



Submarine
Delivery Agency

Annual Report and Accounts 2018-19



Submarine Delivery Agency

Annual Report and Accounts

2018-19

For the year ended 31 March 2019

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2018-19 Highlights

Acquisition

The Dreadnought Alliance was established to oversee construction of the Dreadnought ballistic missile submarines.

Progress has been made in the building, system integration and testing of the four remaining Boats of the seven Astute class attack submarines.

In-Service Support

2019 marks the 50th anniversary of Continuous at Sea Deterrent (CASD). Since April 1969, there has always been a Royal Navy submarine at sea, providing the nation's deterrent and ensuring the UK remains safe. The SDA has supported the Royal Navy in delivering this critical national Defence role through the delivery of support and maintenance to the submarine fleet.

We have continued to develop a solution for Submarine Dismantling that is safe, secure, cost-effective and environmentally sound. 'Stage One' dismantling has been developed and deployed resulting in the removal of over 70 tonnes of low level radioactive waste from the demonstrator submarine, SWIFTSURE.

Supply Chain

We have established a Supply Chain Team responsible for the analysis of the supplier base and the strategy to support our complex and highly specialist supply chain and take forward initiatives that deliver improvements.

We have awarded new contracts for the support, advice and material required to ensure the continued safety and availability of the nuclear propulsion systems onboard the current submarine fleet.

We have strengthened our industrial partnership with BAE Systems and Rolls-Royce to deliver our submarine build programmes.

Developing the SDA

We have a talented and experienced workforce and we continue to recruit, train and retain highly skilled and professional personnel to deliver our complex programme of work.

We have increased the strength of our senior team and appointed a Chief Finance Officer and Commercial Director.



Chair's Introduction

by Rob Holden, SDA Chair



The formal establishment of the Submarine Delivery Agency (SDA) in April 2018 realised the government's commitment, set out in the 2015 Strategic Defence and Security Review, to strengthen the procurement and in-service support of nuclear-powered submarines by setting up a new delivery organisation to manage the United Kingdom's (UK) submarine Programme. I am pleased to introduce the first Annual Report and Accounts for SDA, which reflects a challenging but successful first year of delivery.

The UK's submarine capability is the critical arm of the nation's defence. The nuclear enterprise is a major national endeavour and the construction of new submarines is among the largest and most complex procurements undertaken by the Ministry of Defence (MOD). Our role is not just to work with our industry partners to provide outputs on which the men and women of the Royal Navy rely, but to lead a high-performing industrial enterprise to deliver these capabilities safely and securely and with the value-for-money and cost efficiency that taxpayers demand. We have made significant progress over the twelve months, performing well against our Key Performance Indicators. We have also made further commitments to the build

of the new Dreadnought and Astute submarines, at the same time as ensuring the sustainment of Continuous at Sea Deterrent and other operational requirements, through support to the in-service fleet of Vanguard, Trafalgar and Astute classes.

As a new Executive Agency of the MOD, we must now develop ourselves to be a high-performing organisation. We have taken significant steps to enhance our organisation, bringing in additional capabilities to ensure we are resourced to deliver our aims. We have welcomed Bruce Martin as Chief Financial Officer and Ruth Todd as Commercial Director. Both bring significant expertise to strengthen our leadership of our people and programmes. We also commenced recruitment of a Technical Director who was appointed in 2019.

I have worked with the newly formed SDA Board to provide strategic oversight and governance of the SDA. We have seen first-hand that our workforce is extremely knowledgeable, hardworking and committed to providing the best service they can to our primary customers, Navy Command and the Defence Nuclear Organisation. They have shown an unerring focus on delivery during what has been a significant period of change, which must be unreservedly commended.

While we have gained considerable momentum in our first year, there remains much to do. I believe our performance in 2018-19 provides a firm foundation on which we will successfully build.

Rob Holden
SDA Chair



SECTION ONE
Performance Report

Overview

The aim of the overview section is to provide information on our organisation: our purpose; our objectives and how we have performed during Financial Year 2018-2019



Chief Executive Officer's Statement

by Ian Booth, Chief Executive Officer and Accounting Officer

I am tremendously proud to have led the SDA through its first year as a new Executive Agency of the MOD and to share our first Annual Report and Accounts. This has been a year of change, marked by a determination across the Nuclear Enterprise, to bring a clear drive and focus to the procurement and support of vital submarine capabilities. We all recognise that the Continuous at Sea Deterrent is the cornerstone of our national security.

The SDA is responsible for some of the most challenging programmes in the country. The Dreadnought programme is a significantly more complex programme than many other infrastructure or construction programmes underway across the UK. We have achieved significant progress against both programme and organisational milestones throughout our first year of operation, but with this level of technical, programmatic and integration complexity there remains much to do.

The last year has seen advancement for the Dreadnought and the Astute programmes with two classes of submarine now in build. Barrow-in-Furness remains the key hub of our submarine building programme with four Astute Boats in different stages of build. The Dreadnought Alliance has been established and hit major milestones in Delivery Phase 2 of the programme. As would be expected for any major construction effort, there have been technical challenges along the way, including previously reported welding quality issues on missile tubes. Significant risks remain and will do until delivery. But I have seen some very positive examples of collaboration and agile, joint working, where the SDA and our industrial partners in the Alliance, BAE Systems and Rolls-Royce, have recognised both the risks and opportunities. As a result, 'best for programme' decisions are being made. The appointment of Sir Peter Gershon as the Independent Chair of the Alliance is helping to sustain our collective delivery of the Dreadnought programme at pace, and we remain committed to our submarine build programmes as set out in the 2015 Strategic Defence and Security Review.

We have worked tirelessly to support the Royal Navy in maintaining the Continuous at Sea Deterrent and attack submarines to support Defence operations. We have also been working closely with Enterprise colleagues at Her Majesty's Naval Bases Clyde and Devonport, as well as across the submarine supply chain, on a range of initiatives covering engineering and associated design efforts. Our joint aim has been to increase productivity and the



provision of spares both during maintenance programmes and operational patrols. Our collective efforts have seen improved responsiveness to immediate maintenance issues, demonstrating the benefits of our focused efforts. This is not a simple or easy business, however, and we will look to make further improvements throughout 2019-20.

We have also taken forward our programme of work to manage and to dispose of the twenty submarines now decommissioned from Royal Naval service and to provide arrangements for a further seven submarines as part of future decommissioning activity. This includes developing a solution for the safe, secure, cost-effective and environmentally sound submarine dismantling. A major achievement this year has been the successful deployment of a technical solution for 'Stage One' dismantling on a demonstrator submarine, SWIFTSURE, and we have now commenced work on a second submarine, RESOLUTION.

Our people are at the heart of our success and we have some of the nation's most experienced defence nuclear experts in our workforce, as well as highly experienced project managers and procurement professions. I applaud the dedication and tenacity of our people to give of their best, day in, day out, no matter what the challenge. We are united in our pride and passion for our national endeavour.

As planned, throughout the year we have made steady recruitment progress to bolster our people capabilities in the SDA resulting in a net increase to our core workforce by around 11% by April 2019. We lag the total resources needed, however, which has contributed to a small underspend in our operating expenditure. We need more focused and sustained recruitment and retention efforts, to further support the agreed ramp up of the Dreadnought programme and to ensure effective delivery of the overall agreed programme of work to our customers. As such, we will continue to grow our organisation within our operating budget, bringing in new talent, enhancing our capabilities and engaging with our people to build trust as a Defence and nuclear employer of choice.

To build trust, not just in our people, but also our customers and other stakeholders, I have also started an ambitious programme of work to increase diversity and inclusion in the SDA, which took its first steps in 2018-19 but will be a multi-year effort. This focuses not only on valuing all the people in our organisation, but how we share our knowledge and skills and work together to make the most of our individual and collective talents to deliver for defence. I have also championed work to strengthen our safety and security cultures. While our staff have a firm hold on these issues, with changing threats across the globe, we must not see any let up

in our efforts as these are key to protecting our people, our Royal Navy colleagues, as well as the nation.

Notwithstanding the uncertainty associated with delivering some of the most complex programmes ever undertaken by the UK and the challenge in front of us, overall the SDA has achieved an enormous amount in its first year. We have made good early progress in building the SDA's capabilities, delivering our outputs and improving relationships with our customers and industrial partners. We will work together across all facets of the agency to drive performance further and faster in the coming year.



Ian Booth
Accounting Officer



Chief Finance Officer's Report

by Bruce Martin, Chief Finance Officer



Our first year of operation as an Executive Agency has been a challenging and exciting experience as we strengthened the structure under which we will operate in the future.

Throughout our first year, there has been a clear focus on ensuring that our priorities have been aligned around providing the support to our customers, on sustaining submarine availability while optimising the delivery on time and on cost on all of our programmes.

Importantly it has been a cautiously positive year where we have made steps to strengthen performance in programme delivery as shown through the first year performance results. As our Chair and Chief Executive have already reflected, the determination of staff at all levels in the organisation and the professionalism and dedication of our people has been fundamental to our progress to date.

Equipment Plan

One of the key areas of focus in 2018-19 has been our work across the Nuclear Enterprise to optimise the use of our resources when procuring and supporting

our critical submarine capabilities. This requires us to forecast accurately the costs of the programme and work with our customers to manage and mitigate risk. During 2018-19, we have seen an improvement in ability to predict our expenditures on the programme and collectively manage financial and delivery risk.

We manage Equipment Plan monies delegated to us by our Top Level Budget (TLB), the Defence Nuclear Organisation (DNO). Within the year, our delegated Equipment Plan Costs out-turned at £3,053m against a budget of £3,063m, an underspend of £10m (0.3%) as we drive the programmes to deliver on time and budget on behalf our customers. This spend was split between the DNO acquisition programmes, £2,628m and £425m for Navy Command In-Service programmes.

Operating Costs

Effective management of our operating costs is critical to the successful delivery of our programmes. During 2018-19 we have balanced the use of internal and external resources to maintain momentum in the programme as we grow the organisation. We have complemented our workforce to a degree with private sector support (PSS) that has enabled us to bring in essential skills, creating some additional capacity and capability, whilst we actively recruit and grow our internal capability.

Our SDA operating costs (excluding communicated costs, DE&S Charges, provisions and auditor's remuneration) out-turned at £156.6m against a budget of £160.9m, an underspend of £4.3m (2.6%).

The main drivers for this can be seen in our resourcing picture, where lower PSS spend was compounded by a lag in the start of core staff recruitment. PSS is now provided increasingly through use of delivery partner contracts, which should help towards improving the availability of resources in the future although we have a substantial gap to address.

Recruitment, however, continues to be a priority as we build towards full staff levels across all our locations to enable us to meet agreed programme and customer requirements. This is a multi-year effort but as our headcount and our internal capabilities grow, we will eventually see a natural decline in PSS, while reducing costs and improving value for money.

Over the coming years, we expect to see the overall operating costs for the Agency sustained at a similar level as 2018-19.

Accounting

The setup of the Agency has brought specific challenges, including reporting Agency Accounts of operational cost expenditure for the first time. This is an auditable separation from Defence Equipment and Support (DE&S), which previously included SDA as the Submarine Operating Centre.

Additionally, we are required to maintain a clear separation of the Equipment Plan budgets from our operating cost budgets and accounting which is reflected within our Customer Accounts. During the year-end process for the Customer Accounts, there was a considerable amount of scrutiny placed on these areas and we have taken large steps forward in ensuring that this process will run well in future accounting periods.

To make such progress in year, I have overseen a great deal of effort by our finance team which has now restructured to manage the individual programme areas separately. As a result, we have the structure and processes in place to meet the needs of the business, ensuring the fidelity of our accounts is as expected.

Outlook

Looking ahead to the financial year 2019-20, we have a clear understanding of the challenges which lay ahead on delivery of our extremely complicated programmes and the importance of ensuring that schedules and costs are maintained within approved levels.

This will be achieved through our key priority areas:

- Strengthening our customer relationships ensuring clear alignment on deliverables.
- Continuing to develop strong industrial partner alignment through contractual means as well as regular updates and reviews.
- Further strengthening our workforce, by focusing on recruitment and retention, developing core competencies and reducing the reliance on external providers.
- Working closely with our customers to identify and deliver programme efficiencies.
- Developing an integrated schedule and risk model to permit scenario modelling.
- Further strengthening our performance culture through monthly performance reviews linking schedule, cost and deliverables.
- Working to improve the accounting and auditability of the boundary between Equipment Plan costs and operating costs, while focusing on improving Balance Sheet management.

Our first year has been a challenge and a learning process for many of us within the SDA. It is with this better understanding and maturing model that we entered 2019-20 with clear priorities for the future.

I am personally energised to be part of this journey and look forward to working with our people, customers and Industrial Partners as we look to take the organisation to a new performance level.



About the SDA

Defence Purpose

To protect the people of the United Kingdom, prevent conflict, and be ready to fight our enemies. We are prepared for the present and fit for the future.

SDA Purpose

The purpose of the SDA is to:

- Programme and support the safety, availability, reliability and security of UK submarines that are in-service in order to maintain the UK submarine capability, including CASD;
- Procure and programme the construction of all new UK submarines and, working with the Defence Nuclear Organisation (DNO) and Navy Command (NC), bring them into service as effectively and efficiently as possible to fulfil their role in maintaining the UK submarine capability;
- Dispose safely of the UK's submarines that are no longer in-service;
- Inform its customers' evaluation of acquisition and support options and deliver the agreed acquisition, support and disposal programmes of its customers as cost-efficiently as possible and within affordability constraints;
- Lead the supply chain: work with industrial and public sector partners to preserve the UK's technology advantage and skills-base, and to ensure submarine manufacturing and maintenance capability is sufficient to support the UK's submarine requirements long term; and,
- Support and fulfil the relevant roles in international partnerships, including the 1958 Mutual Defence Agreement and the Polaris Sales Agreement.

Who We Are

The SDA was formally launched as an Executive Agency of the Ministry of Defence (MOD) on 1 April 2018 to manage the procurement, in-service support and disposal of the UK's nuclear-powered submarines. We employ both civilian and military staff and are based predominantly at the MOD Abbey Wood site in Bristol, but also have presence at other locations including Her Majesty's Naval Bases Devonport and Clyde, and at key supplier sites such as BAE Systems at Barrow-in-Furness. The SDA is a crucial part of the nuclear enterprise, which together with the DNO and NC, keep safe and capable submarines at sea today and in the

future – providing the UK's strategic deterrent and supporting global security.

What We Do

Within the MOD's Acquisition System, the SDA acts as a 'delivery agent' with a primary role in contracting effectively with the UK's submarine industry. It acts on behalf of its MOD customers, Navy Command and the DNO.

SDA Structure

Our Budget

The MOD delegates the majority of the Equipment Plan budget to the military commands, giving them responsibility for prioritising what is most critical. As such, the SDA does not hold the budget for equipment procurement and equipment support plans, but we do deliver against these for our customers.

