and to the agreed standards of performance, cost and time. The adoption of sound quality management principles is a key enabler to achieving this and we have committed to put in place a 'best in class' BMS and Quality Management (QM) capability to ensure we perform our processes in a consistent and acceptable manner.

Our new BMS database was introduced in 2017 to provide a common platform for policies and a consistent set of operating processes across the DE&S enterprise. Clear functional ownership for many of our operating processes has been established and each of our functions has developed their essential processes required for delivery. Our overall end to end process for 'agreeing and delivering programmes of work' has been fully re-mapped to encompass the agreement, execution and closeout of a programme and to ensure all functions' process activities are fully integrated within it.

During 2018 it was recognised that a significant cost saving could be recognised by transferring the BMS process documentation from the external software provider to standard Office 365 software operated across the MOD (with no loss of existing functionality). This allowed enhancements to be made to improve user experience and utilise the full suite of installed Office 365 applications. This upgrade also gave us the opportunity to add an additional database to control and manage internal quality audits in a consistent manner.

Our approach to integrated processes, housed within a modern BMS solution, remains a key driver in our goal to achieve certification to ISO9001 – the international QM system standard. Our updated BMS and common internal process audit platform are key cornerstones required for certification. In 2019 we will progress further the path to certification, including placement of a contract to engage a third-party certification body.

Commercial

In 2018-19 a total of 824 new contracts were placed with a contract value of around £9.54 billion. Over the course of the year we managed around 2,900

contracts with a value of approximately £129 billion. A focus on contract consolidation has reduced this from over 5,000 contracts four years ago and 3,700 last year. Major contracts placed this year include the acquisition of five E-7 AEW&C aircraft (c£1.5 billion), the Tempest technology development contract with four industry partners (c£534 million) and a 'Reinvigorated' Long Term Partnering Agreement (LTPA) with QinetiQ (c£1.4 billion). The E-7 aircraft contract was a new Qualifying Defence Contract (QDC) and the LTPA was converted to a QDC under the Single Source Contracts Regulations (SSCRs). We continue to be fully compliant with the SSCRs and to benefit from the transparency of costs through the reporting regime. Our focus on Small and Medium Sized Enterprise engagement is contributing to our drive for greater innovation and more agile contracting. DE&S continues to contribute significant 'Prosperity' achievements in the exploitation of opportunities for high-value skills development, innovation and exports. Key projects supporting export opportunities include the sale of Typhoon and associated services to Qatar and wider initiatives such as the Combat Air Strategy (International-by-design), AJAX, Type 31 and support to Type 26 export campaigns.

In respect of our people, 2018-19 saw continued success in external recruitment compensating for attrition, leading to an overall stable and slightly increased level of commercial delivery resource to meet ongoing business demand. Commercial function staff increased from 1063 internal staff and 60 delivery partner staff at the start of the year to 1074 and 90 delivery partner staff by the end. We were also able to support the Submarine Delivery Agency's (SDA) commercial staff numbers increase from 98 to 107 over the year. At the same time the age demographic for the function has levelled out and the age profile is no longer of concern. We have also achieved an overall gender balance of around 50/50 across the function, although we still need to increase the proportion of female staff at the most senior levels.

Investment in the development of commercial staff has continued with excellent delivery to plan of anticipated training needs. There is now a pan-MOD professional development target for all staff. To hold a commercial delegation after September 2020, staff will have to hold the appropriate level of accreditation from the Chartered Institute of Procurement and Supply (CIPS) and, for Level 4 staff and above, pass the Government Commercial Office set standard Assessment and Development Centre (A&DC). As a result of our investment to date some 75% of DE&S commercial staff are already at, or training for, the level of accreditation they need from CIPS. We have also planned, resourced

* <https://www.gov.uk/government/collections/cabinet-office-controls>



and agreed with the Cabinet Office the full programme of engagement, staff support and attendance at the A&DC. This raises the professional bar for commercial staff within DE&S and keeps us coherent with the centre of the MOD. The partnership with the commercial delivery partner, Paragon, continues to be a success. The use of Paragon staff within project teams has increased by 50% as the business continues to see the value that this partnership brings, both in general capability reinforcement, and the provision of specialist skills and services.

During the year the function undertook a comprehensive review to establish opportunities to improve its efficiency whilst ensuring improved outcomes for the business. That review has already driven efficiencies within the corporate commercial area and within the domain commercial functional management teams. The review also identified the value and need for domain commercial officers to support the Chiefs of Materiel at a programme and strategy level, working with domain Chief Operating Officers and Chief Finance Officers, and they will be appointed during 2019-20. Finally, the work identified a number of potential CoE that offer efficiencies or business effectiveness benefits, with centralisation at the appropriate level. Those opportunities are now part of the ongoing business improvement forward opportunities plan. The analysis that was produced during the creation of the report has been shared with the wider commercial function in MOD, as well as the functions within DE&S, to foster joint engagement and action for the year ahead.

Safety, Security and Resilience

This year, DE&S published the Security and Resilience Strategy 2019-21, which focuses on the protection of our people, information and capabilities through the development cycle and supply chain, to ensure DE&S can support the UK's armed forces with cutting edge equipment that is safe and secure from concept to disposal. We have a corporate safety and security KPI which supplements our safety and environmental protection business performance indicators. We maintain an enterprise risk management system to ensure that security and resilience, including cyber, are reviewed quarterly and the process is managed by the Security Committee. We continue to build on strong safety education, which includes an annual safety day event, and continue to develop the "security – yours to deliver" awareness campaign to address emerging security and resilience challenges. We also promote get-safe-online, cyber-security, counter-terrorism and business continuity awareness weeks to develop an effective and robust culture.

Business continuity management and resilience risks and issues are managed at the quarterly Security Committee. Our central business resilience team, with the support of the Security and Resilience specialism, provides strategic direction on business continuity and resilience along with training and career pathways for practitioners. The DE&S Strategic Business Continuity plan was reviewed and agreed again this year, to ensure that we have systems and procedures in place to manage any Business Continuity event. Similarly, the Security Committee reviews the status of all DE&S Business Continuity plans, to ensure they have been reviewed and exercised.

Our People

As part of transformation we fundamentally reshaped the way our people are managed. We moved away from viewing our staff as generalists with add-on specialisms to an environment where everyone is a defined professional. Individual performance has come to the fore, including enabling staff to take responsibility and then be accountable. Corporate control of the demand for resources since April 2017 has been supported by our people model – a key pillar of our transformation.

We have introduced a new set of employment policies and processes, including a new performance management system directly linked to bench-marked, job-evaluated pay and performance awards; replaced the vast array of DE&S jobs with around 250 roles aligned to the market within which people are flexibly deployed to meet the needs of the balanced matrix; grouped everyone into nine functions who plan and manage them as a group including responsibility for their upskilling, development and talent management; and replaced the 'line manager' with a delivery manager or managers addressing the outputs of particular assignments and a more enduring function development manager responsible for the individual's overall performance, development and career.

The new DE&S HR capability has supported these changes and the in-house casework team and recruitment capability are now more effective in delivering key enabling services. Our functional management and HR capability will continue to mature through a range of continuous improvement programmes, and the DE&S People Committee has continued to meet every other month to oversee and approve the people strategy and priorities and to agree the pay, performance and reward approach for the year. We responded to staff feedback on the performance management framework used to assess 2017-18 performance and implemented a new process for 2018-19. This new process saw a significant reduction

in time taken for staff to complete reports and replaced assessment (calibration) panels with an unconstrained primary delivery manager assessment of their direct reports' performance and delivery of objectives. The new process included, for a second year, an assurance phase assessing outcomes for those employees with protected characteristics. The process was concluded by the end of May 2019, enabling performance-related pay and performance awards to be paid in July 2019, earlier than the previous year.

Transformation

The Executive Committee discussed and actively encouraged the embedding of change across the organisation. They reviewed and supported proposals for the adoption of smart working across DE&S, including remote sites, and approved the way forward to further improve the definition of the Order Book and associated resource demands, ensuring appropriate management arrangements were in place. In addition the Committee reviewed the proposed way forward for defence transformation, including the new DSOM, and improvements to internal approvals processes. The Committee put in place measures to ensure alignment with, and support to, wider Departmental changes.

Information Management

As part of the DE&S transformation programme, the Information Management process (including records) is documented within the BMS.

The iHubs that support this have now been centralised under the management of the Chief Information Officer team to promote consistency of approach. Information Management and Records & Knowledge Management CoE have also been established from September 2019, to drive consistency of approach and improvements in information maturity levels across DE&S.

Quality Assurance of Analytical Models

Recommendation four of the Macpherson²² review requires Accounting Officers' governance statements to confirm that an appropriate quality assurance framework is in place for analytical models. The MOD continues to implement the Macpherson report recommendations and DE&S has been part of the Department's action plan to strengthen the approach to quality assurance. The 2019 published list of business critical analytical models, including those in use in DE&S, is available online here*.

The MOD's independent Cost Assurance and Analysis Service (CAAS) Modelling Centre of Excellence conducted a review of the quality assurance of the Business-Critical Models (BCM) listed for 2018-19. Of the 32 BCM declared, minor deficiencies in the quality assurance process was found in one model (concerning quality assurance coverage). The review concluded that there is substantial assurance that the quality assurance of DE&S models has been conducted in a way that satisfies the requirements of HMT and the recommendations from the Macpherson Review. This maintains the level of assurance given by CAAS for the annual reviews since 2015-16. DE&S roles and responsibilities are now fully established within the reporting process for the delivery of quality assurance in DE&S, post transfer of CAAS to MOD Main on 1 April 2019.

Annual Assessment of Governance

As in previous years, the governance, risk management, internal control and assurance arrangements in DE&S have been comprehensively reviewed in conjunction with the DE&S Audit and Risk Assurance Committee. Risks deemed to be of strategic importance are reviewed regularly by the Executive Committee and monitored by the DE&S Board. We also undertake a number of internal and external reviews throughout the year that test the effectiveness of our controls. This work culminated in our latest Annual Assurance Report, which provides an overall opinion of 'limited assurance' for 2018-19.

While it is clear that our system of internal controls is operating effectively, and in most areas an assessment of substantial assurance would have been justified, our analysis identified some areas where there was room for improvement. A comprehensive action plan has been put in place to deliver improvement in targeted areas across the business, including elements of business planning, personnel management and corporate process. Action owners have been assigned, with progress being tracked by the Executive Committee and monitored by the Audit and Risk Assurance Committee and the Board. The rating also aligns with the opinion provided by DIA in its own 2018-19 Annual Internal Audit Report, which among other matters considered our performance in the implementation of Agreed Management Actions. Improving our management and process in this area forms a key part of our action plan, the purpose which is to raise the level of assurance we can provide.

²² The final report by Sir Nicholas Macpherson, Permanent Secretary to the Treasury, into the quality assurance of analytical models that inform government policy, published in March 2013.

* <https://www.gov.uk/government/publications/business-critical-models-ministry-of-defence-2019/list-of-business-critical-models-april-2019>



Chairman's assessment

By James Dorrian, interim DE&S Chairman

As I note in my introduction to this report, DE&S continues to deliver the outputs required by its customers, while enabling re-investment in Front-Line capabilities through the identification of financial efficiencies. There are, nevertheless, areas in which further improvements can be made, as demonstrated by the CEO's Annual Assurance Report assessment, which is described above. I am clear that this assessment reflects in part our desire to continually improve and challenge ourselves in enhancing governance over what is a vital and complex element of defence. I am satisfied that our own assurance assessment represents an honest and appropriately self-critical view, which recognises where there is scope for further improvement.