Our agreed programme of work is set out in the Submarine Acquisition and Support Plans (SASPs) – 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 the SDA will acquire on our customers' behalf, for what budget and to what timescale. Our sponsor, the DNO - Director of Resources and Policy, monitors our delivery progress, and primarily measures our performance using our Key Performance Indicators (KPIs), which underpin our strategic objectives. An overview of our objectives and KPIs for 2018-19 are provided in our Corporate Plan for 2018-19, which can be accessed via. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/701542/20180419-SDA_Corp_plan_final_portrait.pdf

As an Agency, we are directly responsible for our operating expenses and we carry out our business activities within an operating expenditure budget that flows from DNO. Our operating budget includes manpower, operating support, and PSS costs. In addition to these main sources of costs, we reflect within the accounts, notional communicated costs covering the services that are incurred through support activities from other MOD organisations. For 2018-19 our operating budget to support our activities was £160.9m.

The financial statements at Section 3 have been prepared in accordance with the accounting boundary agreed with the MOD, which delineates between the SDA operating activities reported in our financial statements and equipment procurement/support activities that are reported in the MOD financial statements. More information regarding the accounting boundary is set out in note 1.2 of the Financial Statements. We comply with Managing Public Money and supplementary instructions issued by HM Treasury and we observe the standard financial processes and rules set out by the MOD Director General (DG) Finance as the Defence Authority.

Operating as an Executive Agency

As an Agency of the MOD we have been required to set up a separate governance structure to manage our business in line with delegations afforded by the Department, which are flowed to us through DG Nuclear as our Top Level Budget Holder. We have also been allocated management freedoms, including those delegated by HM Treasury and the Cabinet Office, which allow the SDA to manage all aspects of our workforce as necessary to meet our business needs within our operating cost budget. Our status has allowed us to strengthen the relationship with our customers so we can improve our joint ways of working and strive for our common goal; the maintenance of CASD. We are overseen by the SDA Board, which operates under the provisions of a Framework Document approved by Ministers. Accountability for SDA activities rests with our CEO, Ian Booth. Further information on our governance is provided in Section 2.

How We are Organised

We are led on a day-to-day basis by the CEO and his Executive Team. As the most senior leaders of the SDA, the Executive Team collectively manages the running of our business and leadership of our civilian and military workforce to ensure timely and cost-effective delivery of our customers' requirements. Further information on the roles and responsibilities of our Executive Team is provided in Section 2.

Our highly-skilled workforce is located across the UK and with the UK's allies overseas. A strong focus on the delivery of critical Defence capabilities to our customers is a central feature of our organisation. As such, most of the SDA's personnel are positioned in teams working on the acquisition or support of new and in-service submarines. These business areas focus on the outputs laid out in the SASPs with our customers.

Other teams, including Finance, Commercial, Corporate Operations and HR, are vital in ensuring that resources and business management systems are streamlined and operate effectively. While employees work in delivery or enabling teams, all have a functional 'home', for example engineering or project management, which facilitates and upholds professional standards across the SDA.

Our Strategic Objectives

As set out in our Corporate Plan, to realise our vision and purpose in 2018-19 the SDA had the following strategic objectives in the areas of acquisition, in-service support, supply chain and developing our organisation.

Acquisition

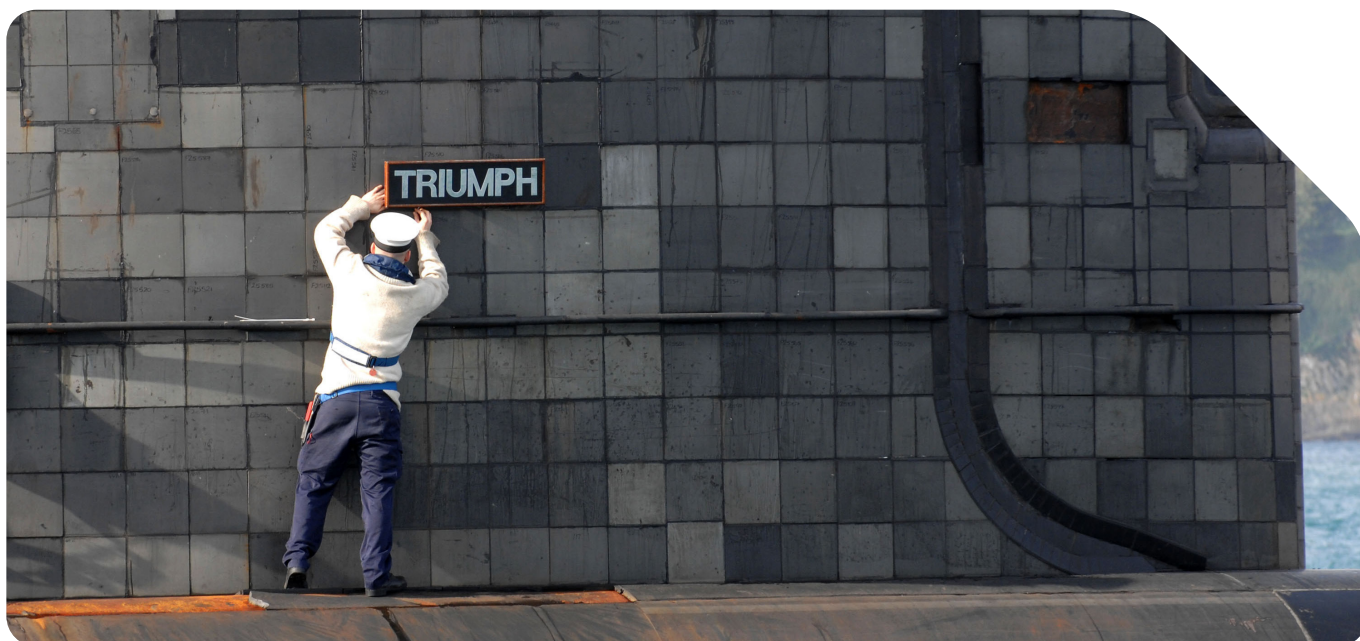
We will deliver new platforms and products into service on time, within budget and affordability constraints while improving cost-efficiency, as agreed in our customers' programmes. We will achieve this by:

- Exploiting the SDA's dedicated focus on the nuclear enterprise to drive week-in week-out delivery on schedule and achieving the target metrics and KPIs agreed with our customers;
- Agreeing a stable, affordable and credible long-term programme;
- Getting more effective and efficient year on year through improved decision making and understanding our customers and suppliers better;
- Becoming a more effective supplier to our prime contractors where we are responsible for the provision of government furnished information and equipment; and
- Incorporating other best practice from the private sector in cost efficient management of logistics, maintenance and life extension of the asset base.

In-Service Support

We will maintain in-service platforms to ensure availability is sufficiently high and reliable to meet operational demands. We will ensure the SDA supports CASD and the required attack submarine availability to meet Defence Plan requirements. We will achieve this by:

- Working alongside Navy Command to deliver the Continuous At Sea Deterrent;
- Focus on agreeing funding for, and delivering, the Submarine Availability Improvement Campaign;
- Reviewing the information we exchange with our customers and improving its accuracy, quality and efficacy to support decision-making and oversight of programmes;



- Identifying where our customers' confidence in programme forecasts and analysis of options can be improved and developing proposals to improve their dependability; and
- Developing a coherent long-term strategy for managing the submarine enterprise decommissioning requirements.

Supply Chain

We will promote development of industry and the supply chain to maximum effect in achieving cost-efficient delivery for the SDA's customers. We will achieve this by:

- Understanding the supplier base, market capabilities, fragilities and supplier business models to obtain better efficiency from suppliers in their delivery;
- Leading on mapping the supply chain and promoting joint planning amongst our Tier 1 suppliers and implementing shared incentives to drive value for money;
- Identifying and importing fresh talent and best practice in supply chain management from recent major projects that have been successfully delivered by the UK public sector and by the private sector; and
- Investing in capabilities through robust commercial agreements with industry and agreeing simplified and standardised processes and contracts.

Developing the SDA

We will develop the SDA as a high performing Executive Agency that is an exciting and rewarding place to work. We will have a motivated workforce equipped to do their job, assigned to the right roles in a world class delivery organisation, able to manage all activities safely and securely and improve performance. We will achieve this by:

- Understanding the SDA's core values and living them daily;
- Focusing on capability and outcomes, empowering our people and operating a balanced matrix based on function management;
- Embedding a culture that achieves continuous improvement in safety and security through a robust and consistent application of processes and development of lessons learned;
- Strengthening project and commercial controls, using best practice project, programme and portfolio (P3M) tools and techniques, and sustaining these across all areas of the organisation;
- Ensuring delegations and authorities are established rapidly and clearly to enable prompt decision-making in response to programme issues; and
- Identifying skills gaps and prioritising effectively by using the SDA's authority and freedoms to recruit and retain the best people which will enhance the organisation's competencies and capability.

Delivering for Our Customers: Our Performance, Risks and Issues

Our progress in delivering these Strategic Objectives is measured by a suite of corporate KPIs. A range of KPIs have been developed to cover each objective, ensuring that we remain on track to deliver requirements and capabilities to our customers and also demonstrate that our business as an Agency is operating effectively. The corporate performance for 2018-19 is set out in the Performance Analysis section. Corporate performance, including our KPIs, financial performance, management of risk and safety and security, are regularly reviewed by our Executive Team (at the Executive and Performance Committees), and our Board. In addition, we have termly reviews with our Sponsor who has oversight of our performance. We also undertake regular reviews of our performance against the SASPs with our customers throughout the year.

Our Corporate Plan, which is refreshed annually, presents our strategic outlook.

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

Our First Year as an Agency

Our performance is covered later in the report. This largely reflects on our progress in delivering to our customers and our effective use of MOD funding. We have, however, also put significant efforts into effectively establishing and running the Agency as a new organisation, ensuring that it is optimised for delivery to our customers and providing our people with a rewarding place to work.

In recognition of the government's aim to strengthen the procurement and in-service support of the UK's submarine programmes, we are taking early steps to develop the SDA into a high-performing organisation, providing world-class capabilities and day-to-day support to the Royal Navy. Much of our focus over the last 12 months has been on embedding improved P3M practices and tools, as well as making and improvements to our people model.

When we established the Agency, we also set up the Dreadnought Alliance - a collaborative approach between the SDA, Rolls-Royce Submarines and BAE Systems for the delivery of the new Dreadnought submarines. This has cemented a strong joint working culture and a single, unifying objective of delivering the

Dreadnought Programme into service by the early 2030s to support the nation's policy of a CASD.

We have continued to mature our corporate governance and associated services to allow us to operate as an effective and efficient business. Through planned recruitment, we have strengthened both the SDA Board and Executive Team. These areas are covered in further detail in our Corporate Governance Report.

To build the SDA into a great place to work, our focus has been on early steps to manage pay and reward more effectively, improve the SDA working environment and learning and development offer while also creating an inclusive culture. These are just some of the elements that form part of our People Strategy as we go into 2019-20.

We have made initial improvements to our performance management system, working closely with DE&S, to streamline the process and allow us to reward our people for their performance. More broadly we have introduced a change gateway process to ensure emergent change activity is coherent and coordinated. This method of controlling change will ensure the SDA's change portfolio is benefit led, outcome focused and managed professionally in accordance with best-practice and change management techniques.

Diversity, Inclusion, Health and Wellbeing

Our intention is to create a working environment where everyone feels welcome, respected and able to contribute to the best of their ability. To support this aim this year and in future, we are actively implementing a Diversity and Inclusion (D&I) Strategy. At the heart of this is a simple pledge, formed of three elements – to build: an inclusive culture; a diverse and inclusive workforce; and leadership and organisational capability.

Further information on our Diversity, Inclusion, Health and Wellbeing can be found within the Remuneration Staff report sections on page 49.

Working with Industry: Our Commercial Improvements

Throughout 2018–19 there has been considerable focus on enhancing the performance of the SDA. Commercially, the range of initiatives has included the stand up of the Commercial and Supply Chain Directorate. This new Directorate formed in 2018 under our new Commercial Director, Ruth Todd, as part of an improved operating model for the SDA. It consists of the Commercial Headquarters and Supplier Management

Team. As part of the Government's Commercial Function, the Directorate is applying best in class standards to improve our supply chain management and commercial capability.

The Directorate is responsible for all commercial delegations in the SDA and ensuring that all contracts let are compliant with government commercial policy. Advice, support, assurance and scrutiny were provided at strategic and operational levels across the full range of SDA acquisition, procurement and commercial activities. Throughout the year, improvements in contracting with suppliers, including how delivery is incentivised to provide value for money for the taxpayer, has been driven into commercial practices.

The Directorate has built a new Supplier Management capability. This team has externally facing workstreams with the industrial base and an internal focus within the SDA. Externally the emphasis is on identifying and managing risks, building strong relationships to embed collaborative ways of working and instilling an ethos of continuous improvement in the supply chain. In 2018-19 key supplier management (KSM) techniques have been applied to strategic suppliers and several collaborative supplier improvement programmes have been launched.

Internally, the focus is on enhancing the SDA's understanding of its extended supply chain and improving the management of that supply chain through category management, standards alignment and supply chain management techniques. During 2018-19, supplier risk assessment and data analysis techniques were also introduced and will continue to be matured over 2019-20. Aligned with the Defence Prosperity Programme these changes will also help to ensure the UK's economy and national security go hand-in-hand.

Engaging our People

In October 2018 we conducted our first annual SDA staff engagement survey – the People Survey – which is part of the Civil Service-wide staff engagement exercise. Prior to 2018, the SDA was included in DE&S's survey, as the Submarine Operating Centre. The survey gives our people, civilians and military, the opportunity to highlight where they think we are doing well and where we need to improve. 83% of our employees completed the survey, putting the SDA in the top third of all organisations for response rate. Our overall engagement index score, which is calculated as the average score across five engagement questions, was 49. This was a 3% increase on the Submarines Operating Centre score in 2017.

Our most positive scores across the engagement themes were in 'My Team' (74%), 'My Work' (73%), 'Inclusion and Fair Treatment' (69%) and 'Organisational Objectives and Purpose' (67%). Scores around 'My Manager' and 'Resources and Workload' were relatively positive (at 60% and 57% respectively), but our results highlighted that engagement was lower in the areas of learning and development, leadership and managing change and pay and benefits.

Having reviewed the results and staff comments, our Executive Committee (ExCo) agreed on five areas for action, with the aim of improving and sustaining engagement:

- Accommodation and IT;
- Recruitment and deployment;
- Pay and reward;
- Diversity and inclusion; and
- The role of managers in supporting their staff.