I welcome the support and challenge we continue to receive from DIA, whose assessment for 2018-19 was aligned with the CEO's self-assessment. DIA's work is vital to good governance and we will look to strengthen

the relationship between its programme of activity, our Annual Assurance Report and our strategic risks, over the course of the 2019-20 financial year.

I take the view that our governance structure itself remains robust, with the operation of the DE&S Executive Committee, and supporting committees, continuing to evolve in response to the needs of the business. The appointment of Sir Simon Bollom as CEO in May 2018 brought fresh perspectives and initiatives, building on the contributions of his predecessors. We have also strengthened further the DE&S Board with additional NEDs, who will continue to support and challenge the Executive team in delivering key objectives.

Overall, I am confident that DE&S can deliver its objectives while complying with agreed standards, within delegated budgetary responsibility and accountability.

REMUNERATION AND STAFF REPORT



Remuneration Policy

The following remuneration policy refers to the employment of the DE&S Directors on the DE&S Board and Executive Committee. Remuneration details for the Minister for Defence Procurement and MOD representatives on the P&RR (which replaced the Owner's Council) and other DE&S Committees are not included as they are not paid by DE&S. Information on their remuneration can be found within the MOD Annual Report and Accounts. During 2018-19, 10 members of the DE&S Executive Committee were members of the SCS, one was on secondment from Network Rail, and two were senior officers of the armed forces and one was engaged on an interim basis until appointment as CEO in May 2018.

As set out in the DE&S Framework Document, DE&S has been granted the freedom to manage its workforce as necessary to meet its business needs, within the operating cost envelope agreed with the MOD. This includes setting the terms and conditions of service for all DE&S staff under the CEO's letter of authority from the MOD Permanent Secretary, and in line with the freedoms set out in Annex A to the Framework Document. This delegated authority is carried out under the provisions of the Civil Service (Management Functions) Act 1992. In exercising this authority, DE&S must be cognisant of best practice across the wider Civil Service and Government and MOD policies on Civil Service terms and conditions.

Remuneration of civilian senior executives takes into account the advice of the DE&S Remuneration Committee, whereas military senior executives are bound by the remuneration policy for senior officers of the armed forces. Appointments at SCS Pay Band (PB) level 3 are made in conjunction with the Permanent Secretary. The Remuneration Committee is a subcommittee of the DE&S Board. It is chaired by a NED and comprises a minimum of three NEDs, including a MOD NED. The Chairman has a standing invitation to attend, and the CEO, DE&S HR Director, and other executives or non-executives are invited to attend as appropriate.

The Remuneration Committee advises the Minister for Defence Procurement, the DE&S Board and the CEO on matters relating to the proper development and application of the DE&S total compensation strategy, including its pay structures, and as set out in the published Framework Document. It also advises the Board on the remuneration of the CEO, the top civilian executive team and other senior staff as appropriate, where these are not set by SCS or Departmental guidelines. More details of the responsibilities of the Remuneration Committee are on page 43.

Performance and Reward

The 2018-19 Statement of Comprehensive Net Expenditure (SoCNE) reflects payments made or due to directors during the financial year. Salary and reward for the CEO was considered by the DE&S Remuneration Committee.

In 2017 DE&S launched a new market informed, performance driven reward framework and a new grading structure. The new framework enabled DE&S to implement a single, consistent approach to performance and reward across all levels of the organisation. From 1 April 2017, all members of the SCS in DE&S were aligned to the newly formed SLG within the new structure, with the Chief Executive Committee being a constituent part. All members of the SLG retained their shadow SCS pay band.

All staff within SCS pay bands 1, 2 and 3 were evaluated against their OGSM (the "What") and the DE&S Way Behaviours (the "How"), with both aspects having equal weighting to determine end of year performance outcomes. Salary increases were determined based on individual performance outcome and gap to market benchmark for their role. Non-consolidated performance awards based on individual and corporate performance outcomes were also awarded to those rated '1' to '3', where '1' was deemed exceptional, '2' very good, '3' good. Performance awards in 2018-19 were 8.4% of the total SCS salary costs. Awards reported in the remuneration tables for 2018-19 relate to performance in 2018-19, and comparative performance awards reported for 2017-18 relate to performance in 2017-18. An additional consolidated salary award was paid to two SCS PB2 and 51 SCS PB1 staff.

DE&S also employs some members of the SCS on fixed term appointments. These individuals are externally recruited to fill specific roles where DE&S does not already have the necessary skills in-house. They are employed on individual contracts which allow them a base salary and the opportunity to earn performance related awards, specifically linked to business and corporate objectives. They are expected to deliver substantial benefits to DE&S both in terms of outputs, delivering change programmes and skills transfer. As with the rest of the SCS, any awards paid to those on fixed term appointments are non-consolidated and non-pensionable and are subject to rigorous scrutiny.

All senior (2* and above) military officers are paid under the Performance Management and Pay System (PMPS). Depending on their performance, time in rank, and position on the pay scale, individuals can be awarded a single increment or no increment, and progress accordingly up the incremental pay scale for their rank.

The average value of one incremental rise under the PMPS was 2.6% in 2018-19 (it was also 2.6% in 2017-18).

While non-executive remuneration is not directly linked to performance, in part to avoid any suggestion that an employee/employer relationship exists, NED performance is kept under review. The aim of the reviews, which are informal, is to consider the impact of individuals on the performance of the Board and sub-committees, recognise the contribution of the NED, identify ways this could be improved, and provide feedback.

Senior Manager Contracts

The Constitutional Reform and Governance Act 2010 requires appointments to the Civil Service to be made on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify the circumstances when appointments may otherwise be made.

Unless otherwise stated, the civilian officials covered by this report hold appointments which are open ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the work of the Civil Service Commission can be found here*.

The terms and conditions of the DE&S Chairman and independent NEDs on the DE&S Board are determined by the MOD and set out in their individual appointment letters. Independent NEDs are appointed for a fixed term through a transparent recruitment and selection process, with appointment on merit, thus following the Office of the Commissioner of Public Appointment principles. Their appointments may be extended by mutual agreement. While NEDs are paid by DE&S, they are not DE&S employees or appointed as civil servants. NEDs appointed to the DE&S Board receive a letter of appointment setting out, among other things, details of their remuneration, conduct and conditions for termination of appointment. NEDs are not involved in any discussion about their own remuneration and all payments made are non-pensionable. There are no compensation entitlements for early termination.

Mr Michael Bradley, DG Resources, was appointed through open competition under the Civil Service Management Code on 3 January 2012. His initial contract of employment was for four years; it was extended on the 3 January 2016 until 2 January 2020

with an option to extend, by mutual agreement, and subject to satisfactory performance. He was appointed Interim CEO from 1 January 2018 until 21 May 2018 when Sir Simon Bollom was appointed as the new DE&S CEO. Although Mr Bradley's delegations were altered during his time as interim CEO to reflect his additional responsibilities, he received no additional remuneration or changes to his existing contractual terms and conditions. He announced his departure from DE&S on 10 July 2018 and his last day of service was 31 October 2018, having served his notice period.

Mr Nick Elliott, DG Commercial, took up post on 5 July 2016. He transferred into the Department on secondment from Network Rail for a period of two years with an option to extend by a year at a time for an additional two years and during the period of this report, a one-year extension was approved until 30 June 2019. DE&S does not pay Mr Elliot's salary, but makes a fixed sum contribution paid to Network Rail on a quarterly basis. This fixed sum goes towards covering his employment costs.

Sir Simon Bollom, CEO, was appointed through open competition under the Civil Service Management Code on 21 May 2018. His initial contract of employment is for a three-year fixed term.

Management

The following pages contain details of the pay, pensions and benefits-in-kind of individuals who served on the DE&S Board and Executive Committee during the financial year. The disclosures cover only the periods individuals were members of the Board and Executive Committee.

* www.civilservicecommission.org.uk

DE&S Executive Committee Senior Executive salaries, taxable benefits-in-kind and pension benefits (subject to audit)

DE&S Executive Directors	2018-19				Restated 2017-18					
	Salary ¹ £000	Annual ² Performance Award £000	Benefits in Kind to Nearest £100	Pension ³ Benefits £000	Total £000	Salary £000	Annual Performance Award £000	Benefits in Kind to Nearest £100	Pension Benefits £000	Total £000
Simon Bollom ⁴ (From 21 May 2018)	270-275	85-90	-	-	360-365	200-205	-	-	-	200-205
Michael Bradley ⁵ (to 31 October 2018)	110-115 [190-195]	-	-	46	155-160	190-195	95-100	-	78	370-375
David Johnson ⁶	135-140	25-30	-	46	210-215	30-35 [130-135]	40-45	-	14	85-90
Nick Elliott ⁷	230-235	50-55	-	-	280-285	225-230	65-70	-	-	295-300
Pete Worrall ⁸	165-170	35-40	-	25	230-235	160-165	45-50	-	104	310-315
Danny Griffiths (from 3 September 2018) ⁹	90-95 [160-165]	10-15	-	36	140-145	-	-	-	-	-
David Ball (to 18 June 2018) ¹⁰	15-20 [75-80]	-	-	-1	15-20	30-35 [75-80]	10-15	-	-1	40-45
Air Marshall Julian Young	145-150	-	-	117	265-270	135-140	-	-	130	265-270
Lt Gen Paul Jacques	145-150	-	-	64	210-215	135-140	-	-	74	210-215
Anthony Chisnall ¹¹ (to 17 November 2018)	105-110 [170-175]	-	-	16	125-130	165-170	30-35	-	-	200-205
Neal Lawson ¹² (from 21 May 2018)	115-120 [130-135]	35-40	-	51	205-210	-	-	-	-	-
Tim Rowntree ¹³ (from 19 November 2018)	35-40 [110-115]	15-20	-	79	130-135	-	-	-	-	-
Adrian Baguley ¹⁴ (from 19 November 2018)	50-55 [140-145]	30-35	-	18	100-105	-	-	-	-	-
Barry Burton ¹⁵	115-120	25-30	-	19	165-170	105-110	30-35	-	101	235-240