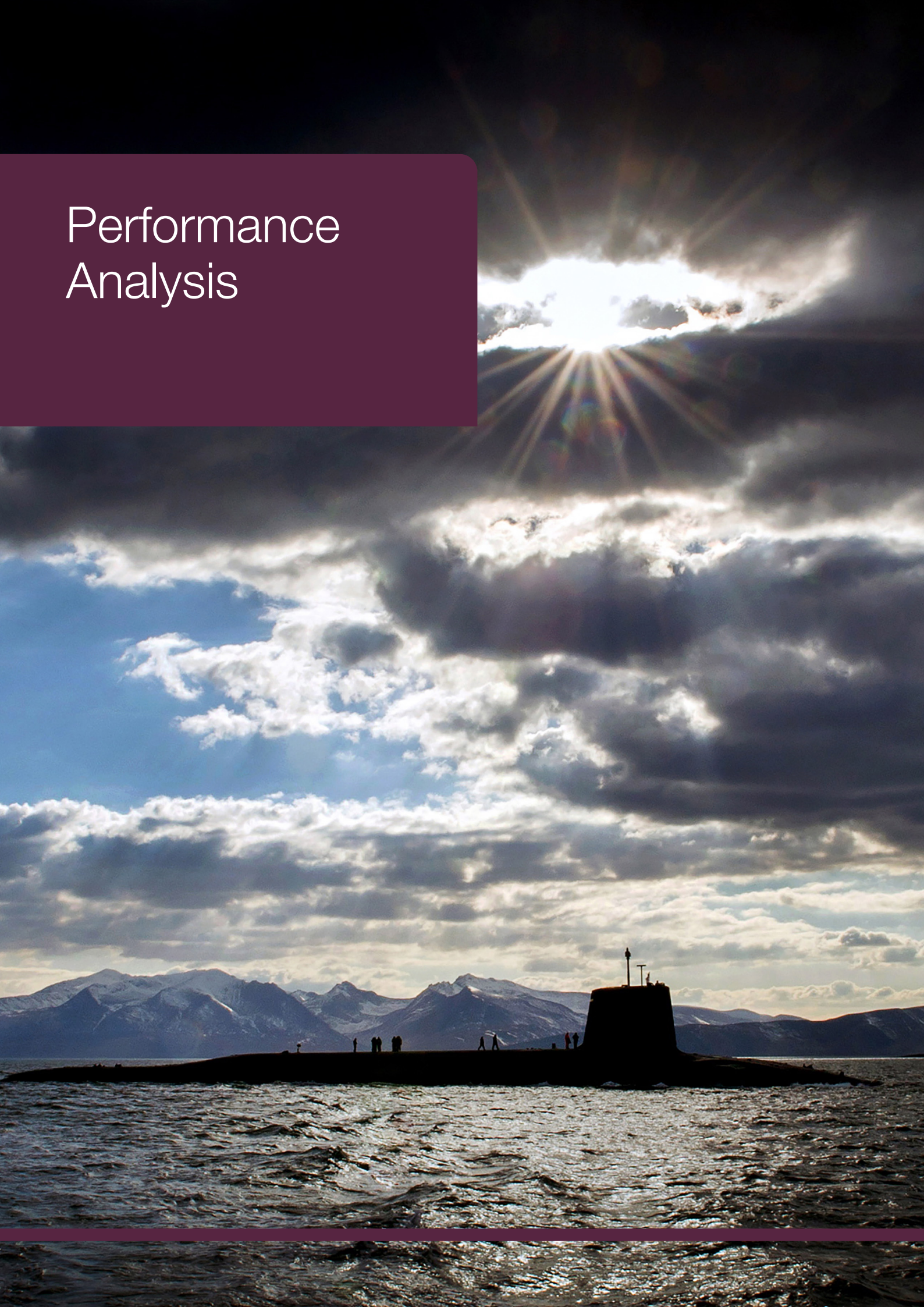
The action areas have influenced improvement priorities into 2019 and include;

- Improving resourcing processes and reducing timelines to speed up planned recruitment and deployment;
- Investing in IT to embrace smart ways of working;
- Reducing the complexity of our performance management approach;
- Setting up working groups, led by the CEO, to discuss and address issues around bullying and harassment and wider diversity and inclusion matters raised in the survey; and
- Reviewing the role of managers – both those responsible for delivery and function support – rebalancing performance management responsibilities with development and career progression support.

Our Executive Team have held roadshows and town hall events since the last survey to update our people on the actions we have taken in response to their feedback. Additional updates are also provided through regular internal communication products and channels including our monthly corporate brief.

The 2019-20 SDA People Survey took place during October 2019, the results of which will be reported in the 2019-20 Annual Report and Accounts.

Performance Analysis



Our delivery obligations and the strategic objectives of our customers are set out in Submarine Acquisition and Support Plans (SASPs). These are agreed on an annual basis with our customers, the Defence Nuclear Organisation (DNO) and Navy Command (NC). The SASPs set out targets and metrics which are used to measure our delivery performance and feed into the corporate Key Performance Indicators (KPIs) outlined in our Corporate Plan. Our aggregate performance against the SASP metrics has a significant bearing on how well the SDA performs against our corporate KPIs, which are endorsed with our Sponsor, in the DNO, and subsequently agreed by the Defence Secretary.

To improve management of our performance across the Agency we established a Performance Committee to enable the Executive Committee (ExCo) to review progress in detail, supported by a Non-Executive Director (NED). The Committee sits monthly and focuses on the SDA's programmatic baseline and performance against our corporate KPIs.

On the grounds of security and commercial sensitivity we have withheld the detail of our KPIs in this report. This information is held within government and we are held responsible on our corporate and programme performance using a range of monitoring, reporting and review processes and fora; further information is provided in Section 2's Governance Report. The SDA KPIs for 2018-19 are divided into five primary reporting areas. Accordingly, we have provided in this report an

overview of our performance against the thematic KPI areas of Corporate Performance; Acquisition Programme Performance; In-Service Support; Industrial Relations and Supply Chain; and Safety and Security.

Corporate Performance

Corporate Performance is measured using several KPIs. These include ensuring that the SDA has the right people with the right skills and focusses on the SDA successfully delivering a more realistic financial forecasting accuracy and stability.

Our resourcing KPI, which measures the SDA's size against the targeted SDA staffing level was not achieved. At the year end the SDA had a total of 1487 full time equivalents against a baseline target of 1798 (including graduates and apprentices). This was an increase of 152 full time equivalents from the baseline actual at the start of the year, an 11% increase, largely achieved through a vigorous recruitment campaign during the summer of 2018. To maintain pace in delivery, where resourcing challenges remained, our organisation was augmented with appropriately skilled support from the private sector.

The focus on the SDA's financial performance throughout the course of the year has ensured that we have met all our financial targets bar one. Our Operational Expenditure outturn was £156.6m against £160.9m a slight underspend that was just outside tolerance with a variance of 2.6% against the budget. In-year financial



forecasting against our Equipment Plan was effective as we stayed on track with our profiles and delivered a full year outturn within the 1% target; spending £3,053m against a budget of £3,063m.

Acquisition Programme Performance

Performance against the Acquisition programme is measured to give an overview of the health of the programme and our confidence in it¹. The assessment includes the delivery of strategic milestones directed at delivering the boats as per the scheduled programmes.

The end of 2018-19 marks 12 months since the Dreadnought Alliance was established during which time it has achieved several important 'firsts' for the programme including the generation of a single four boat programme that is being used by all Dreadnought Alliance parties. Alliance behaviours have been positive and 2018-19 concludes without a change to the strategic targets of delivering Boat 1 ready for patrol in the early 2030s.

There will always be uncertainty associated with delivering one of the most complex programmes ever undertaken in the UK. The single four boat programme gives a coherent view of the holistic build programme and is used to drive it forward, based on a strong Alliance ethos of 'every day counts' and making best 'for programme decisions. Work has also been undertaken to analyse programme risks in greater detail and identify opportunities to increase flexibility in the schedule. Overall, this has increased the agility of the Alliance to respond to challenges. These include the previously reported technical complications with the manufacturing of missile tubes to be used in the Common Missile Compartments being developed for our Dreadnought submarines and the United States' Columbia Class. Welding quality issues on some missile tubes for the Dreadnought Class submarines were identified in 2018. Assessment and repair work continues with the main supplier and their subcontractors, with our world-class UK engineers working alongside their US counterparts to achieve the earliest supply of missile tubes into the Dreadnought programme. We will not compromise on our high standards on safety and quality, and are working with our US counterparts to assess the cost impact to the UK and remain committed to delivering the Dreadnought programme within the allocated budget.

In line with our strategic milestones, we have made significant progress in delivering the Astute Programme

in the 2018-19 period. Challenges in the programme, for example the delays to Boat 4 (AUDACIOUS) during the commissioning phase, have prevented the timely delivery of the small number of milestones, this work has been re-programmed in 2019-20 with the approval of the customer and is being closely monitored to ensure delivery. Boat 4, for example, is now scheduled to undertake sea trials in 2020.

The Maritime Underwater Future Capability is now firmly established as a major delivery team. Transforming from a small pre-concept technical team at the start of the year and has achieved all in-year milestones within budget.

In-Service Support

Performance against the in-service support programme is measured to give an overview of the health of the programme and our confidence in it.

In addition to delivering the planned programme of work, our in-service support business area had a dynamic and responsive year addressing a range of emergent challenges as is to be expected with operational deployment of the Royal Navy's submarines.

We have managed the programme as proficiently as we have been able, with a focus on supporting delivery of the Continuous At Sea Deterrent and ensuring provision of a safe submarine force with improving availability. We have also made significant progress against preparing for the in-service support of Dreadnought and provided timely components to the build programme. For those boats in-service, we have consistently provided critical spares at or above required targets. Areas of improvement over the course of the year include: introducing a customer-agreed capability improvement programme in combat systems; sustaining and growing technical skills in key areas; and developing improved programme management and reporting processes to provide our customers with the best possible view of progress.

The Submarine Availability Initiative delivered its targeted programme, supporting performance across maintenance programmes through actions such as improving demand and supply planning for in-service maintenance and updating and reviewing policies and technical documentation.

¹ A wider update is provided in The United Kingdom's Future Deterrent: The 2019 Update to Parliament.

Industrial Relations and Supply Chain

One of the key objectives of the SDA is to review our relationship with industry and the supply chain to ensure we achieve cost-efficient delivery for the SDA's customers, as well as protecting our ability to deliver underwater capability in the future.

The appointment of Ruth Todd as the SDA's Commercial Director and strengthening of our Supplier Management Team has renewed our drive and focus on our relationships with industry and understanding of supply chain challenges and mitigations. Recognising this is a maturing capability for the Agency, we set one-off, lower performance thresholds for this first year to ensure we spent time evolving our core skillsets and associated analytical capabilities. This did not limit our level of ambition or performance and we have surpassed our KPI requirements, giving us confidence, that we are ready to grow this capability in the coming year. We have delivered above our Supplier Management Strategy development target, meeting all our milestones and making significant progress mapping and analysing suppliers. We set ourselves a target of including supplier management indicators and incentives in at least 40% of major contracts or contract re-lets, which we have exceeded, achieving 100% inclusion by year-end. Finally, we passed our supply chain fragility analysis target by 10%, providing vital business intelligence that provides confidence in future programme delivery.

Safety and Security

To ensure that the SDA is embedding a culture that achieves continuous improvement in the critical business practices of safety and security, we measured a range of data associated with the consistent application of processes and development of lessons learned.

Standing up the SDA has required a standalone safety and security suite of performance metrics alongside a developing understanding of the organisation's requirements. We met our targets around ensuring product safety, the reporting of health and safety near misses and ensuring all areas of the organisation have Business Continuity Plans. We recognise that our health and safety management culture is still developing, as we did not meet our target of self-assessed compliance against all MOD health and safety environmental management categories. Overall, we fell short in two of the eight categories around organisational leadership and change management; we also need to make improvements in personnel competence and training. Despite this, we have invested significant effort to develop Occupational Health and Safety (OH&S) management through our Safety Committee and have established a dedicated OH&S Working Group. Plans are in place to improve employee knowledge, experience and training going into 2019-20.



Safety, Environmental and Security



Safety and Environmental Protection

Introduction

The submarine enterprise is a major national endeavour. It includes the construction of new submarines which is one of the most complex procurement activities undertaken in the UK, as well as the maintenance of the operational fleet and the management of the final disposal of out-of-service submarines. Our mandate includes managing this programme in a responsible way by protecting the health, safety and wellbeing of all personnel and the environment in which we operate. We do this by being ethical and showing fairness while dealing with our people and the supply chain; by thinking about the long-term, by using resources sensibly and whilst also planning for the effects of future global challenges, such as climate change.

Throughout our organisation, sustainability - of our products (submarines), the supporting systems and the facilities needed to maintain our programmes - is recognised as an important facet of our work.

Safety

Our safety vision is to be 'a high-performing agency delivering submarine capability without harm to people, equipment and the environment'. Our safety & environmental policies and practices have been updated to strengthen our commitment to Sustainability Principles and the wider Sustainable MOD Policy. We have also been clear on our vision for safety with our people and stakeholders, around the theme of 'Never Silent on Safety'.

During the period we revised and matured our Safety Committee approach. We ensured direct reporting of the Committee's assessments and decisions to the Executive Committee, using this as the key mechanism for assurance and governance across all projects. The membership was strengthened to involve all senior level duty holders to enable an ongoing review of performance to be carried out. In 2018-19, we experienced a year of continued improvement in Safety and Environmental Protection. In achieving most of our development and improvement actions we set ourselves at the start of the year we have ensured we have maintained a strong position to deliver against our commitments to our regulators, the Defence Nuclear Safety Regulator and Defence Maritime Regulator.

To strengthen our governance of safety matters during the first year of operation as an Agency, one of our key achievements has been the development and

introduction of a new suite of Safety Performance Indicators (known as SPIs) and provision of a balanced scorecard measurement tool. Our SPIs capture results across the three best practice themes of 'Sustained Operation of Excellence', 'Control of Hazards' and 'Positive Safety Culture'. Moving forward, we are seeking to embed environmental metrics into our approach to establish a more integrated picture of performance.

We firmly believe in the importance of engaging with our people on safety matters and held our annual Safety Day in June 2018 to confirm and explore the message about our safety vision and ways of working. Events were held across all SDA locations including the launch of an annual Safety Survey. While the responses demonstrated that engagement and understanding of safety matters is improving, there is more work to do to ensure that OH&S is at the heart of how we do business. Feedback from staff and our suppliers has helped us shape a programme of work to be completed over the next three years. This will contribute to our ambition of becoming a world-class delivery organisation. We will focus on three key areas: Culture – establishing a stronger, more inclusive safety culture, led from the top and including all levels; Organisation – ensuring everyone is clear on their safety responsibilities; and Capability - demonstrating that we have the right safety capability now and for the future.

Environmental Protection

In 2018-19 we set out our environmental strategy and bolstered our team with experienced environmental resources to deliver our plans. The intent is to move progressively towards complying with internationally recognised standards.

As a responsible delivery organisation, it is vital to have a good understanding of environmental risks to ensure mitigation efforts are effectively targeted. As such, within our strategic risk framework, we are developing the way we review and categorise environmental risks and, if needed, the method we escalate these to senior managers for action. We also recognise the risks posed by climate change to the facilities we use, including Naval Bases and industry owned and operated shipyards that are critical to delivery. We have, therefore, established a Climate Resilience Working Group to raise awareness, share knowledge, provide a mechanism for climate risk assessments and action recommendations if necessary.

Chlorofluorocarbons (CFC) and hydrochlorofluorocarbons (HCFC) gases, used in both domestic and military refrigeration/firefighting systems, are harmful to the

ozone layer and are also potent greenhouse gases. The SDA is phasing out the use of these where possible, similar to action taken across household domestic appliances, and the new Dreadnought class submarines will use alternative ultra-low Global Warming Potential systems.

The SDA is fully committed to supporting the Government's approach to sustainability and supporting specific policy measures such as the Greening Government Commitments (GGC), which cover aspects such as energy, carbon emissions and waste management. Since April 2018 we have completed a review of how we can best support the GGC targets given the complexity of our portfolio across varied operating facilities and infrastructure – both those owned and operated by MOD and industrial partners. During 2019 we have introduced a suite of environmental performance indicators on specific GGC metrics, such as paper use and business travel into our governance framework. Looking forward, we will be embarking on initiatives including staff engagement campaigns, to improve performance in accordance with the GGC targets, ensuring we support the drive for continued environmental performance already in place at a departmental level.

Submarine Dismantling Project

We remain committed to the safe, secure, cost-effective and environmentally sound defueling and dismantling of our decommissioned submarines. The initial phase of dismantling, the removal of small components of low-level radioactive waste (LLW), from the demonstrator submarine, SWIFTSURE, was completed on time and within budget. Work to remove LLW from the second submarine, RESOLUTION, is proceeding well.

The disposal of out-of-service submarines is a complex and challenging undertaking. No nation has yet attempted a full submarine dismantling strategy and we are developing innovative dismantling and waste disposal techniques that will meet all safety and environmental standards, achieve best value for the taxpayer and address liability expectations.

During the year, we have continued to work closely with industry and public sector partners to share knowledge and best practice around environmental protection. A good example of this approach relates to our strong links with the Nuclear Decommissioning Authority, where we work closely together to ensure we have a full picture of disposal routes for all our future nuclear liabilities.

Security

People and information are the Agency's key assets and it is vital we protect them from contemporary threats. Over the course of the year we have strengthened governance arrangements by establishing the Chief Information and Security Office, revitalising our Security Committee with a focus on continuous improvement, and refining our frameworks surrounding assurance and security incident reporting.

In collaboration with the DNO we reaffirmed the identification and articulation of the Senior Information Risk Owner's Risk 'Appetite'. This was a positive step in supporting our overall risk framework, allowing the Agency to review both its own approach to security risk management, and to work with industry partners to ensure that security controls remain adequate and risk is managed within tolerance. To ensure compliance, and to manage and reduce to a tolerable level any emergent cyber risks, a small information assurance team has been formed within our Chief Information and Security Officer's team. A key focus for this team during the financial year has centred on information system accreditation so that associated plans are in place for all key SDA information systems.

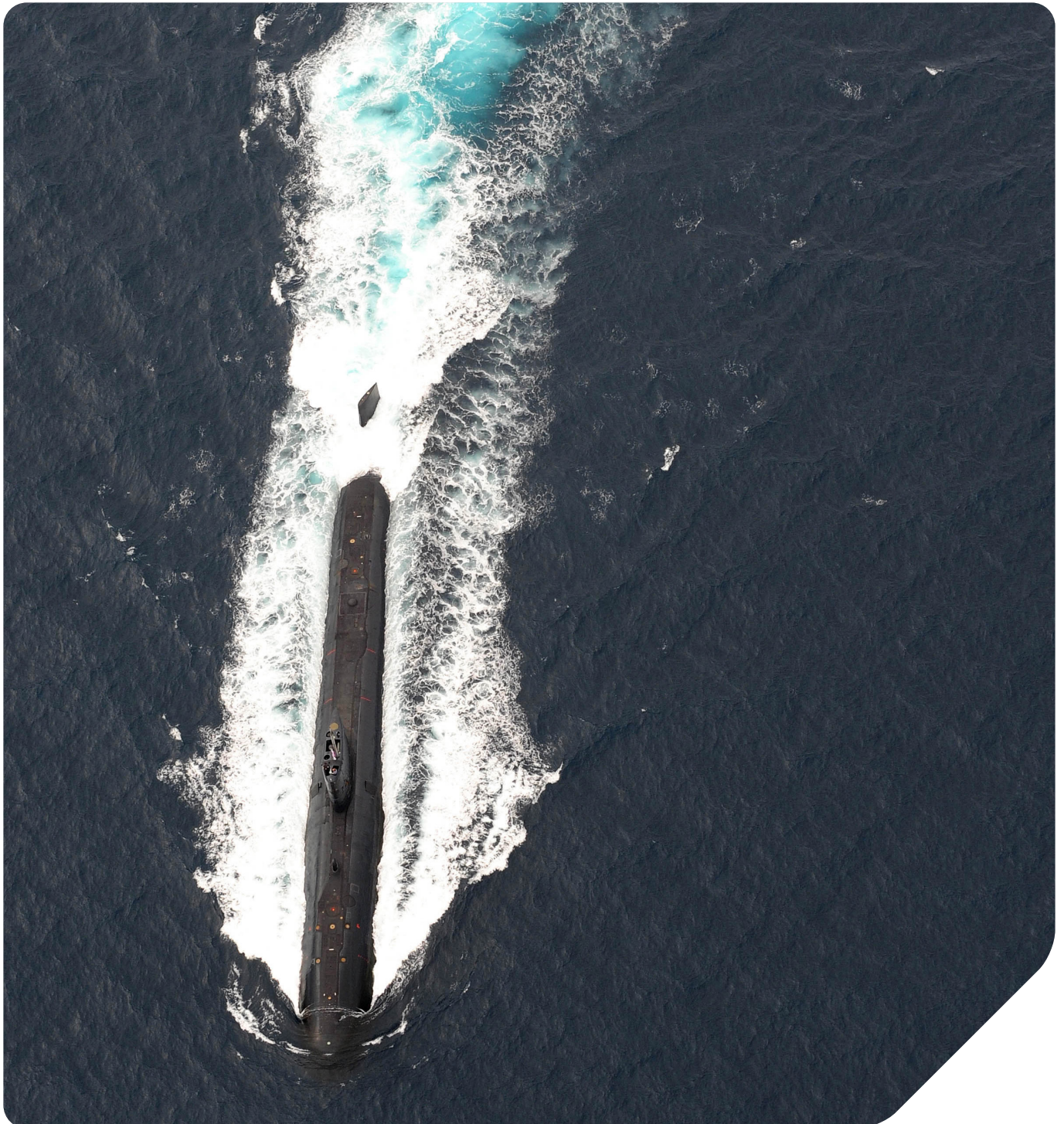
One of the key challenges we have worked on has been the development of coherent and accurate measurement of our security and resilience performance. This includes the design of specific KPIs on security compliance and business continuity, which are addressed in the performance elements of this report. During the year we also undertook a full security review as part of a new assurance cycle. Positively, this confirmed that appropriate security controls are in place across the Agency. As expected in a new organisation, improvements were also identified, most notably in areas such as leadership and governance, information risk and business continuity. Action is underway to address these through targeted activities that are being tracked by our Security Committee. Lessons learned from this process have also resulted in the development of a revised security maturity model for the next financial year (2019-20).

To strengthen our security culture, a bespoke SDA security threat brief has been introduced and mandated annually for our people. It covers the range of threats we face and how they can be mitigated. Feedback is that this new approach is assisting understanding and personal action across the Agency. This has been undertaken alongside the routine recording, investigation and analysis of security incidents and breaches. Combined, these activities will drive continuous

improvement of our security processes and policies and inform security communications and awareness campaigns.

Overall, substantial progress has been made in achieving a thorough understanding of our security posture, both our strengths and the areas that require further development. Efforts continue to address the latter,

through initiatives and work streams, with the aim of driving down risk further and ensuring appropriate fit-for-purpose, controls are in place to protect our assets.





Looking Forward

The SDA's first Annual Report and Accounts is published following conclusion of our commemoration of 50 years of the UK's CASD. The submarine programmes we deliver are continuing to ensure the Royal Navy gets the best support for both in-service and newly built submarine flotillas over the next 50 years and beyond. For us to achieve this overall purpose and meet our ambition of delivering as a high-performing Executive Agency of the MOD, it is vital that we continue to improve. We must consistently drive forward our delivery to meet the approved programme time and cost parameters, as well as other milestones agreed in our SASPs with our customers.

Our Corporate Plan, which is refreshed annually, sets out our strategic headmarks and highlights some of the key areas on which we will be focusing – looking at programme delivery, intensifying our efforts with our industrial partners to improve performance, as well as the steps we need to take with the Board to develop the SDA. While improvement activities will be undertaken across the Nuclear Enterprise, we are clear that the SDA must be the first to make the necessary step changes to maintain effective and efficient delivery and inspire others to meet the high standards we set for ourselves.

In focusing on programme delivery, alongside improving support activities and maintenance infrastructure for today's in-service submarines, we will sustain our focus on delivery of the Astute and Dreadnought Classes. Important milestones include progress with the second of the Dreadnought submarines, VALIANT, and Boat 4 of the Astute Class, AUDACIOUS, due to commence sea trials in 2020. We will also continue with initial concept work on the Maritime Underwater Future Capability (MUFC) programme, to deliver recommendations as to how Defence might best meet the future capability demands of underwater warfare.

One of our key priorities for the next period is continuing our work on the decommissioning and disposal of submarines that have left service with the Royal Navy, delivering the MOD and wider Government commitment to the safe, secure and cost-effective defueling and dismantling of all decommissioned nuclear-powered submarines as soon as possible. While we have made excellent progress in demonstrating initial waste removal techniques, much more work is required. Over the next few years we will push forward with our efforts to establish the technical solution to remove and dispose of intermediate level radioactive waste and to demonstrate full dismantling and submarine recycling.

We have been working to improve our relationships with all our Tier 1 suppliers to deliver our submarine programmes. Together with ongoing improvement

activities across the wider supply chain, we need to sustain this effort to become one submarine enterprise, working every day of every year to deliver the required Defence capabilities and outputs. For example, we will be developing further the tools and techniques we use to map and analyse supply chain risks and then manage such risks. We will do this while embedding existing initiatives, which champion the through-life management of contracts and capability. Such activities increase transparency, ensure compliance with both Departmental and wider Government regulations, thereby helping us, and the wider nuclear enterprise, to deliver value for money at all programme stages, from concept to programme closure.

Recognising that we are a new Agency, we have put in place the first steps towards an ambitious programme of improvement activities to provide a working environment that is rewarding, enjoyable and establishes the SDA as a thriving place to work for our workforce. Alongside the ongoing recruitment efforts, we will invest further in our people, focusing not just on individual, team or organisational learning and development, but also embedding a strong diversity and inclusion ethos for our people across all our sites. This activity will be supported by enhancements to our ways of working around programmes, including financial, and technology management, using best practice across both the public and private sectors. Together, these efforts will help us on our journey to becoming a world-class delivery Agency.

In helping to ensure that the UK has a credible, independent and capable nuclear deterrent out to the 2060s and beyond, we will continue to work closely with our colleagues across Defence, including the new Strategic Command, to support the UK's response to evolving threats, in particular those in the areas of cyber security and 'grey zone'. Our forward programme and on-going improvement activities will also be completed during a period of significant change for the UK. We will, therefore, play our part in the wider Defence and Security community, actively contributing to the Defence Prosperity Programme. Our unerring focus on delivery will ensure that we remain agile and capable not just of supporting Defence priorities but driven to succeed in our vision to lead a high-performing, industrial enterprise to deliver the UK's submarine capability safely, securely, more effectively and cost efficiently every year.



Ian Booth
Accounting Officer
13 January 2020



SECTION TWO
Accountability Report

Corporate Governance Report



The Corporate Governance Report outlines the composition and organisation of the SDA, our governance structures, and how these support our objectives. It includes three sections:

- Directors' Report;
- Statement of Accounting Officer's Responsibilities; and
- Governance Statement.

Directors' Report

Management

Details of the SDA Chair and Chief Executive Officer (CEO), and more information on the composition of the SDA Board and Executive Committee, are set out in the Governance Statement, and the Remuneration and Staff Report.

Directorships and Significant Interests

Members of the SDA Board must declare any other interests they have with current or potential customers or suppliers or, for example, other non-executive positions. A list of declarations of interest are held and Board members have the opportunity at the start of each Board meeting to update the list.

The SDA CEO and Chair of the Board are members of pension schemes managed by BAE Systems. BAE Systems is a prime contractor working with the SDA. Notification of this related party transaction has been made through all appropriate channels and is available for audit if required. There have been no other reported 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. Processes have been implemented that: reflect the Data Protection Act 2018; ensure all incidents suspected of relating to personal data are investigated if and when they occur; and identify lessons that may be learnt from any incident. An awareness campaign has been undertaken during 2018-19 to promote best practice ways of working flowing from implementation of the Data Protection Act 2018 and communicate the appropriate course of action to be taken for reporting any suspected incidents.

Information Assurance

The SDA takes all data losses seriously and all security incidents are investigated. During 2018-19 no data losses were identified.

Statement of Accounting Officer Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the SDA to prepare, for each financial year, resource accounts detailing the resources acquired, used, held or disposed of during the financial year, and a statement of accounts in the form, and on the basis, set out in the Accounts Direction issued by HM Treasury on 19 December 2018. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the SDA 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 HM Treasury, 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 Ministry of Defence (MOD), as Departmental Accounting Officer, has designated the CEO of the SDA as Accounting Officer for the Agency's Operating Expenditure. 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 SDA assets, are set out in *Managing Public Money*, published by HM Treasury.

As the Accounting Officer I am required to confirm that, as far as I am aware, there is no relevant audit information of which the Department or its auditors are unaware. As the Accounting Officer I have taken all the steps that I should have taken to make myself aware of any relevant audit information and to establish that the Department and its auditors are aware of that information.

I take personal responsibility for this annual report and accounts and the judgements required for determining that, as a whole, it is fair, balanced and understandable.

Governance Statement

By Ian Booth, Chief Executive Office and Accounting Officer

Introduction

I, Ian Booth, the CEO of the SDA, am responsible for maintaining a sound system of corporate governance and internal control to support the SDA's purpose and strategic objectives, while safeguarding public funds and MOD assets for which I am personally responsible. Following reviews with the Defence Internal Audit (DIA) team and our Board and the Audit and Risk Committee, I conclude that the system of internal controls in the SDA complies with the HM Treasury Code of Good Practice on Corporate Governance in Central Government Departments.

The Governance Statement represents my assurance that, as Accounting Officer, I am satisfied that this document accurately reflects the SDA's financial status and corporate position and that it is adequately controlled through sound financial management, systems, processes and controls.

My assessment has been further reinforced by the DIA's Annual Report for 2018-19. Overall, the DIA concluded a substantial audit opinion, based on the results and weighting of a limited number of audits undertaken in year, reflecting the age of the organisation.

The report will now explain the Governance Structure under which we operate, including providing details of our Board, Executive Team and Committee structure, and associated activities, as well as our Risk and Control Framework and Principal Internal Controls.

Our Governance Structure

We are overseen by the SDA Board chaired by Rob Holden, which operates under the provisions of a [Framework Document](#) approved by Ministers. Accountability for SDA activities rests with Ian Booth, SDA CEO.

The Framework Document

The Framework Document sets out the Defence Secretary's requirements for our agency and our Board. It provides us with the authority to pursue our strategy and the freedoms to execute our business effectively. It also specifies the governance arrangements for the Board and its Chair.

A comprehensive list of the roles and responsibilities of our Board can be found in the Framework Document. The principal roles of the SDA Board are to:

- Endorse our strategy and ensure that this strategy is reflected in our Corporate and Business Plans;
- Monitor and assess our performance against our Key Performance Indicators (KPIs) as agreed with the Departmental Sponsor;
- Provide advice and insight, challenge and support to our SDA CEO and the Executive Team and hold them to account for delivery of our strategy, the Submarine In-Service Support and Acquisition Programmes and our financial performance;
- Oversee the financial and operating controls in the SDA and its programmes, ensuring they are in compliance with the delegations afforded to us and our CEO.

The Board has a critical role in assuring itself that we are compliant with safety and security regulations and that we have sufficient competence and experience to conduct our nuclear-related support activities.