Notes

- Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation. Figures in brackets reflect the annual equivalent salary for members who have joined or left the Executive Committee during the year.
- Performance awards are based on performance levels attained and are made as part of the appraisals process. The performance awards reported in 2018-19 relate to performance in 2018 and the comparative performance awards reported for 2017-18 relate to that performance year. Military terms and conditions do not include provision for performance award.
- The value of pension benefits accrued during the year is calculated as the increase in pension multiplied by 20, plus the increase in any lump sum less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to transfer of pension rights.
- Sir Bollom took up his appointment as CEO on 21 May 2018, his salary includes £33k as a Fee earner earned in April and May in his Chief of Material Ships role. His full-time equivalent salary as CEO is [280-285].
- The 2018-19 salary and pension costs for Mr Bradley reflect the actual remuneration received from his appointment as CFO until he departed on 31 October 2018, figures in brackets reflect his annual equivalent salary. The 2017-18 table now includes a performance award payment for him relating to his performance in 2017-18 as he was subsequently deemed eligible to receive this award, following due process. He received no performance award for 2018-19 due to ineligibility.
- Mr Johnson assumed the role of DG Resources following Mr Bradley's departure, prior to that he was a member of the Executive Committee as Director Financial Planning & Analysis.
- Salary value for Mr Elliott reflects the contribution made by DE&S to his Network Rail remuneration package. In addition to this DE&S also contribute £82.5k towards his pension and National Insurance Contributions. Pension costs are not shown separately as they are included in the Network Rail pension scheme as part of the Department for Transport Annual Report and Accounts.
- The pension costs for Mr Worrall reflect contributions made to his Partnership Pension account which he switched to from the Principle Civil Service Pension Scheme (PCSPS) scheme in 2018-19.
- The 2018-19 salary and pension costs for Mr Griffiths reflect the actual remuneration received from his appointment as Director HR on 3 September 2018, figures in brackets reflect his annual equivalent salary, there was no Interim HR Director between the time Mr Griffiths joined and Mr Bell's departure.
- The 2018-19 salary and pension costs for Mr Ball reflect the actual remuneration received during his appointment until he departed on 18 June 2018, figures in brackets reflect his annual equivalent salary.
- The 2018-19 salary and pension costs for Mr Chisnall reflect the actual remuneration received during his appointment until he departed on 17 November 2018, figures in brackets reflect his annual equivalent salary. Pension costs reflect contributions made to his Partnership Pension account, he was not a member of the PCSPS scheme. As he left DE&S mid-way through the year he was not eligible to receive a performance award.
- The 2018-19 salary and pension costs for Mr Lawson reflect the actual remuneration received from his membership to the Executive Committee on 21 May 2018, figures in brackets reflect his annual equivalent salary.
- The 2018-19 salary and pension costs for Mr Rowntree reflect the actual remuneration received from his membership to the Executive Committee on 19 November 2018, figures in brackets reflect his annual equivalent salary.
- The 2018-19 salary and pension costs for Mr Baguley reflect the actual remuneration received from his membership to the Executive Committee on 19 November 2018, figures in brackets reflect his annual equivalent salary.
- Pension costs for Mr Burton reflect contributions made to his Partnership Pension Account in 2018-19.

DE&S Board Non-Executive salaries (subject to audit)

DE&S Non-Executive Directors ¹	2018-19 ² £000	2017-18 £000
Mr Paul Skinner	5-10	0-5 [5-10]
Mr Stephen Lovegrove ³	-	-
Mr David Goldstone ⁴	-	-
Air Mshl Richard Knighton ⁵	-	-
Mr James Dorrian	25-30	25-30
Dr Ros Rivaz	25-30	25-30
Mr Iain Lanaghan	30-35	25-30
Mr Gerard Connell ⁶	20-25 [25-30]	-
Mr Andy Lord ⁷	10-15 [25-30]	-

¹ None of the Non-Executives received annual performance awards, benefits in kind, or pension benefits in relation to their role on the DE&S Board.

² Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowances to the extent that it is subject to UK taxation. Figures in brackets reflect the annual equivalent fees for NEDs who have joined or left the Board during the year.

³ Mr Lovegrove received no remuneration for DE&S Board membership as he is a MOD employee. His salary details are reflected in the MOD Annual Report and Accounts.

⁴ Mr Goldstone received no remuneration for DE&S Board membership as he is a MOD employee. His salary details are reflected in the MOD Annual Report and Accounts.

⁵ Air Mshl Knighton received no remuneration for DE&S Board membership as he is a MOD employee. His salary details are reflected in the MOD Annual Report and Accounts.

⁶ Remuneration received by Mr Connell represents the amounts paid since he became a NED on 1 June 2018, figures in brackets represent annual equivalent fees.

⁷ Remuneration received by Mr Lord represents the amounts paid since he became a NED on 1 October 2018, figures in brackets represent annual equivalent fees.



DE&S Executive Committee Senior Executive pension benefits (subject to audit)¹

	Total accrued pension at pension age [and related lump sum] as at 31 March 2019 [£000]	Real increase in pension [and related lump sum] in 2018-19 [£000]	CETV ^{2&3} as at 31 March 2019 or cessation of employment if earlier [£000]	CETV as at 31 March 2018 or last date if later [£000]	Real Increase in CETV ⁴ [£000]
Michael Bradley ⁵ (to 31 October 2018)	30-35	2.5-5	460	372	27
David Johnson	55-60 [130-135]	2.5-5 [0-2.5]	1,038	900	23
Nick Elliott ⁶	-	-	-	-	-
Danny Griffiths (from 3 September 2018)	0-5	0-2.5	35	0	27
David Ball (to 18 June 2018)	40-45 [130-135]	0-2.5 [0-2.5]	977	972	-1
Air Marshall Julian Young	80-85 [245-250]	5-7.5 [15-17.5]	2,117	1,893	167
Lt Gen Paul Jacques	70-75 [220-225]	2.5-5 [7.5-10]	1,828	1,733	43
Neal Lawson ⁷ (from 21 May 2018)	50-55 [125-130]	2.5-5 [0-2.5]	1,023	884	30
Tim Rowntree ⁸ (from 19 November 2018)	45-50 [140-145]	2.5-5 [10-12.5]	1,080	982	80
Adrian Baguley ⁹ (from 19 November 2018)	50-55 [140-145]	0-2.5 [0-2.5]	1,106	1,082	10
Barry Burton	50-55 [160-165]	0-2.5 [0-2.5]	1,233	1,230	0

¹ In 2018-19 Mr Chisnall, Mr Worrall and Mr Burton were not members of the PCSPS. DE&S contributed £60k to their Partnership Pension Accounts as part of their overall remuneration package. Mr Burton has accrued PCSPS pension rights from previous years, as identified in the table above. Sir Bollom is not a member of any DE&S pension scheme and no pension contributions have been made by DE&S.

^{2&3} The CETV (Cash Equivalent Transfer Value) figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Armed Forces Pension Scheme (AFPS) or Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008, and do not take account of any actual or potential reduction benefits resulting from Lifetime Allowance Tax.

⁴ This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee and uses common market valuation factors for the start and end of the period.

⁵ Mr Bradley's pensions contributions reflect his time as DG Resources up until he left on 31 October 2018.

⁶ Mr Elliot is on loan from Network Rail; he continues to be paid by them and as such all pension costs are separately reported within the Department for Transport's Annual Report and Accounts.

⁷ Mr Lawson's pensions calculations reflect his time as an Executive Committee member from 21 May 2018.

⁸ Mr Rowntree's pension calculations reflect his time as an Executive Committee member from 19 November 2018.

⁹ Mr Baguley's pensions calculations reflect his time as an Executive Committee member from 19 November 2018.

Pay Multiples (subject to audit)

The following table provides details of pay multiples – the ratio between the highest paid DE&S military and civilian executives and the median remuneration of the workforce.

Total remuneration includes salary, non-consolidated performance related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

The banded remuneration of the highest paid civilian director in 2018-19 was £362,500. This was 10.8 times the median remuneration of the workforce, which was £33,570. The Median remuneration of the workforce has decreased in 2018-19 due to higher number of individuals employed at the lower end of the pay scale.

The banded remuneration of the highest paid military director in 2018-19 was £148,500. This was 2.98 times the median remuneration of the workforce, which was £49,886. The median remuneration of the workforce has increased in 2018-19 due to the general pay uplift awarded in 2018-19.

No employee in 2018-19 received remuneration in excess of the highest paid director.

	2018-19	2017-18 Re-stated
Mid-Point of the £5,000 band for the annual equivalent remuneration of the highest earning Military Board member in the tables above.	148,500	137,500
Median total remuneration of armed forces personnel	49,886	49,354
Military pay ratio	2.98	2.79
Mid-Point of the £5,000 band for the annual equivalent remuneration of the highest earning Civilian board member in the tables above.	362,500	292,500
Median total remuneration of civilian staff	33,570	34,089
Civilian Pay Ratio	10.8	8.6

In 2018-19 the remuneration of military employees (annual equivalent salary) ranged from £21,166 to £148,500. The salary of the highest earning military

board member has increased since 2017-18 as has the overall median for the armed forces. Due to the increase in pay for the highest earning military board member, offset by a lower increase in the military pay median, the military pay ratio has increased marginally in 2018-19.

In 2018-19 the remuneration of civilian employees (annual equivalent salary) ranged from £15,144 to £362,500. The 2017-18 mid-point of the £5,000 band for the annual equivalent remuneration of the highest earning Civilian Board member has been re-stated to reflect the fact that Michael Bradley has now been paid his 2017-18 performance award and would have therefore been the highest earning Civilian Board member. The civilian pay ratio has increased due to an increase in the median pay for the highest earning civilian board member. In 2017-18 DE&S did not have a permanent CEO and in line with Departmental policy the interim CEO did not receive any additional pay which suppressed the 2017-18 pay ratio. The increase is also compounded by the fact that there has been a 1.5% decrease in the median remuneration of the rest of the civilian workforce.

Staff Report

Staff Numbers (subject to audit) (see also Note 3 to the financial statements)

The number (head count) of SCS within the DE&S SLG group, as at the end of the financial year is as follows. The 2017-18 numbers have not been adjusted for SDA.

SCS Pay Band	2018-19	2017-18
Band 1	86	111
Band 2	14	18
Band 3 and above	2	4
Total	102	133

The decrease in the number of SCS largely reflects the transfer of staff to the SDA which took effect on 1 April 2018. As at 31 March 2019 there were 15 SCS in the SDA. The rest of the variance is due to SCS outflow not replaced by year-end.

The average numbers of full-time equivalent persons employed are as follows:

	2018-19	2017-18
Permanent Staff	11,360	12,358
Contingent Labour	211	254
Total	11,571	12,612

The 2017-18 average full-time equivalent figures in the above table include SDA. When excluding these, DE&S combined Civilian and Military staff numbers have increased by 325 which is consistent with an overall increase in staff costs. Increases in staff numbers are to address resource shortfalls across all functions. Contingent labour, when adjusted for an SDA average of nine in 2017-18, shows a reduction of 34, this is against an increased contingent labour bill as the costs of utilising external resource to supplement the workforce have grown.

Staff Costs (subject to audit) (See also Note 3 to the financial statements)

The aggregate staff costs, including allowances paid were as follows:

Staff costs comprise:	2018-19			2017-18		
	Permanently employed staff £000	Contingent labour £000	Total £000	Permanently employed staff £000	Contingent labour £000	Total £000
Salaries and wages	448,706	33,132	481,838	500,401	27,761	528,162
Social security costs	45,638		45,638	51,530		51,530
Other pension costs	107,973		107,973	120,499		120,499
Total	602,317	33,132	635,449	672,430	27,761	700,191

Staff costs including social security and pension costs have decreased in 2018-19 because of a reduction in the overall number of individuals employed by DE&S. Contingent labour costs have increased in 2018-19 as the costs of utilising external resource to supplement the workforce have grown.

For the year ended 31 March 2019, of the total pension contributions for DE&S in the table above, £72.9 million (2017-18: £79.8 million) were payable in respect of the various schemes in which civilian staff were members.

For the year ended 31 March 2019, of the total pension contributions for DE&S in the table above, £35.1 million (2017-18: £40 million) were payable in respect of the AFPS in which military staff were members.

Where employees opened a Partnership pension account with an employer contribution, DE&S made contributions of £942K (2017-18: £607K) to the relevant pension providers. This is included within the £72.9 million of civilian pension costs.

Further details of pension schemes covering DE&S personnel are detailed below.

Principal Civil Service Pension Scheme

The PCSPS and the Civil Servant and Other Pension Scheme, known as “Alpha”, are unfunded multi-employer defined benefit schemes. DE&S is unable

to identify its share of the underlying assets and liabilities. An actuarial valuation of the PCSPS has been completed and can be found here*.