Departmental Sponsor

The Director Resources and Policy (Nuclear) within the Defence Nuclear Organisation (DNO), acts as our Departmental Sponsor. They discharge a range of oversight functions including:

- Producing the Framework Document, which sets out our purpose and role, together with the governance policy, financial and human resources parameters that guide our day-to-day operations;
- Monitoring our performance against our Corporate KPIs including at the SDA Sponsor Review Meeting;
- Engaging with our Board on overall performance; and
- Assisting us in our corporate planning process by providing information about likely policy developments or other changes that could impact performance, including assuring that senior executives' appointments in the SDA are appropriate.

As we are brigaded under the DNO Top Level Budget area of the MOD, our CEO receives his delegations and Operating Expenditure budget from Director General (DG) Nuclear.

The SDA Executive Team

The SDA is led by CEO, Ian Booth. He is supported in programme delivery by Rear Admiral Paul Methven, as Director Submarines Acquisition, and Keith Beckett,

as Director Submarines Support and Chief Strategic Systems Executive. To complement our delivery focus, the CEO is also supported by three enabling Executives: Bruce Martin, as Chief Finance Officer (CFO), Ruth Todd, as Commercial Director and Rachel Baguley, as Director Corporate Operations. During late 2019, and following the completion of recruitment action, a Technical Director will be appointed to the Executive Team. Further details on the roles and responsibilities of the Executive Team are provided in our Corporate Plan.

The SDA Board

The SDA Board provides challenge and support to the SDA in delivering our objectives. As such, it recommends approval of the Corporate Plan to our DNO Sponsor and Ministers and holds the Executive Team to account for delivery of our business.

In shaping the size and composition of the Board we considered guidance and best practice from the public and private sectors. Working with the CEO and Departmental Sponsor, the Chair is responsible for ensuring the right balance of skills, experience and objectivity of the Board, subject to approval from the Secretary of State as our Responsible Minister.

Under the provisions of the Framework Document, our Board has the following membership:

- The Chair, who is responsible for leading the Board and ensuring it is effective in its overall role;
- A maximum of three Government Non-Executive Directors (NEDs);
- At least three independent NEDs appointed from outside Government;
- The SDA CEO and Chief Financial Officer (CFO); and
- Additional executives as deemed necessary by the Chair, subject to maintaining a majority of NEDs on the Board².

Board Membership

- Mr Rob Holden, SDA Chair.

Non-Government NEDs:

- Ms Anne Baldock.
- Mrs Annette Hobhouse.
- Mr Jonathan Simcock.
- Mr Chris Walton.

Government NEDs:

- Mr Nick Elliott³, NED (DE&S DG Commercial).
- Sir Simon Bollom⁴, NED (DE&S CEO).
- Mr Mark Russell, NED (CEO UK Government Investments).

Other Members

- Ian Booth, SDA CEO.
- Mark Bayley⁵, SDA CFO.
- Bruce Martin⁶, SDA CFO.

² No additional executives have been appointed in 2018-19.

³ Nick Elliott until September 2018.

⁴ Sir Simon Bollom from September 2018.

⁵ Mark Bayley until Apr 18.

⁶ Bruce Martin from Apr 18.

SDA Board as at March 2019

SDA Board



SDA Chair
Robert Holden



Non-Executive Director
Mark Russell



Non-Executive Director
Sir Simon Bollom



SDA Chief Executive Officer
Ian Booth



SDA Chief Finance Officer
Bruce Martin



Non-Executive Director
Jonathan Simcock



Non-Executive Director
Anne Baldock



Non-Executive Director
Chris Walton



Non-Executive Director
Annette Hobhouse

SDA Board Activity

The SDA Board met eleven (11) times during 2018-19, for ten (10) formal Board Meetings and one (1) Away Day.

Name	Number of meeting attended
Mr Rob Holden	11
Non-Government Non-Executive Directors:	
Ms Anne Baldock	10
Mrs Annette Hobhouse	11
Mr Jonathan Simcock	11
Mr Chris Walton	11
Government Non-Executive Directors:	
Mr Nick Elliott ⁷	4
Sir Simon Bollom ⁸	6
Mr Mark Russell	10
Other Members:	
Mr Ian Booth	10
Mr Mark Bayley ⁹	1
Mr Bruce Martin	10

SDA Board Processes

All key processes and procedures affecting the Board are maintained and operated by the Board Secretary provided by the SDA Director Corporate Operations. Formal minutes and actions of all Board meetings are distributed, and other information is circulated, between meetings as necessary to keep Board members informed on relevant issues. The Board takes regular written reports from the CEO, the CFO, the Chairs of the Board's sub-committees and the Executive Team. All papers are prepared by those with sufficient seniority and experience to enable them to report with authority on each subject. Where our Board is presented with options for endorsement, our papers adopt the principles of evidence-based decision making. This helps to ensure that the information to which the Board has access is current, balanced and accurate.

Board Performance

By Rob Holden, SDA Chair

As the first Chair of the SDA I have overseen the establishment of the SDA and its first year of operation. During 2018-19, we have focused on establishing ourselves effectively as an entity and, in doing so, have regularly considered how we can support the SDA as a new agency and in delivering its complex portfolio, providing advice and guidance to the Executive Team. During this time, we have also welcomed the support of Sir Simon Bollom as he took on the role

⁷ Mr Nick Elliott was succeeded by Sir Simon Bollom as an SDA NED in September 2018.

⁸ Sir Simon Bollom succeeded Mr Nick Elliott as SDA NED in September 2018.

⁹ Mr Mark Bayley, was succeeded by Mr Bruce Martin as CFO in May 2018.

of one of our Government NEDs. I would like to thank Nick Elliott for his guidance and constructive challenge while a Member of the Board until September 2018 following Sir Simon Bollom's appointment as CEO DE&S.

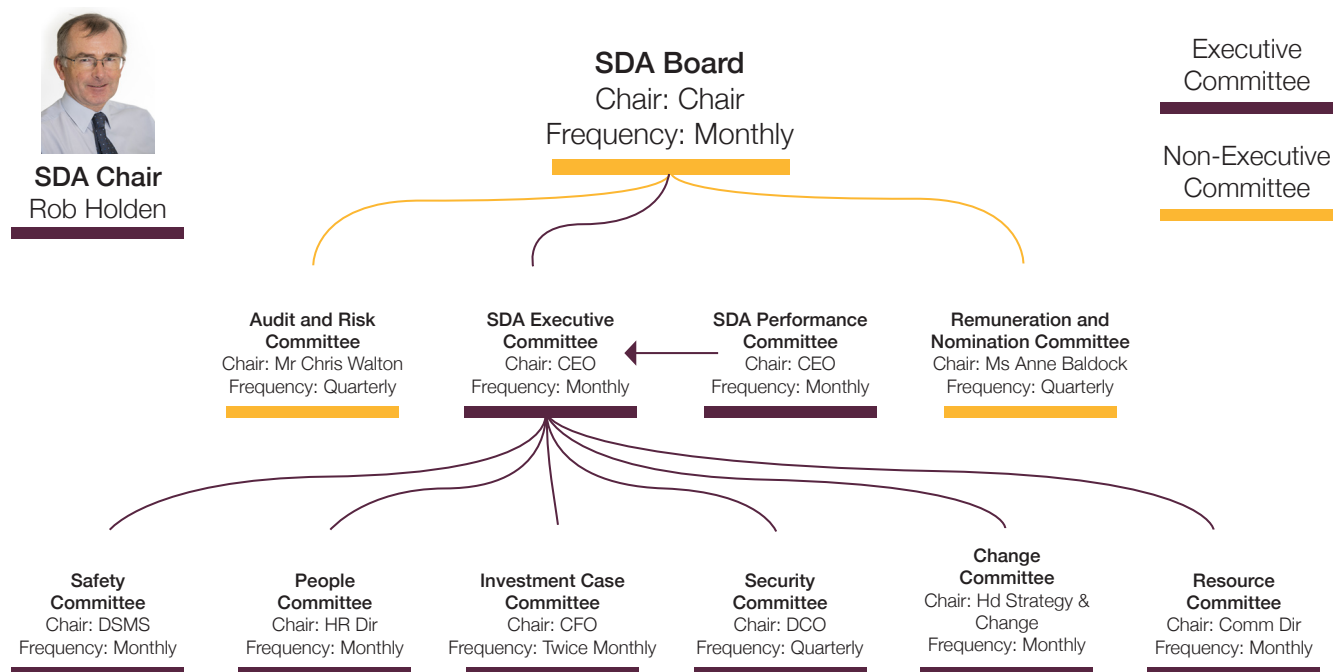
In reflecting on the Board and our effectiveness in supporting the SDA I have increased our focus on safety and performance, harnessing our collective public sector and industrial knowledge and experience. This includes having NEDs chairing Non-Executive Committees and supporting key Executive Committees including safety and performance. I have also broadened the Board's focus to incorporate a greater emphasis on the breadth of our programmes, ensuring we regularly review progress across the acquisition life-cycle from design to disposal and associated strategic risks, alongside routine items covering corporate performance, finances, and our people.

A key part of the development of the Board has been, and continues to be, visiting our key delivery sites across the UK, to enable us to understand the programmes and the environment in which these are being delivered. It also enables the Board to meet some of our people and industry colleagues, many of whom continually impress us in their dedication to deliver to the Royal Navy.

Key business discussed at the SDA Board during 2018-19 included:

Subject	Discussion	Outcomes
Risk	Our Strategic Risks were scrutinised including how these aligned to our Strategic Objectives and KPIs. The top four strategic risks were reviewed later in the year.	<ol style="list-style-type: none"> 1. A workshop was held at the Board Away Day on 25 June 2018. This reviewed the alignment of Objectives, KPIs and Risks as articulated in the Corporate Plan and Business Plan, as well as proposed mitigation actions. The Board provided feedback and recommendations on the next steps. 2. Progress was reviewed in March 2019.
SDA Committees	Our Board received progress reports from its sub-committees and considered the work being taken forward.	Our Board noted the work undertaken by the sub-committees, providing recommendations and guidance as required.
Corporate Documentation	Our Board reviewed the Corporate Plan.	Our Board recommended the Corporate Plan for onward approval by our DNO Sponsor and Defence Ministers.
SDA Business Updates	Our Board received regular business updates on SDA Programmes, Safety, Security, People and Finance.	Our Board evaluated the updates from across the business and provided appropriate challenge to the Executive Team.
Key Performance Indicator Data and Design	Our Board received monthly updates on Performance Data and regular progress reports regarding the KPI design for 2019-20.	Our Board scrutinised our Performance and endorsed the new KPI design for 2019-20.

SDA Board and Committee Framework



SDA Board Sub-committees

The SDA Chair and NEDs attend the following Non-Executive and Executive sub-committees:

Name	Committee (meetings attended)
Mr Rob Holden	Remuneration and Nomination Committee (4/4) Audit and Risk Committee (4/4)
Ms Anne Baldock	Remuneration and Nomination Committee (4/4)
Mrs Annette Hobhouse	Safety Committee (11/11)
Mr Mark Russell	Remuneration and Nomination Committee (3/4) Audit and Risk Committee (Chair) (1/4)
Mr Jonathan Simcock	Performance Committee (6/6)
Mr Chris Walton	Remuneration and Nomination Committee (4/4) Audit and Risk Committee (Chair) (4/4)

Audit and Risk Committee

Our SDA Audit and Risk Committee supports our Board and CEO SDA as Accounting Officer. The Committee challenges the adequacy of internal controls and oversees the risk management assurance processes. This Non-Executive Committee is chaired by a NED and takes place quarterly. The committee may be supported by observers from governmental audit agencies such as DIA or the National Audit Office (NAO).

The meetings were initially chaired by Mark Russell, who was then succeeded by Chris Walton (NED) as Chair in July 2018 and members include Rob Holden (SDA Chair), Mark Russell (NED) and Bruce Martin (SDA CFO). Regular attendees were Ian Booth (SDA CEO), Andy Troman (SDA Head of Finance), and representatives from the NAO and DIA.

The Audit and Risk Committee’s programme of business during the 2018-19 period focussed on the following:

- DIA: Review of core financial processes, government furnished equipment audit and the SDA annual audit;
- NAO: 2017-18 Accounting Period Equipment Plan Audit, SDA 2018-19 Audit, 2018-19 Audit Planning Report;
- Agency establishment updates;
- SDA Equipment Plan updates, losses and special payments;
- Fraud updates;
- Risk management;
- Annual Assurance Report; and
- Annual Committee Performance.

The SDA does not have its own Fraud Board - instead is a member of the MOD Fraud Board.

Remuneration and Nomination Committee

Our Remuneration and Nomination Committee is a sub-committee of our Board. It is chaired by a NED, currently Ms Anne Baldock, and comprises a minimum

of three NEDs, one of whom should be a nominated Government NED as well as the SDA’s HR Director. The Chair has a standing invitation to attend and other executives or non-executives are invited to attend as appropriate.

The Committee advises the Minister for Defence Procurement, the SDA Board and our CEO on matters relating to the proper development and application of the SDA’s total compensation strategy, including our pay structures. It also advises our Board on the remuneration of the CEO, the civilian Executive Team and other senior staff as appropriate, where these are not set by Senior Civil Service (SCS) or Departmental guidelines.

Our Remuneration Committee met four times during 2018-19. It reviewed the pay and reward policy within the SDA, Senior Leadership Group/SCS pay and reward policy, pay freedoms, Executive performance and the corporate performance modifier.

SDA Executive Committee

SDA Executive Committee as at 31 March 2019

SDA EXECUTIVE COMMITTEE



SDA Chief Executive Officer
Ian Booth

Director Subs Acquisition
RAdm Paul Methven



Director Subs Support/CSSE
Keith Beckett



SDA Chief Finance Officer
Bruce Martin



Director Corporate Operations
Rachel Baguley



Commercial Director
Ruth Todd



Technical Director
(recruitment underway)

Our SDA Executive Committee supports our CEO in the discharge of delegations and responsibilities set out in his Letter of Delegation as Accounting Officer and Letter of Authority from DG Nuclear. This is to ensure that we deliver our purpose. Our Executive Committee supports and advises our CEO in the delivery of his duties, by driving delivery against the SDA Corporate Plan, ensuring that effective working relationships are established and maintained between the SDA, our Sponsor, customers, suppliers and other delivery agents including DE&S. The Executive Committee serves as the forum where our Executive Team can focus on key issues affecting the SDA and its delivery, proposing strategies and plans to the SDA Board for endorsement where appropriate.

Membership

The following SDA staff are members of the Executive Committee:

- Ian Booth, SDA CEO;
- RAdm Paul Methven, SDA Director Submarines Acquisition;
- Keith Beckett, Director Submarines Support and Chief Strategic Systems Executive;
- Bruce Martin, SDA CFO;
- Ruth Todd, SDA Commercial Director; and
- Rachel Baguley, SDA Director Corporate Operations.

In addition, the following SDA people also attend the Executive Committee to support the meeting as required:

- Andrew King, SDA Human Resources Director;
- Joanne Jarman, SDA Head of Corporate Operations;
- Chief of Staff to CEO; and
- Executive Committee Secretary.

The following key business areas were discussed at the SDA Executive Committee during 2018-19:

Safety	During 2018-19, our Executive Committee continuously reviewed safety reporting including the development of the Occupational Health, Safety and Environment (OHSE) and the Acquisition safety dashboards, findings of the annual SDA safety survey, and safety communication plans.
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Performance	<p>Prior to the stand-up of the Performance Committee, our Executive Committee focused on KPI data. The Our Executive Committee also discussed the DIA findings on subjects such as the strategic risk management and endorsed the proposed management actions to assist with improvement actions in the SDA.</p> <p>Our CFO provided monthly updates at each Executive Committee on operating expenditure including the impact on spend in line with recruitment and resourcing activity, budget allocations, and forecasting. The committee reviewed the fraud risks tabled to the SDA Audit and Risk Committee.</p>
People	Our Executive Committee’s discussions included staff pay, civilian staff performance management, resourcing and the developing People Strategy.
Change	Change milestones, our people and shared services model, embedding best practice and the overall approach to Change programmes were key topics for our Executive Committee during this period. SDA current accommodation issues and future approaches to accommodation were also covered.
Corporate Operations	Our Executive Committee reviewed and proposed our approach to staff recognition, ensuring the effective use of the budgets allocated as part of the overall approach to staff reward. Discussions were also held on the SDA 2019-22 Corporate Plan, with a strong focus on increasing diversity and inclusivity across our organisation and ways of working.

SDA Executive Committee Sub-committees

A number of subordinate committees support our Executive Committee; these are shown on the SDA Board and Committee Framework (page 34-35). All sub-committees report to our Executive Committee, to support decision-making by reporting areas considered,

actions agreed and highlighting issues for Executive Team and Board support and consideration as required.

The **SDA Performance Committee** is chaired by that SDA CFO on a monthly basis. The Committee's key function is to support and advise our CEO in the delivery of his duties, by driving delivery against the SDA Corporate KPIs and Submarine Acquisition and Support Plans (SASP). The Performance Committee serves as the forum where our senior leadership team (our Executive Team and Team Leaders) can focus on key issues affecting delivery; prioritising activity to improve our outputs and outcomes. Our SDA Performance Committee is supported by a NED, currently Jonathan Simcock, and includes representatives from our Customers to facilitate an Enterprise view on performance and agree where wider support is required to address challenges.

The **SDA Safety Committee** ensures that safety and environmental performance remain a key focus of our business. The Safety Committee is chaired by Director Submarine Support and has a NED as a permanent member; this is currently Annette Hobhouse. Our Safety Committee provides support and advice to our SDA CEO in his role as a Senior Duty Holder and acquisition and support safety lead for the agency. The Safety Committee also has oversight of our safety and environmental performance and directs work to deliver improvements in this area for the business.

The **SDA People Committee** provides direction and oversight of our People activities in accordance with our agreed SDA Corporate Plan. It meets on a monthly basis and is chaired by our Director HR and has Team Leaders and Functional Managers in attendance. Our People Committee provides singularity of focus on people related issues, code of conduct and behaviours, and makes recommendations on matters relating to the development and sustainment of a highly professional, motivated and diverse workforce.

The **Investment Case Committee (ICC)** is chaired by SDA CFO on a monthly basis. The key function of our ICC committee is to confirm that the costs, schedule, and levels of contingency/confidence of each project or programme are appropriate to deliver the capability or service required by our customers. It also reviews whether the specific Commercial Strategy for the project is appropriate for the procurement required and that this is consistent with the overall suite of SDA strategies. The ICC ensures that the delivery risks and opportunities are understood and manageable and that the SDA has the capacity (skills and resources) to deliver within the agreed timeframe and budget.

The **Security Committee**, chaired by Director Corporate Operations, meets every two months to review our

performance and provide strategic direction across all elements of our security including physical, personnel, and cyber security as well as our business resilience. It also ensures our Team Leaders are held responsible for the effectiveness of their security performance and acts as the formal group through which strategic security risk is managed.

The **SDA Change Committee**, chaired by the SDA Head of Strategy and Change, focusses on driving and embedding change throughout the business. The Committee discusses alignment of change activity with the SDA's vision to become a high-performing organisation and where further action is required to deliver a step change in organisational performance. The Committee discusses strategic, cross-cutting change activity. Proposals for introducing a Change Gateway and portfolio approach to change have been implemented.

The **Resourcing Committee**, which meets monthly, is chaired by the SDA's Commercial Director to provide strategic direction and review of our resourcing plans. It considers how resourcing demands are being fulfilled across by reviewing forward demand forecasts and supports teams in resolving resourcing conflicts based on agreed priorities across the SDA.

Outside of this formal governance structure, the CEO holds one-to-one meetings with the members of the Executive Team. Our CEO also meets throughout the year with the SDA Senior Leadership Team (the highest grades in our structure incorporating civil servants and military personnel) to keep our leaders apprised of developments and providing a forum for discussion and feedback.

The Dreadnought Alliance

In April 2018, the Department established the Dreadnought Alliance: a joint management team between the MOD, BAE Systems and Rolls-Royce. The Alliance delivers on the commitment to intensify efforts with industry partners to improve performance and put in place new industrial and commercial arrangements between government and industry.

The Alliance reports to the SDA. It is responsible for delivery and integration of the full four-boat programme, including the design, build, test and commissioning activity to Programmed Acceptance Dates. Governance is provided through an Alliance Leadership Board, which is led by an Independent Chair and made up of a representative from each of the three parties. On 1 September 2018, Sir Peter Gershon was appointed as the Independent Chair of the Alliance.



SDA Risk and Control Framework

Risk Management

During 2018-19, we have refined our strategy for managing risk across our business and the interface with our customers. It is critical that we understand the risks to our business and the timely and effective delivery of our objectives so we can minimise these and increase the likelihood of successful outcomes for ourselves and our customers. It is important at the project level, where clear scope, cost and time parameters are defined, and at programme level where we are delivering In-Service and Acquisition projects in an integrated manner in support of our customers' Command Plans. At a strategic level, we are working to sustain the establishment of a robust, compliant and sustainable agency of the MOD so effective risk management is a key aspect of our overall corporate governance. In our comprehensive approach to risk management, we have worked closely with our customers to share our understanding of risk and associated mitigation activities underway so that they can set appropriate requirements on us, approve mitigation plans and manage their Defence Output programmes within their own risk work. Overall, this collaborative work has ensured a shared view of risk across the submarine enterprise.

Our refined strategy builds on and aligns with the best practice way that risk was previously assessed and managed prior to the formation of the SDA, but refreshes our approach to incorporate recent learning and best practice methodologies. We have matured our Strategic Risks during 2018-19 through a comprehensive top-down assessment and linked their management to our existing control measures – i.e. the way that we currently operate our business - and our plans for improving ways of working across the Agency. Each Strategic Risk is owned by a member of our Executive Team and is reviewed as part of an agreed reporting cycle involving our Executive Committee, Audit and Risk Committee and Board.

During 2019-20 we will concentrate on linking our project and programme level risks to the strategic level, such that we can strengthen analysis of our data and further substantiate our risk exposure. We will also focus on continuing to improve our links between our risk data and other controlling artefacts such as schedules, assumptions, cost profiles, and ultimately the SASP. By continuing to share our work with our customers, we will jointly improve and formalise our risk reporting to ensure that programme delivery risks are accurately reflected in operational plans and financial forecasts.

Principal Strategic SDA Risks and Mitigation Action During 2018-19

The SDA Strategic Risks have been developed to provide a holistic articulation of risks to delivery of our four SDA strategic objectives. These risks focus on the causes and factors that may contribute to the SDA being unable to successfully achieve our strategic objectives and are based around the following key areas:

- Output risks – these are linked to delivery of our objectives based on the novel and complex nature.
- Supplier risks – factors around which key dependencies for delivering our objectives fail.
- Organisation risks – threats that our organisational construct, tools, processes and relationships are not sustainable to support our objectives.
- Enabler risks – challenges to achieving our objectives due to lack of resources.

Mitigation of our Strategic Risks is, in part, provided at an organisational level through our improvement actions to develop the SDA into a high-performing agency.

On the grounds of security and commercial sensitivity, we have withheld the detail of our strategic risks in this report. This information is held within government and, as explained, is used as part of our project and performance management and corporate governance.

Update on Principal Risks Identified in 2017-18

Following establishment of the SDA, and as part of the refinement work undertaken during the last period, work has been completed to ensure that Strategic Risks linked to the overall delivery of the submarine programme as managed by the predecessor organisation have been carefully transferred and reviewed. This has ensured alignment with our scope and objectives for 2018-19.

Principal Internal Controls

Our people have accountability and responsibility for managing their time, delivering their objectives and ensuring the proper use of taxpayers' money. This is enabled through effective delegation and supported through using internal control approaches in place across the wider MOD, ensuring we remain focussed on managing our business effectively.

Financial

At the start of the financial year, the DNO agrees with us an operating cost envelope. As set out in our Framework Document, within this cost envelope, we have the freedom to manage all aspects of our workforce as

necessary to meet our business needs. In doing so, our pay strategy will be treated as separate from that of the MOD. We do, however, work with the Chief of Defence Personnel as necessary on matters of Departmental interest. In exercising his authority, our CEO will be cognisant of best practice across the wider Civil Service and Government and MOD policies on Civil Servants' terms and conditions.

As an Executive Agency of the MOD, we ensure that our freedoms are exercised transparently, through the agreed governance mechanisms including SDA committees and Board. We also comply with government policy to publish relevant information and provide details both to HM Treasury and the Cabinet Office for monitoring purposes.

Commercial

In 2018-19, £494.9m of new work was placed with SDA suppliers through our contracts. This included 94 new contracts within a total of over 306 contracts that are managed in support of the business. The SDA commercial portfolio at March 2019 was valued at £29.5bn covering both acquisition and in-service support contracts. We have not been subject to any legal procurement challenges during 2018-19 and have been fully compliant with the Single Source Contract Regulations.

The focus on continuous improvement across the commercial elements of SDA business has been delivered by the annual assurance and improvement plan, with initiatives around contract management. This is a core SDA capability due to the longevity of designing and building submarines. Consistent with other areas of government, the SDA is subject to Cabinet Office controls providing extra assurance delivery and value-for-money approval. As described in Section 1, during the stand-up of our Supply Chain and Commercial Directorate in 2018, a new Supplier Management Team was established to improve the performance of the supply base in both Tier 1 and, collaboratively, the deeper sub-tier supply chain. It is also working to enhance its extensive supply chain and supplier relationships to reduce risk and increase the certainty of output delivery. Further details of these initiatives can be found in the "About SDA" section of this report.

In respect of our people, we have invested in our commercial capability and professionalism through upskilling our commercial staff through formal Chartered Institute of Procurement and Supply (CIPS) training and Professional Membership. The longer-term aim is

for commercial staff to increase their CIPS expertise level, with those at Levels 4 and 5 becoming licenced practitioners at Level 6, or experts, by September 2020. Our Supply Chain team and Commercial colleagues have also benefitted from MOD Defence Academy Training, Civil Service Courses, Cabinet Office training and external courses; including investing in upskilling the Supply Chain Management capability. As well as increasing our commercial capabilities within the SDA, we have been supported through the appointment of the Commercial Delivery Partner, Paragon, which provides general capability resource as well as specialist skills and services.

Our People

The stand-up of the SDA has seen us build on the themes from the DE&S Transformation programme to create our own ways of managing our people. The first step has been to establish ourselves as a nuclear employer within the nuclear sector and to recognise everyone's role as being part of the national nuclear enterprise.

The SDA has continued to embrace and mature its approach to Function Management, working collaboratively with DE&S Function Managers to recruit and deploy skilled staff. To support resourcing actions, we have also taken steps to improve the accuracy and integrity of associated data, cleansing data systems and maturing recording and review processes. In line with the agreements to share some corporate services with DE&S, joint recruitment campaigns were arranged whenever possible. However, to provide further agility, increase our presence in the market place and help address challenges recruiting specialist Engineering skills, we ran bespoke campaigns targeting SDA specific roles. We also drew on temporary external resource through the new DE&S Delivery Partner Hubs (covering the Commercial, Engineering and Project Management/Control Functions) and Fixed Term Appointments to mitigate key vacancies. In addition, we continued to offer challenging placement opportunities for Graduates and Apprentices. Efforts to close the current resource delta remains a priority for the SDA and we will continue to work at pace to resolve our resourcing challenges throughout 2019-20.

Function and specialist leads continue to have responsibility for the upskilling and development of our professionals, through a network of development officers, whilst responsibility for the day-to-day supervision and management of staff is provided by the immediate delivery management chain. Performance management continues to be shared between delivery

and function managers ensuring all our staff receive a comprehensive review of their performance in-year, while also considering professional development and career development requirements and opportunities

As an Executive Agency we have established our own HR team looking after: workforce planning; learning and development, pay, performance and reward (linking in with the MOD central HR teams). We are supported by a network of embedded business partners to deliver these vital enabling services across the SDA. Our HR business area will continue to mature with guidance on policy direction coming from our People Committee and Remuneration and Nomination Committee. Performance on people matters is measured using KPIs around resourcing as well as focusing on improving our employee engagement as measured in our annual People Survey.

Safety and Security

To ensure that we are embedding a culture that achieves continuous improvement in the critical business practices of safety and security, we measure a range of data associated with the consistent application of processes and development of lessons learned.

We were over our threshold of 10 or fewer Occupational Health and Safety Environment incidents during the year. While no Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) incidents were reported, we continue to take this result very seriously and have taken immediate action across our organisation to address hazards and escalate identified issues outside our control to the relevant authorities for resolution. Our learning across this area, and feedback from our annual safety survey have contributed to the programme of work underway to further improve our safety culture in the SDA. In turn, this will enable us to better understand and manage our performance in this area.

Information Management

During 2018-19, we conducted an extensive information flows mapping activity. This key piece of work has allowed us to understand how information is used across the submarine enterprise, which will inform a Future Architecture and will enable a more collaborative approach with our Tier 1 suppliers. This has been complemented by increased assurance activity across both business and platform systems, enabling us

and our customers to understand and mitigate information risk across the enterprise.

Quality Assurance of Analytical Models

Recommendation four of the Macpherson review¹⁰ requires Accounting Officers' governance statements to confirm that an appropriate quality assurance framework is in place for analytical models. The 2019 published list of business critical analytical models, including those in use in SDA, is available online at <https://www.gov.uk/government/publications/business-critical-models-ministry-of-defence-2019/list-of-business-critical-models-april-2019>.

The MOD's independent Cost Assurance and Analysis Service (CAAS) Modelling Centre of Expertise (MCoE) conducted a review on behalf of SDA, of the quality assurance of our Business Critical Models (BCM) listed for 2018-19. Of the 15 BCMs declared, only one model contained major deficiencies in the quality assurance process. We have devised an appropriate action plan to address these issues and, as such, the CAAS MCoE review concluded that overall there is substantial assurance that the quality assurance of SDA BCMs has been conducted in a way which satisfies the requirements of HM Treasury Aqua Book¹¹, for 2018-19.

SDA roles and responsibilities are now fully established within the reporting process for the future delivery of quality assurance for modelling internally within the SDA. This de-risks the impact of SDA assuming acceptance for conducting future review post transfer of CAAS to the MOD on 1 April 2019.