Contributions to the PCSPS in 2018-19 were calculated at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The Scheme Actuary usually reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account; employer contributions are age related and ranged from 8% to 14.75%. Employers also match employee contributions up to 3% of pensionable earnings. Further details about the Civil Service Pension arrangements can be found here*. There were no contributions due to the partnership pension providers at the balance sheet date and no contributions have been prepaid.

Armed Forces Pension Scheme

The AFPS is an unfunded, non-contributory, defined benefit, salary related, contracted out, occupational scheme. As such, this scheme is not consolidated in the accounts; separate accounts are prepared and details of which can be found here*.

* <https://www.civilservicepensionscheme.org.uk/about-us/scheme-valuations/>

* <https://www.civilservicepensionscheme.org.uk/>

* <https://www.gov.uk/government/publications/armed-forces-pension-scheme-annual-accounts-2018-to-2019>

Employer's contribution rates are determined by the Government Actuary. For 2018-19, the employer's contribution rates remained the same as 2017-18 at 53.4% of pensionable pay for officers and 52% of pensionable pay for other ranks. These include a contribution towards the Armed Forces Compensation Scheme (AFCS) at 1% for officers and 2.4% for other ranks. No changes to the contribution rates are expected until 2019-20. Further information on the AFPS and AFCS can be found here*.

Scheme members are entitled to a taxable pension for life and a tax-free pension lump sum if they leave the regular armed forces at or beyond normal retirement age. Those who have at least two years' service and who leave before aged 55 will have their pension preserved until age 60 or 65 depending on the scheme. The scheme also includes an early departure payment Early Departure Payment (EDP) scheme for those who leave before aged 55 providing they have at least 18 years' service and are at least 40 years of age. The EDP scheme pays a tax-free lump sum and income of between 50% and 75% of preserved pension between the date of the individual's departure from the armed forces and age 55.

Staff Sickness

We are committed to the health and wellbeing of our staff and have a comprehensive sickness absence policy. During 2018-19 the average number of days for sickness absence was 5 days per employee, compared with 5.5 days per employee in 2017-18, which was a fall from the previous year. This compares favourably with the MOD average of 6.7 days. The launch of a revised DE&S health and attendance policy in April 2017 together with the launch of our own in-house Casework Service, that can better support managers when dealing with sickness absence, has ensured that we now have a more robust, clearly understood procedure for managing sickness absence. We have also instigated a range of well-being measures including on-site health fairs, the promotion of mental health awareness and signposting to support services, promotion of a range of discounts and networks available to all staff, and the cycle-to-work scheme introduced in April 2018.

Staff Policies

Diversity and Inclusion (D&I) - Our Vision

At DE&S we have a fundamental belief that valuing our people for their individuality will create a culture in which talent, creativity and innovation can thrive. This

in turn will help people to achieve their potential and enable us to deliver a high-quality service for the UK defence community. We want our workforce to reflect the diversity of society and to develop and use the collective experience of that diverse workforce to deliver improvements in performance.

We aim to achieve this through:

- Building a culture of inclusion where all individuals feel respected, are treated fairly, and able to develop and contribute confidently, regardless of their background or working style
- Building an organisation that reflects the diverse communities it serves by attracting, developing and retaining the best skills and thinking from all parts of society without barriers
- Building leadership capability and organisational capacity to deliver inclusion, diversity and outreach to maximise business benefits and meet legislative duties

Employee Networks have remained active throughout this year, with an increasing demand for involvement and engagement in more mainstream activity such as performance management. They have proven to be a positive influence in supporting members to raise concerns and get specialist support where needed (such as objective setting workshops). Networks have also been engaged with policy and strategy development, with the introduction of a new Reasonable Adjustment and Workplace Adaptations policy and process a key success.

This new process now helps staff who need adaptations to get them in a timelier and more effective manner and was developed in partnership with the Disability Network and key stakeholders from across the organisation.

We ran the 'Drive an Inclusive Culture' training programme through the year, covering nearly 100% of all senior professionals and leaders across DE&S. We maintained the focus on face to face D&I training by following this up with a complementary programme 'Creating an Inclusive Workplace' and trained 20 trainers. This programme is now running.

A Fairness and Equality Advisor (FEA) network was established and 90 FEAs are currently available to staff across a range of locations.

A new Equality Impact Assessment process was introduced this year, improving organisational decision making.

* <https://www.gov.uk/guidance/pensions-and-compensation-for-veterans>

We continue to be part of the wider Defence Youth Engagement Programme delivering initiatives through outreach. For the third year we were at the Big Bang Fair in the NEC Birmingham engaging over 100,000 students over four days, sharing our equipment and technical experience to inspire our next generation. We have over 100 Science Technology Engineering and Maths Ambassadors supporting various initiatives in local schools. These initiatives form part of an outreach and engagement flight path which consolidates our outreach activities to ensure that we continue to raise the profile of DE&S as an employer of choice and can compete successfully for future talent.

We will continue to engage less socially mobile communities, focus on improving the diversity of our workforce and build the D&I competence and capacity across DE&S to deliver on our ambitions and maintain the positive direction of travel.

The following tables reflect changes to the civilian composition of the organisation by protected characteristics over the year.

Staff breakdown

	31 March 2019	31 March 2018
Civilian total headcount <small>23,24</small>	10,465	11,474
Gender		
Female	3,491	3,738
% female	33%	33%
Ethnicity		
Black and minority ethnic	625	496
% Black and ethnic	6%	4%
Disability		
Declared a disability	968	815
% declared a disability	9%	7%
Sexual orientation		
Lesbian, gay, bisexual	235	186
% declared LGB	2%	2%
Religion or belief		
Non Christian religion	393	342
% Non Christian religion	4%	3%
Secular	3,300	2,822
% Secular	32%	25%
Christian	3,962	3,855
% Christian	38%	34%

Gender breakdown at DE&S Board and Executive Committee level

	31 March 2019	31 March 2018
Total DE&S Board and Executive Committee ²⁵	19	16
Female	1	2
Male	18	14
% Female	5.3	12.5
% Male	94.7	87.5

²³ Totals include all industrial and non-industrial civilian personnel of DE&S, but excludes all Royal Fleet Auxiliary, for whom declaration data is currently unavailable.

²⁴ Percentages shown for ethnicity, disability, sexual orientation and religious belief are based on declarations made compared with total civilian workforce; as there is no requirement to make a declaration, they are likely to under-represent actual numbers of each characteristic.

²⁵ The figures for 2017-18 include DG HOCS (female), who attended in place of the Permanent Secretary.

Gender breakdown over the year at SCS level

	31 March 2019	31 March 2018
Total DE&S SLG (SCS)	102	133
Female	21	34
Male	81	99
% Female	21%	26%
% Male	79%	74%

The reduction in female representation reflects a move of five female SLG with SDA together with routine internal transfers within the civil service, retirement and resignations. We continue to work hard with our executive recruitment partners to seek female new joiners to improve our representation at the most senior levels.

Trade Union Relationships

The joint DE&S and SDA Framework Document gave DE&S and SDA the freedom to agree its own approach to Trade Union (TU) engagement. An Employee Relations Framework Agreement was subsequently created to govern successful engagement between DE&S/SDA and the TUs, including the principles, behaviours and processes under which both parties will operate to ensure good employee relations. The agreement was signed by the Chief of Defence Materiel and the five recognised TUs on 2 February 2015. The HR team within DE&S leads on TU consultation for DE&S and the SDA. Consultation with the TUs takes place in compliance with the law and to initiate engagement in the spirit of reaching agreement.

The TU (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017. These regulations place a legislative requirement on relevant public sector employees to collate and publish, on an annual basis, data on the amount and cost of facility time. DE&S and SDA currently act within the same collective bargaining unit, with TU representatives undertaking TU duties across both organisations. Consequently, facility time costs for 2018-19 are shared between DE&S and SDA and which is reflected in the annual facility time data return as a combined

expenditure. This is shown below for the period 1 April 2018 to 31 March 2019:

Relevant Union Officials

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
21	20.6

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	2
1-50%	19
51-99%	0
100%	0

Percentage of pay bill spent on facility time

Total cost of facility time	£24,936.06
Total annual pay bill²⁶	£584,011,550
Percentage of total pay bill spent on facility time	0.00%

Paid trade union activities

Time spent on paid trade union activities as a percentage of total paid facility time	0.00% ²⁷
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TU activities means time taken off under section 170 (1) (b) of the 1992 TULR(C)A. These might include: attendance at branch, regional or national TU meetings or conferences, meeting with full time officers regarding issues related to the workplace, voting in TU elections.

The above information is also published by the Cabinet Office online here*.

²⁶ The total annual civilian pay bill as defined by the Cabinet Office: The sum of direct wages and salaries, pension contributions and National Insurance Contributions. Includes all staff-related costs, comprising direct wages and salaries (including non-consolidated payments), employer pension contributions and employer National Insurance Contributions*.

²⁷ DE&S do not approve payment for TU officials to undertake TU activities.

* <https://www.gov.uk/government/news/trade-union-facility-time-publication-service-2017-2018-data-published>

Civil Service and other compensation schemes exit packages

The figures in the next table include redundancy and other departure costs paid in accordance with the Civil Service Compensation Scheme. Where DE&S has agreed early retirements, the costs are met by DE&S and not by the Civil Service Pension Scheme. There were two non-compulsory redundancies in 2018-19, none of these were individuals retiring early on ill health grounds.

For staff leaving under voluntary exit or voluntary redundancy terms, the cost includes any top-up compensation provided by DE&S to buy-out the actuarial reduction on an individual's pension as well as the compensation payments.

All armed forces redundancies are compulsory; the law does not provide for voluntary redundancy. While personnel are invited to apply for consideration, the Services may retain applicants, and make non-applicants redundant instead in order to retain the right balance of skills and experience across the rank structures. Successful applicants are included in the table as other agreed departures; non-applicants are listed as compulsory redundancies.

Civil Service and other compensation schemes exit packages (subject to audit)

Numbers in brackets are 2017-18 comparators.

Exit package cost band	Number of compulsory redundancies	Number of other agreed departures	Total number of exit packages by cost band
<£10,000	- -	- (3)	- (3)
£10,000-£25,000	1 -	2 (4)	3 (4)
£25,000-£50,000	- -	- (3)	- (3)
£50,000-£100,000	- -	- (1)	- (1)
£100,000-£150,000	- -	- -	- -
£150,000-£200,000	- -	- -	- -
Total Number of Exit Packages	1 -	2 (11)	3 (11)
Total resource cost (£000)	15 -	38 (289)	53 (289)

Expenditure on consultancy and temporary staff

The DE&S operating cost envelope includes the engagement of contingent labour (also known as workforce substitution) and other external support defined as PSS.

Contingent labour relates to individuals who are engaged by DE&S on a demand basis to fill vacancies within the organisation. This includes independent contractors and consultants who are excluded from the DE&S payroll because they are not permanent employees of the Department. The costs of contingent labour are shown separately in the staff costs at note 3 to the accounts.

PSS is defined by DE&S as external support to supplement DE&S capacity and capability to manage its programme of work. This includes packages of work aimed at delivering business improvements in line with DE&S transformation initiatives. PSS within DE&S includes consultancy assistance and other external support provided through a number of arrangements, including the Delivery Partner arrangement and the MOD Framework Agreement for Technical Support. PSS is also used within DE&S to address resource and skills gaps in project and logistics management capability. A breakdown and prior year comparator is shown at Note 4 to the accounts.

High paid off-payroll appointments

Details of DE&S' most highly paid off-payroll appointments are shown in table 1. These represent temporary workers who are employed for limited periods of time, usually to fill short term vacancies, to deliver finite pieces of work, or to provide key skills needed to deliver the business which are not available internally.

Government policy is that individual Departments must exercise governance over such appointments where the appointees are not engaged directly on Departmental payrolls. DE&S senior off-payroll appointees have been requested to provide assurance that they paid the right amount of tax and National Insurance contributions in 2018-19.



C130J Hercules aircraft mid-flight

Table 1: all off-payroll engagements as at 31 March 2019, for more than £245 per day and that last longer than six months:

Defence Equipment & Support Bespoke Trading Entity	
1. No. of existing engagements as of 31 Mar 19	164
Of which	
2. No. that have existed for less than one year at time of reporting.	66
3. No. that have existed for between one & two years at time of reporting.	98²⁸
4. No. that have existed for between two and three years at time of reporting.	0
5. No. that have existed for between three and four years at time of reporting.	0
6. No. that have existed for four or more years at time of reporting.	0

Table 2 provides an analysis of all new off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, paid more than £245 per day and that last for longer than six months:

Defence Equipment & Support Bespoke Trading Entity	
1. No. of new engagements, or those that reached six months in duration, between 1 Apr 18 and 31 Mar 19	165
Of which	
2. No. assessed to be in-scope of IR35	100
3. No. assessed to be out of scope of IR35	65
Of which	
4. No. engaged directly (via PSC contracted to department) and are on the departmental payroll	0
5. No. of engagements reassessed for consistency / assurance purposes during the year.	2
6. No. of engagements that saw a change to IR35 status following the consistency review	0

Table 3: Off-payroll engagements of Board members and/or senior officials with significant financial responsibility between 1 April 2018 and 31 March 2019:

Defence Equipment & Support Bespoke Trading Entity	
No. of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019	0

There were no off-payroll engagements of Board members or senior executives with significant financial responsibility between 1 April 2018 and 31 March 2019.

²⁸ In 2017-18 DE&S reported 69 individuals having existed for less than one year at the time of reporting. In 2018-19 DE&S have undertaken reviews of additional contract routes and identified further individuals who have been assessed under the IR35 and Off Payroll assurance regime. Individuals identified through additional contract routes may include SDA as the data cannot be split out, however a review of the supplier name indicates there would be minimal SDA staff included.

PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT



Parliamentary Accountability Report

In 2018-19 we responded to 310 Parliamentary Questions and 295 pieces of Ministerial and Treat Official correspondence from Members of Parliament, Peers and the public, exceeding our Departmental targets for on-time delivery. We also provided briefing in support of a range of Parliamentary Committee business including the Mechanised Infantry Vehicle, joint French inquiry on Anti-Ship Missile Systems, F-35 costs, MOD Annual Report and Accounts 2017-18, and the Defence Equipment Plan 2018. The CEO also held an introductory session with the Defence Committee following his appointment. Shipbuilding programmes continued to attract significant Parliamentary interest, together with our relationships with industry and the wider prosperity agenda.

We continue to fulfil our statutory obligations under the Freedom of Information Act 2000 in responding to requests for information from members of the public. During 2018-19 we answered 580 requests for information, again exceeding our Departmental target for on-time delivery. Interest in DE&S' activities remains high with requests covering a wide range of DE&S business including ex-military vehicles, shipbuilding programmes, aircraft operations and contracts.

In line with Cabinet Office guidelines on transparency, DE&S proactively publishes a range of information online, including senior officials' business expenses, hospitality and meetings and expenditure over £25,000. DE&S data is not published separately, but is included on gov.uk as part of overall MOD information.

Fees and Charges (subject to audit)

Where we have spare capacity, we provide a range of services to external organisations. Costs are recovered in accordance with Managing Public Money. Where a chargeable activity produces a tangible benefit to defence, we may reduce any charges levied below the full costs of the activity. There were no reported instances in 2018-19.

Remote Contingent Liabilities (subject to audit)

DE&S does not have any remote contingent liabilities in addition to those disclosed under IAS37 within the Notes to the Accounts.

Regularity of Expenditure (subject to audit)

All material expenditure and income incurred by DE&S in 2018-19 was in accordance with the requirements of HMT and other Government guidance.

Losses and Special Payments (subject to audit)

Losses and special payments are unpredictable, as such Parliament cannot envisage when funding is required to cover these costs. They are emergent in nature arising as a result of an unexpected incident or failure of process, as such they are subject to a higher level of scrutiny and approval than would be the case for normal business transactions.

Losses during the year totalled £0.7 million. Outside those separately reported the clear majority were for VAT payments following a series of contract reviews. There were also low value fruitless payments related to loss or damage to equipment and hire car charges.

Losses Statement

Volume of Cases	2018-19	2017-18
Fruitless Payments (volume of cases)	414	871
Fruitless Payments (value £000)	662	660
Cash Losses (volume of cases)	-	1
Cash Losses (value £000)	-	-
Store Losses (volume of cases)	2	4
Store Losses (value £000)	2	3
Claims waived or Abandoned (volume of cases)	-	-
Claims waived or abandoned (value £000)	-	-
Total Number of Losses (volume of cases)	416	876
Total value of Losses (value £000)	664	663
Details of closed cases over £300,000	2018-19	2017-18
Fruitless Payments	-	-

In addition, there was one advance notification requiring separate disclosure in 2018-19. The loss is predominantly a result of MOD incurring charges for hotel 'no shows' and unreconciled hotel charges on

the lodged credit cards used by Hogg Robinson Group (HRG) to guarantee travel bookings on behalf of the Department. Charges were incurred between 2014-15 and 2018-19 but ongoing issues with reconciliation of the associated suspense account has resulted in the charges not being taken through the SoCNE until this year. A new travel process is being set up which will prevent any further charges of this nature. The values reflected below relate to the DE&S element only, the full value has been reported separately in the 2018-19 MOD accounts.

Details of Advanced Notifications over £300,000	2018-19	2017-18
Fruitless Payments	1	-
HRG Travel Charges	507	-

Special Payments

No individual special payments exceeded the £300,000 value for individual reporting.

Special Payments	2018-19	2017-18
Total number of special payments	3	2
Total Value of Special Payments (£000)	129	20

2018-19 special payments are payments made in relation to staff grievances. For legal reasons, no further information can be provided on these cases.

Long term expenditure trend by category

	Estimate 2020-21	Estimate 2019-20	Outturn 2018-19	Outturn 2017-18
Total Departmental Expenditure Limit DE&S BTE (£M)	1,060	1,025	946	1,105



Sir Simon Bollom
Accounting Officer
6 January 2020

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

Opinion on financial statements

I certify that I have audited the financial statements of Defence Equipment and Support for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of Defence Equipment and Support's affairs as at 31 March 2019 and of the total comprehensive net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Defence Equipment and Support in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Defence Equipment and Support's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Chief Executive for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Defence Equipment and Support's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

Date 8 January 2020

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP



Section Three



The Financial
Statements

ACCOUNTING INFORMATION

STATEMENT OF COMPREHENSIVE NET EXPENDITURE (SoCNE) FOR THE YEAR ENDED 31 MARCH 2019

	Note	2018-19 £000	2017-18 £000
Expenditure - Direct Programme Costs			
Direct Staff Costs	3	635,449	700,191
Private Sector Support Costs	4	235,972	329,328
Other Programme Costs	5	98,654	97,435
Total Direct Programme Costs		970,075	1,126,954
Income - Direct Programme	6	(30,859)	(32,154)
Net Direct Programme Expenditure		939,216	1,094,800
Expenditure - Non-Cash Items			
Communicated Costs from Other MOD Organisations	7	98,047	102,638
Auditors' Remuneration	8	150	200
Impairments/Adjustments	9&10	(771)	807
Depreciation	9&10	6,566	2,817
Use of Provision	13	98	-
		104,090	106,462
Net operating Income and Expenditure		1,043,306	1,201,262
Gain on Transfer by Absorption	2	(13,895)	-
Total Net Expenditure		1,029,411	1,201,262
Other Comprehensive Net Expenditure			
Revaluation of Tangible Assets	9	(24)	(38)
Revaluation of Intangible Assets	10	(464)	(518)
Total Comprehensive Net Expenditure		1,028,923	1,200,706

The Notes on pages 80-95 form part of these accounts. The 2017-18 comparatives include the Submarine Delivery Agency (SDA) function costs.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Note	2018-19 £000	2017-18 £000
Non-current assets			
Tangible Fixed Assets	9	3,964	835
Intangible Fixed Assets	10	15,301	17,583
Total Non-current Assets		19,265	18,418
Current assets			
Trade and Other Receivables	11	7,749	9,180
Total Current Assets		7,749	9,180
Total assets		27,014	27,598
Current liabilities			
Trade and Other Payables	12	(130,921)	(136,385)
Provisions	13	(1,147)	(1,244)
Non-current Assets less Current Liabilities		(105,054)	(110,031)
Non-current Liabilities			
Payables due after more than 1 year	12	-	(746)
Total Non-current Liabilities		-	(746)
Assets Less Liabilities		(105,054)	(110,777)
Reserves			
Revaluation Reserve	Statement of Changes in Taxpayers Equity (SOCiTE)	1,044	556
General Fund	SOCiTE	(106,098)	(111,333)
Total Reserves		(105,054)	(110,777)

The Notes on pages 80-95 form part of these accounts. The 2017-18 comparatives include the SDA function costs.



Sir Simon Bollom
Accounting Officer
6 January 2020

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2018-19 £000	2017-18 £000
Cash flows from Operating Activities			
Net Operating Costs		(1,043,306)	(1,201,262)
Adjustments for non-cash transactions			
Communicated Costs	7	98,047	102,638
Auditors Remuneration	8	150	200
Amortisation/Depreciation & Impairment	9&10	5,795	3,624
Movement in Provision	13	98	1,909
(Increase) / Decrease in Trade and Other Receivables	11	1,431	(1,089)
Increase / (Decrease) in Trade and Other Payables	12	(6,209)	(44,235)
Gain on Transfer by Absorption		13,895	-
Less Movements in payables not passing through the SoCNE		(3,293)	2,711
Use of Provisions	13	(195)	(665)
Net Cash Outflow from Operating Activities		(933,587)	(1,136,169)
Cash Flows from Investing Activities			
Purchase of Intangible Assets	10	(844)	(12,358)
Purchase of Tangible Assets	9	(2,018)	(108)
Net Cash Outflow from Investing Activities		(2,862)	(12,466)
Cash Flows from Financing Activities			
Net Parliamentary Funding - drawn down		936,449	1,148,635
Net increase/(decrease) in cash and cash equivalence in the period		-	-

The Notes on pages 80-95 form part of these accounts. The 2017-18 comparatives include the SDA function costs.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 1 April 2017		(161,544)	-	(161,544)
Total Net comprehensive expenditure for the year	SoCNE	(1,201,262)	-	(1,201,262)
Net Parliamentary Funding – drawn down	Statement of Cash Flows (SoCF)	1,148,635	-	1,148,635
Non-Cash Charges - Auditors Remuneration	8	200	-	200
Non-Cash Charges - Communicated Costs	7	102,638	-	102,638
Net (Loss)/Gain on revaluation of Tangible Assets	9	-	38	38
Net (Loss)/Gain on revaluation of Intangible Assets	10	-	518	518
Balance at 31 March 2018		(111,333)	556	(110,777)
Gain on Transfer of Function	SoCNE	13,895	-	13,895
Total Net Comprehensive Expenditure for the year	SoCNE	(1,043,306)	-	(1,043,306)
Net Parliamentary Funding – drawn down	SoCF	936,449	-	936,449
Non-Cash Charges – Auditors Remuneration	8	150	-	150
Non-Cash Charges – Communicated Costs	7	98,047	-	98,047
Net (loss)/Gain on revaluation of Tangible Assets	9	-	24	24
Net (loss)/Gain on revaluation of Intangible Assets	10	-	464	464
Balance at 31 March 2019		(106,098)	1,044	(105,054)

The Notes on pages 80-95 form part of these accounts. The 2017-18 comparatives include the SDA function costs.