Whistleblowing and Raising a Concern

The SDA is committed to ensuring the highest standards of quality and we take responsibility in everything we do. We value the role of Whistleblowers, who, by raising their concerns, assist us in getting things right. The Whistleblowing Policy is an MOD wide policy, and the SDA fully embrace this approach. The awareness of this policy and associated reporting procedures are shared with our people through our internal communications and publications. The MOD Confidential Hotline is the secure single point of contact for all – whether Service personnel, civilian staff or contractors. Management information on the nature and conduct of our whistleblowing is provided by the MOD to the Cabinet Office every six months.

¹⁰ 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.

¹¹ HM Treasury Aqua Book: Guidance on providing Quality analysis for Government, March 2015.

Conclusion

The overall assessment of SDA governance takes account of the opinions and reviews of the DIA, our Board and Audit and Risk Committee, and reflects the assurance assessments undertaken by our teams as part of our Annual Assurance Report. During 2018-19, we have established Boards and Committees which have helped to formalise control across the Agency and ensure that there is a clear governance structure in place. Regular reviews of our approach have helped us facilitate the effective running of our Agency and support accurate and timely reporting to our Sponsor and customers. We remain focussed on programme delivery and ensuring that our system of governance and internal controls enable our teams to concentrate on providing submarine capabilities to the Royal Navy to support current and future operations. With continuous improvement and optimisation of the Agency in mind, we will look to evolve and strengthen our approach including our risk management strategy, over the next reporting period.



Ian Booth
Accounting Officer
13 January 2020

Chair's Assessment

By Rob Holden, SDA Chair

As I noted in my introduction, during the first year of our operation as an Executive Agency of the MOD, we have provided a firm foundation of performance on which to build. This progress is visible across our approach to governance where I have worked with the Executive Team and Audit and Risk Committee to ensure that we established, from the start, a system of internal controls that effectively support the SDA. We recognised and expected that there would be scope for improvement as we learned from our running of the business in its new (agency) operating model.

With this in mind, throughout the year we have considered the maturity and effectiveness of our internal controls and overall governance approach, using our Annual Internal Audit Report and support from the DIA to provide comprehensive qualitative and quantitative assessments of our approach. I have particularly welcomed the support and challenge we continue to receive from DIA, whose work is vital to help us further strengthen the relationship between our programme of activity and our framework of internal controls. During the 2018-19 financial year, we purposefully asked the DIA to review our approach to governance and I was pleased with the substantial assurance received, confirming the positive outcomes of the hard work undertaken to implement an effective control system ahead of Agency stand up. We also asked the DIA to consider our maturing approach to risk. As expected, this demonstrated that the work we had set in place to improve our management of programme and strategic risk was required. It also confirmed that it was targeted at the right areas to help us embed and sustain the management activity necessary for the world-class levels of performance to which we aspire.

From the outset of the Agency's establishment in April 2018 we have set up the Board with its agreed membership of four non-Government NEDs and two Government NEDs, supported by a clear and effective governance structure of the SDA Executive Committee and supporting sub-Committees. As we enter our second year of operation I am considering with the Board and Executive Team, how we can continue to evolve this structure to address lessons learned, as well as MOD and wider Government best practice.

Overall, I remain confident that the SDA will comply with agreed standards in its pursuit of its objectives, within delegated budgetary responsibility and accountability.



Remuneration and Staff Report

SDA Remuneration Policy

The following remuneration policy refers to the appointment of the SDA Directors on the SDA Board and Executive Committee.

As previously noted, we have been granted the freedom to manage our workforce as necessary to meet its business needs 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, we must be cognisant of best practice across the wider Civil Service and Government and the MOD policies on Civil Service terms and conditions.

In setting the remuneration of our civilian senior executives, we consider the advice of our Remuneration and Nomination Committee and our military senior executives are bound by the remuneration policy for senior officers of the armed forces. The broad role and composition of the Remuneration and Nomination Committee is set out earlier in Section Two of this report.

Performance and Reward

The 2018-19 Statement of Comprehensive Net Expenditure reflects payments made or due to Directors during the financial year. Salary and reward for the SDA CEO was considered by our Remuneration and Nomination Committee. We continue to use the framework introduced by DE&S in matters relating to remuneration, performance and reward. All our people within SCS pay bands 1 and 2 are evaluated against their objectives to determine end of year performance outcomes. Salary increases are determined based on individual performance outcome and gap to market benchmark for their role. Non-consolidated performance awards are awarded to “Good” or better performers.

Non-executive (NED) remuneration is not directly linked to performance. NED performance is kept under review 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 based on 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 at www.civilservicecommission.org.uk.

The terms and conditions of our Chair and independent NEDs on our 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. While they are paid by the SDA, they are not SDA employees or appointed as civil servants.

NEDs appointments may be terminated at one months’ notice by either party or on dissolution of the Board, unless found guilty of gross misconduct when termination will be immediate. The NEDs are initially contracted to three years with the option to extend by a further three. They may only serve for six years. Currently, the NED contracts expire in January 2021, but we have the option to extend at this juncture. 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.

The following section of the Remuneration report is subject to audit.

SDA Board Senior Executive Salaries, Taxable Benefits-in-kind and Pension Benefits

SDA Board Directors ¹²	2018-19				
	Salary ¹³ £000	Annual Performance Award £000	Benefits in kind £000	Pension ¹⁴ Benefits £000	Totals to nearest £000
Ian Booth	275-280	180-185	-	-	460-465
Bruce Martin ¹⁵ (from 10th April 2018)	165-170 [165-170]	55-60	-	25	250-255
Mark Bayley ¹⁶ (end date 10th May 2018)	25-30 [245-250]	20-25	-	-	50-55

SDA Board Non-Executive Salaries

SDA Board Non-Executives ¹⁷	2018-19 £000
Mr Rob Holden SDA Chair ¹⁸	145-150
Mrs Anne Baldock	20-25
Mr Jonathan Simcock	30-35
Mrs Annette Hobhouse	20-25
Mr Chris Walton ¹⁹	25-30
Mr Mark Russell ²⁰	-
Mr Nick Elliott	-
Sir Simon Bollom ²¹	-

¹² The SDA Board Terms of Reference (TORs) sets out the Board structure to include the CEO, CFO and NEDs. This design has been agreed to ensure consistency with the structure of DE&S Board and to ensure the Agency has a meaningful ratio of Board Directors to NEDs.

¹³ 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.

¹⁴ Mr Ian Booth and Mr Mark Bayley are members of personal private pension schemes. Mr Bruce Martin is not a member of the Principal Civil Service Pension scheme and has elected to be a member of the Partnership Scheme.

¹⁵ Annualised salary detail is provided for Executive staff who have worked less than a full year for the SDA. These are shown in square brackets in the table above. This includes Mr Bruce Martin, whose annualised value is limited by the agreed contracted salary.

¹⁶ Mr Mark Bayley was contracted to May 2018 and his annualised value is calculated on an equitable basis.

¹⁷ Board Non-Executive salaries include 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. The remuneration stated above are based on attendance and claims for services submitted by Non-Executives. None of the Non-Executives received annual performance awards, benefits in kind, or pension benefits in relation to their role on the SDA Board.

¹⁸ The Chair, Mr Rob Holden, is remunerated for working up to 150 days per year. Independent non-executives are remunerated for working up to 24 days per year.

¹⁹ Mr Chris Walton is also listed as a Non-Executive Director on the National Shipbuilding Strategy Client Board. The emoluments shown for Mr Walton represent only SDA related activities.

²⁰ Mr Mark Russell received no remuneration for SDA Board membership. His salary details are reflected in the UK Government Investments Ltd Annual Report and Accounts.

²¹ Sir Simon Bollom, Mr Nick Elliott and Mr Mark Russell are government employees and received no remuneration as Non-Executive members of the SDA Board. Sir Simon Bollom replaced Mr Nick Elliott as Chair of the SDA Board in September 2018 and both of their salary details are reflected in the DE&S Annual Report and Accounts.

Pay Multiples

The following table provides details of pay multiples – the ratio between the highest paid SDA 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 ranged between £460k- £465k. This was 12.7 times the median remuneration of the workforce, which was £36.5k. The civilian salary range is between £15k - £460k.

The banded remuneration of the highest paid military employee in 2018-19 was ranged between £115k-£120k. This was 1.8 times the median remuneration of the workforce, which was £67.1k. The military employee salary range is between £38k - £119k.

No employee, either military or civilian, received remuneration in excess of the highest paid director during 2018-19.

	2018-19 £
Mid-point of the £5,000 band for the annual equivalent remuneration of the highest earning military employee.	117,500
Median total remuneration of armed forces personnel	67,100
Military pay ratio	1.8
Mid-point of the £5,000 band for the annual equivalent remuneration of the highest earning civilian board member in the tables above	462,500
Median total remuneration of civilian staff	36,500
Civilian Pay Ratio	12.7

The information relates to remuneration for civilian and military personnel during 2018-19 only, no comparatives have been provided as it was SDA's first year of operation.

2. Staff Report

Staff Numbers (subject to audit)

The number (head count) of SCS within the SDA Senior Leadership Group, as at the end of the financial year is as follows:

SCS Pay Band	2018-19
Band 1	14
Band 2	4
Band 3 and above	1
Total	19
SDA Military at 1* and above	6
Grand Total	25

The number of SCS reflects the implementation of the organisational design requirements for delivery and forward management of the SDA as an Executive Agency of the MOD. The increases have been the result of implementing Commercial, Corporate Operations, Human Resources and Chief Finance Officer Directorates to strengthen the enabling layer of the Agency during its first year of operation.

Average numbers of full-time equivalent (FTE) persons employed are as follows:

2018-19			
Average Staff Nos (Full Time Equivalent):	Permanent Employee Staff	Contingent Labour	Total
Armed Forces	156	-	156
Civilian	1,266	19	1,285
Total	1,422	19	1,441

In order to align with the total pay costs incurred during the year, the number of FTE civilian and military staff for the SDA (shown above) is based on a weighted average for the financial year and is used to compensate for organisational and structural changes during the 12 month period.

Staff Costs (subject to audit) (see also note 3 to the financial statements)

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

2018-19			
Staff costs comprise:	Permanent Employee Staff £000	Contingent Labour £000	Total £000
Salaries and Wage Costs	68,225	3,398	71,623
Social Security Costs	7,323	-	7,323
Other Pension Costs	15,527	-	15,527
Total	91,075	3,398	94,473
Paid to:	£000	£000	£000
Armed Forces	18,775	-	18,775
Civilian	72,300	3,398	75,698
Total	91,075	3,398	94,473

This information relates to costs during 2018-19, no comparatives have been provided as it was SDA's first year of operation.

For the year ended 31 March 2019, of the total pension contributions for SDA in the table above, £11.53 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 SDA in the table above, £5.03 million were payable in respect of the Armed Forces Pension Scheme in which military staff were members.

Where employees opened a Partnership pension account with an employer contribution, we made contributions of £134K to the relevant pension providers. Further details of pension schemes covering SDA personnel are detailed below.

Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), known as "Alpha", are unfunded multiemployer defined

benefit schemes. The SDA 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 at <https://www.civilservicepensionscheme.org.uk/about-us/scheme-valuations/>

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 2017-18 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 at the website <https://www.civilservicepensionscheme.org.uk/>. The March 2019 payments for staff pensions due by MOD to HMRC for National Insurance and Pension contributions are accrued across the business at March 2019 (Accounting Period 12) and in the SDA accounts the Direct Staff Costs includes a non-cash adjustment for our share of MOD liabilities employee National Insurance contributions of £365k and Employer's Pension contributions of £703k. This information was communicated to the SDA by MOD's shared service centre in July 2019. Within the total value allocated to the SDA by MOD is an element that will relate to partnership schemes, but the exact value is not evident.

Armed Forces Pension Scheme

The Armed Forces Pension Scheme (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 details of which can be found at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/679784/20170925_Armed-Forces-Pension-Board-Annual-Report-Final.pdf

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

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 (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 – This section has not been subject to audit

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 4.3 days per employee. This compares favourably with the MOD average of 7.1²² days. Operating a revised health and attendance policy together with the use of the DE&S 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 wellbeing measures including on-site health fairs, the promotion of mental health awareness and signposting to support services, and promotion of a range of discounts and networks available to all staff.

3. Staff Policies – This section has not been subject to audit

Diversity and Inclusion

A progressive approach to Diversity and Inclusion (D&I) is about fairness, flexibility and contributing to the success of the business by removing any unnecessary barriers to either employees or stakeholders. Reinforcing this culture is key to our ongoing effective performance through diversity of skills, thought and management. In the SDA, the style of delivery is as important as the output itself. Inclusive behaviours and progressive management practices are key to the future of our performance and this is underpinned by effective D&I practice.

We have updated our D&I strategy and action plan to outline the activities that we are committed to developing as an employer of choice organisation - one that better reflects the diversity of the UK population and delivers high levels of performance within an inclusive environment.



²² Source: Defence Business Services (DBS)

Our D&I Objectives

For the SDA, Diversity means all the ways we differ, both our visible and non-visible differences. We value and celebrate these and grow a workplace culture where everyone thrives. Inclusion means supporting all our people, respecting them, listening to their views and growing their skills and talents in line with Civil Service values. We value the diversity of our people and their potential to challenge and generate new ideas and ways of working. We aim to be an inclusive workplace, where people want to work, are valued and supported to perform at their best, regardless of background, location or protected characteristics. We pledge to build and sustain:

- an inclusive culture;
- a diverse and inclusive workforce; and
- clear and decisive leadership that recognises the value of our difference and similarities.

To achieve our vision, we will:

- Ensure our people understand what good behaviour looks like and are confident and supported to challenge poor behaviour.
- Share with our people our plans around D&I and make rapid progress against it to really make a difference to all our teams.
- Measure progress on diversity by publishing and reporting on diversity targets.
- Embrace D&I with the support and training to do this well.
- Compete effectively for the best talent to recruit and retain a diverse workforce.
- Proactively promote national initiatives which improve the representation of diversity groups and support our people to take part.
- Support employee networks to be ambassadors and critical friends in the delivery of our diversity and inclusion ambitions.
- Embrace our obligations under the Equality Act to consider and promote the interest of those with protected characteristics in all our decision making.

In our first year as an agency, we have sought to establish the right culture and behaviours from the off, establishing our own employee networks to improve inclusiveness for SDA staff and to attract and retain new and diverse talent. Key this year has been the work to encourage an even more inclusive culture through developing workshops, training and outreach into local communities. This has been backed up with clear messaging to all staff from our CEO on his personal commitment to D&I.

The following tables reflect the civilian composition of the organisation by protected characteristics over the year. Importantly, all our initiatives will play out on all our sites across the country, and all our decisions take into account the impact on our wide geographical base. The information provided in *table i* relies on staff making the necessary declarations on our Human Resource Management System (HRMS) and therefore may not be representative of the whole of our workforce.

i. Staff breakdown (Actual numbers - Full Time Equivalents)

	31-Mar-19
Gender	
Female	402
% Female	30.6%
Ethnicity	
Black and minority ethnic	42
% BAME	3.2%
Disability	
Declared a disability	113
% Declared a disability	8.6%
Sexual Orientation	
Lesbian, gay, bisexual	24
% LGB	1.8%
Religion or belief	
Non Christian religion	44
% Non Christian religion	3.4%
Secular	425
% Secular	32.4%
Christian	447
% Christian	34%

ii. Gender breakdown at SDA Board and Executive Team level (Civilian)

	31-Mar-19
Total SDA Board and Executive Team	15
Gender	
Female	4
Male	11
% Female	27
% Male	73

iii. Gender breakdown over the year at SCS level (Civilian)

	31-Mar-19
Total SDA SLG (SCS)	18
Gender	
Female	6
Male	12
% Female	33
% Male	67

Trade Union Relationships

The SDA operates in a bargaining unit with DE&S under an Employee Relations Framework Agreement that governs successful engagement between DE&S/SDA and the Trade Unions (TUs), including the principles and behaviours and the processes under which both parties will operate to ensure good employee relations. The agreement was signed by the (then) DE&S 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, with consultation with the TUs taking place in compliance with the law and to initiate engagement in the spirit of reaching agreement.