NOTES TO THE ACCOUNTS



1. STATEMENT OF ACCOUNTING POLICIES

The financial statements contained within the Annual Report and Accounts relate to the financial year 1 April 2018 to 31 March 2019 (2018-19) with comparative analysis for the prior year 2017-18. They have been prepared in accordance with the Accounts Direction given by HM Treasury (HMT) under Section 7 of the Government Resources and Accounts Act 2000 and in accordance with HMT guidance as set out in the Financial Reporting Manual (FRoM).

The accounting policies contained in the FRoM apply International Financial Reporting Standard (IFRS) as adapted or interpreted for the public sector context. Where the FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of DE&S for the purpose of giving a true and fair view has been selected.

The policies adopted by DE&S are described below. They have been applied consistently in dealing with items that are considered material to the accounts. The functional and presentational currency is in pounds sterling and figures expressed in pounds thousands unless expressly stated in a Note.

DE&S is classified as an Executive Agency which operates as a Bespoke Trading Entity (BTE) in line with Chapter 7 of Managing Public Money. The 2018-19 financial statements are the fifth set of published accounts for DE&S.

1.1 Accounting Convention

The financial statements have been prepared under the historical cost convention, modified by the revaluation of assets and liabilities to fair value as determined by the relevant accounting standards, and subject to the interpretations and adaptations of those standards in the FRoM.

1.2 Basis of preparation of annual accounts – accounting boundary

The primary purpose of DE&S is to equip and support the UK's armed forces for operations now and in the future by procuring new military equipment, commodities and services, supporting in-service equipment through-life and managing some logistics operations.

DE&S delivers this programme of project and logistics management services within a defined operating cost envelope and in accordance with the Framework Document and the Letter of Delegation issued by the Ministry of Defence (MOD) Permanent Secretary to the DE&S Chief Executive Officer.

The operating cost envelope specifically encompasses staff (including travel and training), other operating and Private Sector Support (PSS) expenditure and any associated revenue. The financial statements also include costs incurred by other MOD organisations in support of DE&S operations as non-cash communicated costs (see item 1.8 and Note 7 to the financial statements). PSS is defined as external support to supplement DE&S capacity and capability to manage our programme of work, including those elements of external support that are being employed to deliver business improvement and transformation within the organisation. It encompasses contracts for the employment of contractor support, consultancy assistance and technical support activities. As such, PSS addresses resource and skills gaps in our project and logistics management capability.

DE&S has developed and implemented accounting treatment policies defining those activities that are to be treated as PSS. PSS undertaken within overarching equipment procurement/support arrangements with our main industrial contractors and international collaborative partners are not treated as DE&S operating costs as they are considered integral and indivisible from equipment programme activities. Note 4 provides a breakdown of PSS expenditure and includes PSS in support of demonstration and manufacture phase programmes which are capitalised on the MOD accounts but correctly recorded here as operating costs. Activities that DE&S cannot undertake due to requirements for independent review and specialist one off/short term technically complex activities are treated as equipment programme expenditure and not PSS.

1.3 Critical accounting judgements and key sources of estimation uncertainty

When preparing the DE&S Annual Accounts, judgement and estimation is applied in establishing the value of DE&S receivables and payables and likewise the amount of revenue and expenditure to be reported during the accounting period. The key areas in which judgement and estimates are necessary are as follows:

- Accounting boundary: DE&S have robust and well-established policies and governance arrangements supporting the delineation of costs between those recognised as operating costs and reported in the DE&S financial statements from those equipment procurement/support activities that are reported in the MODs financial statements. These policies and governance arrangements have been paramount in the preparation of these accounts by DE&S finance staff. Decision making continues to be supported by the PSS Group, which is chaired by a senior finance manager, providing structured consideration of accounting boundary decisions.
- Activities undertaken with our main industrial partners continue to be excluded from our DE&S operating costs in recognition of the fact the PSS activities within these arrangements continues to remain integral and indivisible from equipment programme activities.
- Communicated costs: DE&S receive a number of benefits driven by the activities of other MOD organisations which support our operations. There is no mechanism in place for these costs to be directly charged to DE&S, so these costs are recognised within the DE&S accounts as communicated costs. These costs reflect the best estimates available and the majority are allocated based on an apportionment of costs based on staff number ratios. Note 7 provides further detail on communicated costs.
- Accruals – payables and receivables: In instances where revenue/expenditure has been earned/incurred but not invoiced, an estimate is made of the amount to be accrued as a payable or receivable item. DE&S review annually the appropriateness of the materiality level set to ensure it continues to remain relevant. For 2018-19, a guideline materiality threshold of £15,000 has been applied in the recognition of payables and receivables.

1.4 Changes in Accounting Policies and Disclosures

Changes impacting the preparation of these annual accounts

Transfer of Functions

As at 1 April 2018, the submarine function previously managed and accounted for by DE&S was transferred to the Defence Nuclear Organisation (DNO) and the SDA, a new executive agency of the MOD. The net assets/liabilities of £13.9 million relating to the SDA and DNO have been transferred and accounted for in accordance with the FReM, via absorption accounting. The comparator figures have not been adjusted. However, Note 2 shows the financial impact of the submarine function on the 2017-18 comparators.

New Accounting Standards

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been adopted for the first time in these financial statements. Implementation of these new standards has had no material impact on DE&S transactions and balances.

- IFRS 9 has required some edits to terminology. However, there is no significant financial impact in these accounts arising from adoption of IFRS 9. As such, the accounting under International Accounting Standard (IAS) 39 in the prior year remains appropriate under IFRS 9 in 2018-19 (see Note 1.17).
- IFRS 15 requires entities to consider whether revenue should be recognised at a single point in time, or over time. The definition of 'contract' includes arrangements covered by Memoranda of Understanding, even though these are not legally enforceable. All significant contracts have been assessed on a case by case basis against the five-step model set out in IFRS 15. The recognition points for DE&S' revenue streams required under IFRS 15 remain consistent with those which were required in the prior year under IAS 18 (see Note 1.6).

Changes Impacting the Preparation of Future Annual Accounts

There are no significant anticipated changes to the 2019–20 FReM. HMT has deferred adoption of IFRS 16 – Leases for the public sector to 2020-21.

The proposed changes simplify the classification and measurement of leases by introducing a single lessee accounting model, removing the distinction between recognising an operating lease and a finance lease. The new Standard requires recognition of all leases which last over 12 months unless the underlying asset is of low value. This will result in the recognition of a right-of-use asset, measured at the present value of future lease payments, with a matching liability. The pattern of recognition of the expenditure will result in depreciation of the right-of-use asset and an associated finance cost being recognised.

Initial analysis by DE&S has identified that the current operating lease (see Note 15) will fall within the remit of IFRS16. Management are currently working towards establishing the quantitative impact of the introduction of this Standard.

1.5 Going concern

DE&S continues to be funded on the same basis as other central government organisations (known as “onvote” or net parliamentary funding) and therefore receives funding allocations through the MOD. As DE&S does not operate a bank account, with liabilities being met by the MOD, the year-end net liabilities position in the Statement of Financial Position (SOFP) represents a timing difference that will be offset by future net parliamentary funding from the MOD.

DE&S forms an integral part of the MOD operating model and is responsible for the delivery of the 10 year Equipment Plan. The MOD has demonstrated its commitment to continue funding DE&S while process/system developments are undertaken and rolled out to support charging for DE&S operating activities. In this respect, during 2018-19 DE&S has completed the roll out of connecting its time recording system with its project management system as a fundamental part of developing the mechanism for future charging of customers. The system is not currently being used to hard charge customers; initial timescales for implementation would have seen this commencing in 2017, but this has been delayed whilst the process is further refined with no definitive timescales at present.

1.6 Revenue and expenditure recognition

Funding received for revenue purposes from the MOD is treated as Net Parliamentary Funding from MOD rather than operating income and is therefore credited directly to the general fund.

Any revenue and expenditure generated directly from DE&S activities is recognised in the SoCNE on an accruals basis, determined by when the related goods and services are provided and where an assessment of the stages of completion of revenue and expenditure generating activities can be reliably measured.

DE&S has two main sources of revenue:

- (i) As agreed with HMT, DE&S receive income in relation to Post Costing receipts where DE&S specifically have acted to recover funds (excess profits) outside the agreed profit rates from suppliers. In these circumstances DE&S conduct an audit and enter discussions with the supplier to determine the value of monies owed. Income is recognised at the point it is agreed by both parties.
- (ii) The second source is from Defence Munitions whereby we undertake munitions processing on behalf of defence contractors. The income is utilised to offset the costs of running the facility and is charged to the customer at the point of their acceptance of the work performed.

1.7 Programme costs

DE&S expenditure and revenue is reported as programme costs in line with MOD annual accounts reporting requirements. Where DE&S civilian staff are temporarily reassigned to work in other areas of the MOD their salary costs are charged to those other areas. Similarly, where other areas of the MOD temporarily reassign their staff to support DE&S management activities, salary costs are charged to DE&S.

The movement of staff from or to other MOD organisations is subject to the agreement of funding transfers between DE&S and the other transacting party before implementation. The exporting organisation continues to record expenditure until this agreement has been reached.

1.8 Communicated Costs

Communicated costs are indirect costs in support of DE&S operations that are incurred through activities with other MOD organisations. These costs have been included as a non-cash item in the DE&S SoCNE Expenditure to ensure that a full representation of operating expenditure is reported. Note 7 provides an analysis of these costs identifying the other MOD organisations involved and the key assumptions applied in determining the costs.

1.9 Value Added Tax (VAT)

Most of the operating activities of DE&S are deemed to be outside the scope of VAT as they relate to direct staff costs. Irrecoverable VAT is charged where appropriate to other expenditure categories. Expenditure associated with recoverable VAT is treated as excluding VAT in the DE&S accounts with formal recovery administered by MOD. DE&S is not separately registered for VAT and VAT collected or any associated recoveries are processed centrally by MOD.

1.10 Non-current assets

Equipment assets delivered and supported by DE&S for use by the Commands (Navy, Air, Land and Joint Forces) are owned and reported in the MOD accounts as the risks and rewards of ownership are deemed to reside with the Commands and MOD.

Where assets are purchased for the sole benefit of DE&S and funded through our Operating Cost Expenditure budget these are considered for capitalisation where they meet the recognised threshold of £15k and are intended for use for a period of over 12 months. Given the relatively low volume and value of assets purchased specifically for DE&S use, it is not our current policy to pool assets. We re-visit this policy annually to ensure that we are not omitting any material assets from our Non-Current Asset Register.

1.11 Tangible non-current assets

Various areas of MOD provide DE&S with support services under central support contracts. These infrastructure support services include DE&S usage of MOD non-current assets, such as property and office furniture. The underlying risks and rewards of ownership of these assets are deemed to reside with MOD and therefore not reported in the DE&S SOFP.

The costs incurred by other MOD organisations in the routine maintenance of these assets are reported as communicated costs in the SoCNE. Where DE&S has incurred any direct costs for additional refurbishment/provision of such assets, and where they meet the criteria for capitalisation these are charged through the SOFP and treated as non-current assets. Where such charges fall outside the recognised criteria DE&S expenses these costs in year.

Once initially recognised, tangible non-current assets are periodically re-valued to current value in existing use, using a market value where an active market exists. Where no market exists, indices are used to revalue the tangible asset to Depreciated Replacement Cost (DRC). Tangible non-current assets under construction are not subject to indexation where the contract payments capitalised during the period of construction are deemed to reflect fair value.

1.12 Intangible non-current assets

DE&S continues to recognise as intangible non-current assets those investments in development and delivery of new information, system software and licenses that are aimed at improving DE&S' organisational performance.

DE&S recognised such assets for the first time in 2015-16 and further investments have been recognised for purchases of software and licences which are aimed at enhancing and increasing our system capability. All software and their associated licences continue to be capitalised as intangible assets in accordance with IAS38 where they continue to directly contribute to the delivery of DE&S business services and transformation activities.

Once initially recognised, intangible non-current assets are periodically re-valued to current value in existing use, using a market value where an active market exists. Where no market exists, indices are used to revalue the intangible asset to DRC. Intangible non-current assets under construction are not subject to indexation where the contract payments capitalised during the period of construction are deemed to reflect fair value. Capitalised development costs are amortised, on a straight-line basis and amortisation commences when the asset enters operational service.

1.13 Depreciation

All assets are depreciated on a straight-line basis. The useful life of a tangible asset is based on the estimated out of service date and for intangible assets the estimated period of use. The Useful Economic Lives (UEL) of all assets are reviewed annually and revised where necessary to reflect changing circumstances.

The principal asset categories along with their useful lives are set out in the table below.

Main category	Sub category	UEL
Plant & Machinery	Equipment	5-25
	Plant & Machinery	5-25
IT & Comms	Office Machinery	3-10
	Communications Equipment	3-10
Intangible Assets	Software Licences	3-5

Assets under construction are not depreciated. Depreciation commences from the point the assets are brought into operational use.

1.14 Impairment

During 2018-19 DE&S has reviewed all existing assets and there have been minor impairment events in 2018-19. Reviews continue to be undertaken periodically in order to establish whether there have been any impairment events that may result in a requirement for impairment action to be taken in respect of the recognised non-current assets.

1.15 Cash and cash equivalents

Cash payments and receipts are processed on behalf of DE&S by MOD. DE&S does not, therefore, operate its own bank accounts nor does it have separate cash or cash equivalent balances within the SOFP.

1.16 Inventories

Inventory delivered and supported by DE&S for use by the Commands (Navy, Air, Land and Joint Forces) are owned and reported in the MOD accounts as the risks and rewards of ownership are deemed to reside with the Commands and MOD and not with DE&S.

1.17 Financial instruments – receivables and liabilities

IAS 32 defines a financial instrument as “any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity”. Trade and other receivables have been classified as current assets and measured at the invoiced amount as the impact of discounting, in the context of DE&S, is not deemed to be material. Given the short-term nature of DE&S liabilities, this is considered equivalent to fair value. Goods or services received but not yet invoiced are accrued at estimated fair value.

Trade and other receivables are tested annually for impairment with any identified losses charged to the SoCNE. The carrying value of trade and other receivables in the SOFP is shown net of any impairment provisions. Provisions are only made for specific bad debts. DE&S receivables and liabilities are de-recognised when the receivable or

liability has been discharged, that is the payment required for settlement has been made or has been determined to no longer exist.

1.18 Employee benefits

A charge is made in these accounts for the value of employees' annual leave entitlements earned, but not yet taken at 31 March each year. This has been valued by reference to DE&S average staff costs and average untaken annual leave, by grade, in line with MOD policy on recognition of untaken leave.

The 2018-19 value of employee performance awards reflected within the SoCNE reflects those earned for performance in 2018-19.

DE&S continue to recognise costs of voluntary and compulsory redundancies and exits for departures arising from decisions taken since BTE vesting day.

1.19 IFRS8 Segmental Reporting

The requirement for segmental reporting under IFRS8 is not considered appropriate for DE&S as the organisation operates and is managed as a single entity rather than as separate operational segments.

1.20 Reserves

The Revaluation Reserve reflects the unrealised element of the cumulative balance of revaluation and indexation adjustments on non-current assets. The General Fund reserve represents the balance of taxpayers' equity in DE&S (BTE). Specifically, the General Fund reflects the net assets less liabilities entered during financial year 2018-19.

1.21 Provisions for Liabilities and Charges

DE&S recognises provisions for liabilities and charges where, at the reporting date, a legal or constructive obligation exists for a future liability in respect of a past event and where the amount of the obligation can be estimated reliably. If the transfer of economic benefit is not probable or the present obligation cannot be estimated reliably, the obligation is disclosed as a contingent liability. Contingent liabilities are also disclosed in respect of possible obligations arising from past events, the outcome of which is dependent on uncertain future events, not within the control of the entity.

1.22 Leased Assets

DE&S have one Operating Lease related to the Hire of vehicles for the purposes of DE&S travel. Operating lease payments are recognised as an expense in Net Operating Expenditure on a straight-line basis over the lease term.

2. TRANSFER OF FUNCTIONS ON 1 APRIL 2018

The transfer of the Submarine domain on 1 April 2018 involved the transfer of 1,168 civilian staff and 155 armed forces staff from DE&S to the SDA. In addition, net liabilities of £13.8 million were transferred, £13.547 million related to the SDA and £0.348 million related to DG Nuclear (Top Level Budget (TLB) within MOD). The composition of £13.895 million is as follows:

	(£000)
Private Sector Support Accruals	8,406
Direct Staff Accruals	5,091
Trade Payables	398
Total	13,895

The associated revenue and expenditure for SDA is reflected in the BTE SoCNE up to the transfer on the 1 April 2018, and thereafter treated as revenue and expenditure in the SDA accounts and not DE&S accounts. The following table is provided to show the impact of this transfer on the BTE SoCNE .

	Note	2017-18	SDA/DG Nuc Costs	DE&S BTE Adj 2017-18
Expenditure - Direct Programme Costs				
Direct Staff costs	2	700,191	85,263	614,928
Private Sector Support Costs	3	329,328	47,973	281,355
Other programme Costs	4	97,435	8,549	88,886
Total Direct Programme Costs		1,126,954	141,785	985,169
Income Direct Programme				
	5	(32,154)	(218)	(31,936)
Net Direct Programme Expenditure		1,094,800	141,567	953,233
Expenditure - Non-Cash Items				
Communicated costs from other MOD Organisations	6	102,638	11,018	91,620
Auditor's Remuneration	7	200	-	200
Asset Write Off	8&9	807	-	807
Depreciation	8&9	2,817	-	2,817
		106,462	11,018	95,444
Total Net Expenditure		1,201,262	152,585	1,048,677
Other Comprehensive Net Expenditure				
Revaluation of Tangible Assets	9	(38)	-	(38)
Revaluation of Intangible Assets	8	(518)	-	(518)
Total Comprehensive Net Expenditure		1,200,706	152,585	1,048,121

3. STAFF NUMBERS AND RELATED COSTS

3.1 Staff costs comprise:

3.1 Staff Costs Comprise:	2018-19			2017-18		
	Permanently Employee Staff £000	Contingent labour £000	Total £000	Permanently employed Staff £000	Contingent labour £000	Total £000
Salaries and wages	448,706	33,132	481,838	500,401	27,761	528,162
Social security costs	45,638	-	45,638	51,530	-	51,530
Other pension costs	107,973	-	107,973	120,499	-	120,499
Total	602,317	33,132	635,449	672,430	27,761	700,191
Paid to:						
Armed Forces	116,150	-	116,150	136,921	-	136,921
Civilian	486,167	-	486,167	535,509	-	535,509
Contingent Labour	-	33,132	33,132	-	27,761	27,761

2017-18 staff costs include SDA staff costs of £85.262 million, once adjusted total DE&S staff costs have increased by £20.5 million due to an increase in the total number of staff employed by DE&S (including contingent labour) of 291. A shortfall in full time staff recruitment resulted in supplementing internal resource for contingent labour, there has been a general increase in the costs associated with utilising contingent labour in 2018-19.

3.2 Average number of persons employed:

	2018-19			2017-18		
	Permanently employed Staff	Contingent labour	Total	Permanently employed Staff	Contingent labour	Total
Employed by DE&S	11,360	211	11,571	12,358	254	12,612
Of which:						
Civilian Personnel	10,149	-	10,149	10,968	-	10,968
Armed Forces	1,211	-	1,211	1,390	-	1,390
Contingent Labour	-	211	211	-	254	254

The 2017-18 figures include SDA civilian and military staff numbers of 1,323. When excluding these, DE&S Civilian staff numbers for civilian and military combined have increased by 325 which is consistent with an overall increase in staff costs. Contingent labour when adjusted for an SDA average of nine in 2017-18, shows a reduction of 34 against increased contingent labour costs.

4. PRIVATE SECTOR SUPPORT

	2018-19 £000	2017-18 £000
Contractor support	137,864	59,488
Contractor support - transformation	14,311	77,601
PSS for programmes in demonstration and manufacture phase	30,877	48,285
Constancy support (project management, organisation design, finance, legal)	5,335	90,996
PSS for programmes in in-service support and disposal phases	33,828	43,582
PSS for programmes in concept and assessment phases	13,757	9,376
Total	235,972	329,328

2017-18 costs include £47.9 million of PSS costs relating to SDA. Once adjusted, DE&S PSS costs have reduced by £45.4 million. There has been a reduction in transformation costs of £62.3 million as the transformation programme came to an end. This has been offset by an increase in contractor support costs of £17 million to facilitate commercial business improvements. There has also been a re-mapping exercise between consultancy and contractor support for Framework Agreement for Technical Support (FATS) costs, to better reflect the activity being undertaken and to align with MOD reporting of consultancy values. In 2017-18, £75.3 million of FATS costs were mapped to consultancy. In 2018-9, the equivalent £63.6 million maps to contractor support.

5. OTHER PROGRAMME COSTS (OPC)

	2018-19 £000	2017-18 £000
Staff travel and subsistence costs	21,333	24,237
IT and telecommunications	30,940	23,190
Other infrastructure expenditure	9,165	7,012
Staff training costs	5,815	6,463
Rentals	4,665	9,223
Regulatory safety costs	2,031	1,916
OPC Defence Science & Technologies Laboratories	18,244	20,240
Other costs	6,461	5,154
Total	98,654	97,435

2017-18 costs include £8.6 million of OPC costs relating to SDA, once adjusted DE&S OPC costs have increased by £9.8 million, £9.3 million of which relates to the ongoing support to Project, Programme and Portfolio Management (P3M), service charges in support of new Information Technology (IT), specifically the roll out of MODNET (IT system) and the purchase of office furniture and payment for office moves to support the roll out of smart working.

6. PROGRAMME INCOME

	2018-19 £000	2017-18 £000
Defence Munitions commercial revenue	15,383	15,010
Logistics Commodities Services revenue (including British Forces Postal Office)	1,869	1,474
DE&S BTE Corporate receipts	12,873	14,187
Other programme Income	734	1,483
Total	30,859	32,154

The largest source of income relates to Defence Munitions who undertake work on behalf of defence contractors. The income is recognised in the accounts when DE&S satisfies the performance obligation. Revenue generated is used to offset the costs of running the facility.

The overall reduction predominantly relates to income generated by post costing activities undertaken by DE&S (2018-19 £12.8 million / 2017-18 £14.5 million). This income is recognised in the accounts once the value of costs to be recovered is agreed between DE&S and the supplier.

7. COMMUNICATED COSTS

The following costs have been incurred by other MOD organisations in support of DE&S BTE activities. These costs have been included as a non-cash BTE SoCNE to ensure a complete representation of BTE operating expenditure is reported. There is no formal charging mechanism or commercial type relationship established for these activities and therefore the most appropriate apportionment methodologies have been applied.

MOD Organisation	Description of activities	Method of apportionment	2018-19 £000	2017-18 £000
Joint Forces Command	Information systems and communication services	Number of DE&S users relative to MOD users.	45,469	46,486
Defence Infrastructure Organisation	Infrastructure and facilities management costs	Cost per employee at DE&S headquarters extrapolated to total DE&S headcount.	18,789	18,793
Joint Forces Command	Training services through the Defence Academy and Surgeon Services	Number of DE&S training days relative to total MOD training days.	9,692	12,210
Defence Infrastructure Organisation	MOD Guard Service	Costs of main DE&S geographical locations extrapolated across total DE&S headcount.	12,062	13,845
Defence Business Services	Personnel and Payroll Services	Number of DE&S employees relative to total MOD employees.	10,731	10,023
Head Office and Corporate Services	Various	Based on actuals.	1,304	1,281
Total			98,047	102,638

2017-18 costs include £11 million relating to SDA. Once adjusted, communicated costs have increased by £6.4 million. £3.6 million of the increase relates to an overall increase in costs related to Information Systems and Services projects that provide information systems and communication services to DE&S, whilst a further £2.4 million relates to increased infrastructure costs.

8. AUDITORS REMUNERATION

DE&S is audited by the Comptroller and Auditor General. The £150k charge reflects the costs incurred by the auditor in respect of the audit of the DE&S 2018-19 Annual Report and Accounts. The charge is reflected in the SoCNE.

9. TANGIBLE FIXED ASSETS

	IT & Comms £000	Plant Machinery and Vehicles £000	Assets Under Construction (AUC) £000	Total £000
Cost or Valuation				
At 1 April 2017	-	-	-	-
Additions	-	-	289	289
Disposals	-	-	-	-
Impairments	-	-	-	-
Revaluations	38	-	-	38
Reclassifications	703	117	(108)	712
Balance at 31 March 2018	741	117	181	1,039
Additions	1,021	589	1,816	3,426
Disposals	-	-	-	-
Impairments & Adjustments	-	-	(36)	(36)
Revaluations	23	7	-	30
Reclassifications	-	572	(572)	-
At 31 March 2019	1,785	1,285	1,389	4,459
Depreciation				
Balance at 1 April 2017	-	-	-	-
Charged In Year	(185)	(19)	-	(204)
Disposals	-	-	-	-
Impairments	-	-	-	-
Revaluations	-	-	-	-
Reclassifications	-	-	-	-
Balance at 31 March 2018	(185)	(19)	-	(204)
Charged In Year	(208)	(77)	-	(285)
Disposals	-	-	-	-
Impairments	-	-	-	-
Revaluations	(5)	(1)	-	(6)
Reclassifications	-	-	-	-
At 31 March 2019	(398)	(97)	-	(495)
Net Book value				
Balance at 1 April 2017	-	-	-	-
Balance at 31 March 2018	556	98	181	835
Balance at 31 March 2019	1,387	1,188	1,389	3,964

DE&S holds tangible assets including server hardware to support DE&S owned IT applications, and Defence Ordnance Safety Group (DOSG) test equipment to enable DE&S to fulfil safety obligations. In year additions include additional purchases of servers and DOSG test equipment such as spectrometers. AUC balance reflects continued investment in safety and test equipment due to be delivered into service next financial year.

The asset adjustment reflects a book keeping correction in regard to the purchase of DOSG equipment whereby the final cost of assets fell below the threshold for capitalisation.

10. INTANGIBLE FIXED ASSETS

	Software £000	AUC £000	Total £000
Cost or valuation			
At 1 April 2017	1,493	10,848	12,341
Additions	162	9,304	9,466
Disposals	-	-	-
Impairments	-	-	-
Revaluations	518	-	518
Asset Adjustment Write off	-	(807)	(807)
Reclassifications	10,001	(10,713)	(712)
Balance at 31 March 2018	12,174	8,632	20,806
Additions	2,728	-	2,728
Disposals	-	-	-
Impairments/Adjustments	-	807	807
Revaluations	599	-	599
Reclassifications	9,439	(9,439)	-
At 31 March 2019	24,940	-	24,940
Amortisation			
Balance at 1 April 2017	(610)	-	(610)
Charged In Year	(2,613)	-	(2,613)
Disposals	-	-	-
Impairments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
Balance at 31 March 2018	(3,223)	-	(3,223)
Charged In Year	(6,281)	-	(6,281)
Disposals	-	-	-
Impairments	-	-	-
Revaluations	(135)	-	(135)
Reclassifications	-	-	-
At 31 March 2019	(9,639)	-	(9,639)
Net Book value			
Balance at 1 April 2017	883	10,848	11,731
Balance at 31 March 2018	8,951	8,632	17,583
Balance at 31 March 2019	15,301	-	15,301

Software values include licenses for DE&S Time Recording and Charging system, Active Risk Manager™ and P3M suite of Oracle tools, as reported in prior financial years and includes additional P3M releases previously held as AUC, rolled out and delivered into service this financial year. In-year additions include licences for CITRIX (software application) and Windows as well as a ricochet assessment software tool to enable DOSG to carry out modelling for safety activity. Asset adjustment reflects a book keeping correction to the prior-year accounts.

11. TRADE RECEIVABLES AND OTHER ASSETS

	2018-19 £000	2017-18 £000
Amounts falling due within one year:		
Accrued income	1,591	1,808
Other receivables	4,156	6,871
Trade receivables	-	-
Prepayments	1,528	500
Staff loans and advances	474	1
Total Current Receivables	7,749	9,180
Amounts falling due after more than one year:		-

Trade receivables variances are not impacted by the transfer of the Submarine domain as none of the 2017-18 balances related to SDA. There have been decreases in the value of post costing receipts coming into the Department in 2018-19 of £1.2 million. A further £1.6 million reduction relates to clearing the opening balance on the Hogg Robinson Group suspense account during 2018-19, all of which is offset by a general increase in receivables across the business.

12. TRADE PAYABLES AND OTHER LIABILITIES

	2018-19 £000	2017-18 Restated £000
Amounts falling due within one year:		
Private Sector Support accruals	(59,438)	(77,016)
Direct staff accrual	(50,718)	(48,112)
Trade payables	(19,599)	(9,510)
Sundry payables	(1,166)	(1,747)
Total Current Liabilities	(130,921)	(136,385)
Amounts falling due after more than one year:	-	(746)

2017-18 balances include £13.9 million of liabilities relating to SDA and DG Nuclear. Once adjusted, the balance has increased by £7.7 million. This is primarily driven by an increase in accrued expenditure relating to DE&S business service improvements and increased expenditure relating to the Air Domain Strategic Enterprise contract.

13. PROVISIONS

Provisions have been made for the legal claims made by DE&S employees and third parties seeking compensation for loss or injury suffered as a result of motor and other workplace incidents. In calculating the provisions, an estimate has been made of the cash flows required to settle the obligations. Estimates are based on the historic volumes of claims and the anticipated settlement date.

	2018-19 £000	2017-18 £000
At 1 April	1,244	-
Increase in Provision	29	2,028
Provisions Used	(195)	(665)
Unwinding Discount	69	(119)
Balance at 31 March	1,147	1,244

2017-18 increase in provision relates to the transfer of the provision from a TLB within MOD to DE&S. 2018-19 increase represents normal annual increase in the provision.

14. CONTINGENT LIABILITIES AND ASSETS

The contingent liability below relates to possible obligations regarding legal claims made by DE&S employees and third parties seeking compensation for loss or injury suffered as a result of motor and other workplace incidents.

Descriptions and Key uncertainties	31 March 2018 £000	Increase/ Decrease In Year £000	Liabilities Crystallised In Year £000	Obligation Expired In Year £000	31 March 2019 £000
Legal Claims (personal)	110	187	(36)	(67)	194
This liability is created by the percentage of legal claims that are repudiated by the Company who manage the Department's legal claims. The percentage remains variable.					

There are no contingent assets.

15. LEASES

Lease relates to Phoenix car hire contract which provides DE&S employees with transport for official duty travel. The totals of future minimum lease payments under operating leases for the periods: not later than one year, later than one year and not later than five years and later than five years are set out below.

Operating Lease - Phoenix	2018-19 £000	2017-18 £000
Less than 1 Year	562	484
1-5 Years	1,607	1,351
Greater than 5 Years	300	555

The increase in lease charges less than one year relates to an increase in the number of hire vehicles rented in 2018-19 compared to 2017-18. Across the whole lease term, there has been a general increase in the cost of rental vehicles.

16. RELATED PARTY TRANSACTIONS

DE&S is a BTE, an Arm's Length Body of the MOD, as such and for the purposes of these accounts MOD is regarded as a related party. Funding continues to come in the form of Net Parliamentary funding with all payments and receipts relating to DE&S operations being processed by MOD on our behalf.

DSTL are a related party and DE&S incurred costs of £18.3 million during 2018-19 undertaking business activities with DSTL.

MOD continue to undertake several transactional activities on behalf of DE&S, the most significant of which relate to direct staff costs including the calculation and processing of taxation with HM Revenue and Customs and pension benefits for both the Armed Forces Pension Scheme and the Principal Civil Service Pension Scheme.

DE&S provide corporate services to SDA to assist SDA in delivering its objectives and to maintain compliance with the requirements of being part of a Department of State. Corporate services include, but are not limited to, business support, function management, HR services, communications and infrastructure and estate. DE&S recharge SDA for its share of the DE&S corporate overheads, for 2018-19 this was £7.7 million.

No senior employee of DE&S has undertaken any material business transactions in the period to 31 March 2019.

17. BUDGET RECONCILIATION NOTE

DE&S is responsible for its own operating expenses and carries out its business activities within an agreed operating expenditure limit. The budget comprises both revenue and capital expenditure and DE&S has full control over how this funding is utilised. For 2018-19 this was £953 million, however our outturn position for the year was £946 million, a reduction against budget of £7 million.

The net revenue outturn position of £939.6 million is captured in the SoCNE and is made up of Direct Staff Costs, PSS Costs and OPC of £970 million offset by the income generated by DE&S in 2018-19 of £31 million.

The capital outturn position of £6.2 million represent continued investment in software assets and the purchase of new tangible assets relating to DOSG and Chief Information Officer, these are highlighted in the Tangible and Intangible Asset Notes.

18. EVENTS AFTER THE REPORTING DATE

DE&S Chairman

Mr Paul Skinner's tenure as Chairman came to an end 31 May 2019, following which Mr James Dorrian took up the position on an interim basis. Mr Dorrian was already a Non-Executive Director on the DE&S Board.

Appointment of the new DE&S Chairman, Mr Mark Russell, was announced in July 2019. Mr Russell will assume the role in November 2019.

Accounts authorised for issue date

The accounts have been authorised for issue by the Accounting Officer on the same day as the Comptroller and Auditor General's audit certificates. There have been no events since the reporting period that would give rise to any additional or updated disclosures.





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978-1-5286-1598-3
CCS0719687796