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on the 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. At the current time DE&S and the SDA 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 and this is reflected in the annual facility time data return as a combined expenditure.

The annual facility time data return, reflecting facility time within DE&S and the SDA over the period 1 April 2018 to 31 March 2019 is shown here:

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 (total combined cost with DE&S)	£24,936
Total SDA annual civilian pay bill*	£72,300,000
Percentage of total civilian pay bill spent on facility time	0.03%

Paid trade union activities

Time spent on paid trade union activities as a percentage of total paid facility time	0.00% ²³
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TU activities means time taken off under section 170 (1) (b) of the 1992 Trade Union and Labour Relations Act (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 at: <https://www.gov.uk/government/news/trade-union-facility-time-publication-service-2017-2018-data-published>

Civil Service and other Compensation Schemes Exit Packages (subject to audit)

There were nil payments to Civilian Staff Early Retirement and Redundancy during 2018-19. This would include redundancy and other departure costs paid in accordance with the Civil Service Compensation Scheme (CSCS). Where the SDA agrees early retirements, the costs are met by the SDA and not by the Civil Service Pension Scheme. In 2018-19 there are no reported payments of this kind.

²³ The SDA & DE&S do not approve payment for TU officials to undertake TU activities.

* The total SDA annual civilian pay bill. The sum of direct wages and salaries, pension contributions and National Insurance Contributions.

We may occasionally make use of early release schemes to reduce the number of civilian staff who are not members of the CSCS. No such usage was made during 2018-19.

Expenditure on consultancy and temporary staff

Our operating cost envelope includes the engagement of contingent labour (also known as manpower substitution) and other external support defined as Private Sector Support (PSS). Contingent labour relates to individuals who are employed by the SDA on a demand basis to fill vacancies within the organisation. This includes independent contractors and consultants who are excluded from our payroll because they are not permanent employees of the Department. The costs of contingent labour are shown as a separate entry in the staff costs at note 3 to the accounts.

PSS is defined by the SDA as external support to supplement our capacity and capability to manage our programme of work. This includes packages of work aimed at delivering business improvements in line with our strategic objective of developing the SDA. PSS within the SDA includes consultancy assistance and other external support provided through the MOD Framework Agreement for Technical Support (FATS). PSS is also used within the SDA to address resource and skills gaps in project, logistics and commercial management capability. The analysis of the SDA PSS expenditure is at note 4.

High paid off-payroll appointments

Details of SDA's most highly paid off-payroll appointments are shown in the following table. 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 in-house.

Government policy is that individual departments must exercise governance over such appointments where the appointees are not engaged directly on departmental payrolls. All these employees are engaged through contracting mechanisms which provide assurance that they paid the right amount of tax and National Insurance contributions in 2018-19.

SDA had one off-payroll engagement of a senior executive with significant financial responsibility between 1 April 2018 and 31 March 2019, the individual is contracted through the Cabinet Office and is out of scope for IR35.

The following tables provide:

- an analysis of all extant off payroll engagements as of 31 March 2019, paid more than £245 per day, and that last for longer than six months.

Submarine Delivery Agency	
Number of existing arrangements as of 31 March 2019	51
Of which...	
No. that have existed for less than one year at the time of reporting	47
No. that have existed for between one and two years at the time of reporting	4
No. that have existed for between two and three years at the time of reporting	0
No. that have existed for between three and four years at the time of reporting	0

- 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.

Submarine Delivery Agency	
1. No. of new engagements, or those that reached six months in duration, between 1 Apr 18 and 31 Mar 19	51
Of which...	
2. No. assessed to be in scope of IR35	49
3. No. assessed to be out of scope of IR35	2
4. No. engaged directly (via PSC contracted to department) and are on the departmental payroll	2
5. No. of engagements reassessed for consistency / assurance purposes during the year.	0
6. No. of engagements that saw a change to IR35 status following the consistency review	0

- off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 April 2018 and 31 March 2019:

SUBMARINE DELIVERY AGENCY	
No. of new engagements, or those that reached six months in duration, between 1 Apr 18 and 31 Mar 19	1 ²⁴

²⁴ Engaged through Cabinet Office and out of scope of IR35.



Parliamentary
Accountability
and Audit Report

Parliamentary Accountability Report

In 2018-19 we responded to 30 Parliamentary Questions, meeting our departmental targets for on-time delivery. We also dealt with Ministerial and Treat Official correspondence from Members of Parliament, Peers and the public. We provided briefing in support of a range of Parliamentary business, including a Public Accounts Committee inquiry into the Defence Nuclear Programme. Key subject areas were the Dreadnought and Astute programmes, submarine dismantling and nuclear issues.

We have fulfilled our statutory responsibilities in responding to requests for information under the Freedom of Information Act 2000. In 2018-19 we handled 10 requests for information.

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.

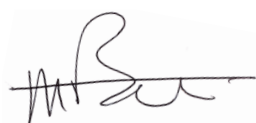
Losses during the year totalled £0.247m. Outside those separately reported the clear majority were for VAT payments following a series of contract reviews. There were also low value fruitless payments related to loss or damage to equipment and hire car charges.

Remote Contingent Liabilities (subject to audit)

The SDA does not have any reportable remote contingent liabilities.

Regularity of Expenditure (subject to audit)

All material expenditure and income incurred by the SDA in 2018-19 was in accordance with the requirements of HM Treasury and other government guidance.



Ian Booth
Accounting Officer
13 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 the Submarine Delivery Agency 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 the Submarine Delivery Agency's affairs as at 31 March 2019 and of the net operating 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 Submarine Delivery Agency 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 Submarine Delivery Agency'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 Submarine Delivery Agency'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:

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



SECTION THREE

The Financial Statements

The Accounting Information

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

	Notes	2018-19 £000
Expenditure - Programme Costs		
Direct Staff Costs	3	94,473
Private Sector Support Costs	4	51,742
Other Programme Costs	5	10,402
Total Programme Costs		156,617
Expenditure - Non-Cash Items		
Communicated Costs from other MOD organisations	6	11,515
Non-Cash Charges DE&S Corporate Overhead	6	7,765
Auditors' Remuneration	7	125
Provisions	10	1,740
Total Non-Cash Items		21,145
Net Operating Expenditure		177,762
Loss on Transfer by Absorption	2	13,547
Total Comprehensive Net Expenditure		191,309

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Notes	2018-19 £000
Current assets		
Trade and Other Receivables	8	167
Total Current Assets		167
Total assets		167
Current liabilities		
Trade and Other Payables	9	(20,716)
Provisions	10	(1,740)
Non-current Assets less Current Liabilities		(22,289)
Assets Less Liabilities		(22,289)
Reserves		
General Fund		(22,289)
Total Reserves		(22,289)



Ian Booth
Accounting Officer
13 January 2020

Notes 1 to 14 which follows the Statement of Changes in Taxpayer's Equity form part of these accounts

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2018-19 £000
Cash flows from Operating Activities		
Net Operating Expenditure	SoCNE	(177,762)
Adjustments for non-cash transactions		
Loss on Transfer by Absorption	2	(13,547)
Adjustments to Transfer by Absorption	2	330
Communicated Costs	6	11,515
Non-Cash Charges DE&S Corporate Overhead	6	7,765
Auditor's Remuneration	7	125
(Increase) in trade and other receivables	8	(167)
Increase in trade and other payables	9	20,716
Increase in Provisions	10	1,740
Net Cash Outflow from Operating Activities		(149,285)
Cash Flows from Financing Activities		-
Net Parliamentary Funding - drawn down		149,285
Net increase/(decrease) in cash and cash equivalence in the period		-

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

	Notes	General Fund £000	Total Reserves £000
Balance at 1 April 2018		-	-
Net Comprehensive Expenditure for the year	SoCNE	(177,762)	(177,762)
Loss on Transfer by Absorption	2	(13,547)	(13,547)
Adjustments to Transfer by Absorption	2	330	330
Non-Cash Charges Communicated Costs	6	11,515	11,515
Non-Cash Charges DE&S Corporate Overhead	6	7,765	7,765
Non-Cash Charges Auditors Remuneration	7	125	125
Net Parliamentary Funding - drawn down	SoCF	149,285	149,285
Balance at 31 March 2019		(22,289)	(22,289)

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). As this is the first year of operations there is no comparative analysis.

The accounts have been prepared in accordance with the Accounts Direction issued by HM Treasury under Section 7 of the Government Resources and Accounts Act 2000 and International Financial Reporting Standards as adapted and interpreted for the public sector context in the FReM.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the circumstances of the SDA for the purpose of giving a true and fair view has been selected. The policies adopted by the SDA 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 pounds sterling and figures are expressed in thousands of pounds unless expressly stated in a note.

1.1 Accounting Convention

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

1.2 Basis of Preparation of Annual Accounts – Accounting Boundary

The primary purpose of the SDA is to equip and support the UK's submarine flotilla for operations now and in the future by procuring new equipment, commodities and services, supporting in-service equipment through-life and managing some logistics operations. The SDA's purpose and role, together with the governance, policy, financial and human resources parameters that guide day-to-day operations are set out in the Framework Document, which is approved by Secretary of State for Defence. The Chief Executive is appointed by the MOD Permanent Secretary as an additional accounting officer, with responsibility for the operating costs of the agency. Delegations to run the Agency are granted through the DG Nuclear. The operating cost envelope specifically encompasses staff costs, other operating costs (including travel and training), and private sector support (PSS) expenditure and any associated revenue. The financial statements also include costs incurred by other MOD organisations in support of the SDA operations as non-cash communicated costs (please see item 1.8 below and Note 6 to the financial statements).

PSS is defined as external support to supplement the SDA 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 (please see Note 4). It encompasses contracts for the employment of manpower support, consultancy assistance and specialised support activities. As such, PSS addresses resource and skills gaps in our project and logistics management capability. The SDA has developed and implemented accounting policies defining those activities that are to be treated as PSS.

Equipment Programme costs are those directly attributable to building the assets and bringing them into use; Operational expenditure is the costs associated with the project and programme management to deliver the programme i.e. the non-attributable overhead. The SDA does not account for the Equipment Programme, which is included in the MOD accounts.

1.3 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

Accounting boundary: The SDA has robust and well-established policies and governance arrangements supporting the delineation of costs between those recognised as operating costs and reported in the SDA financial statements from those equipment procurement/support activities that are reported in the MOD financial statements. The SDA documents these policies and governance arrangements in its Finance Manual, and they have been paramount in the preparation of these accounts. Decision making continues to be supported by the SDA Operating Costs Controls Steering Group (OCCSG), which is chaired by a senior finance manager, providing structured consideration of accounting boundary decisions.

Activities undertaken within overarching equipment procurement and support contracts: The SDA often procures activities to be performed by industrial contractors that match activities which the SDA would usually be responsible for, but which are integral and indivisible from the other Equipment Plan activities in the overarching contracts. The SDA could not in-source these integral and indivisible activities and it would therefore be inappropriate for such arrangements to be accounted for within the SDA operating costs.

Communicated costs: The SDA receive several 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 the SDA, so these costs are recognised within the SDA'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 6 provides further detail on communicated costs.

Accruals: payables: In instances where expenditure has been incurred but not invoiced, an estimate is made of the amount to be accrued as a payable item. The SDA annually reviews the appropriateness of the materiality level set to ensure it continues to remain relevant. For 2018-19 a guideline materiality threshold of £5,000 has been applied in the recognition of payables.

1.4 Changes during 2018-19 which have affected preparation of these annual accounts

As at 1 April 2018, the Submarine function previously managed and accounted for by DE&S was transferred to the SDA. The net liabilities of £13.547 million relating to the SDA were transferred by DE&S to SDA and accounted in accordance with the FReM, via absorption accounting (please see Note 2).

1.5 Going Concern

The SDA is funded on the same basis as other central government organisations (known as “on vote” or net parliamentary funding) and therefore receives funding allocations through the MOD. As the SDA 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 represents a timing difference that will be offset by future net parliamentary funding from the MOD.

1.6 Revenue and Expenditure Recognition

The SDA's liabilities are settled via Parliamentary Funding and the SDA does not generate any revenue. Any expenditure incurred directly from the SDA's activities is recognised in the Statement of Comprehensive Net Expenditure on an accrual's basis determined by when the SDA receives the related goods and services and where an assessment of the stages of completion of expenditure generating activities can be reliably measured.

1.7 Programme Costs

The SDA expenditure is reported as programme costs in line with MOD annual accounts reporting requirements. Where the SDA 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 the SDA management activities, salary costs are charged to the SDA. The SDA materiality threshold for manual accruals in the Agency is £5k (SDA Finance Manual, 3.3.1 and 13.2) with a line item minimum of £500 (regarding ledger adjustments).

1.8 Communicated Costs

Communicated costs are indirect costs in support of the SDA operations that are incurred through activities with other MOD organisations. These costs have been included as a non-cash item in the SDA's Statement of Comprehensive Net Expenditure, to ensure that a full representation of operating expenditure is reported. Note 6 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 the SDA are deemed to be outside the scope of VAT as they relate to direct manpower costs. Irrecoverable VAT is charged where appropriate to other expenditure categories. Expenditure associated with recoverable VAT is treated as excluding VAT in the SDA accounts, with formal recovery administered by the MOD. The SDA is not separately registered for VAT and VAT collected, or any associated recoveries are processed centrally by the MOD.

1.10 Non-Current Assets

During 2018-19 the SDA held no reportable Non-current assets and therefore has no resulting depreciation charges, or requirement to review for impairment. The Non-Current Assets capitalisation threshold is £25k and whilst there is capital expenditure there is not considered to be a material balance in the preparation of the SDA accounts. All Equipment Programme Non-Current Assets are held on the MOD register and managed separately to any Non-Current Assets that may meet the capitalisation threshold and are registered as Agency assets.

1.11 Cash and Cash Equivalents

Cash payments and any minimal receipts are processed on behalf of the SDA by the MOD. The SDA does not, therefore, operate its own bank accounts, nor does it have separate cash, or cash equivalent balances within the Statement of Financial Position.

1.12 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”. The SDA has no trade or other receivables that would be classified as current assets. Goods or services received but not yet invoiced are accrued at estimated fair value.

1.13 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 the SDA average staff costs, by grade, based on a 365-day year, in line with the MOD policy on recognition of untaken leave.

The 2018-19 value of employee performance bonuses reflected within the Statement of Comprehensive Net Expenditure reflects those earned for performance in 2018-19.

The SDA has no voluntary or compulsory redundancies to report in 2018-19.

1.14 Funding Transfers for Staff Movements

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

1.15 IFRS 8 Segmental Reporting

The requirement for segmental reporting under IFRS 8 is not considered appropriate for the SDA, as the organisation is operated and managed as a single entity, rather than as separate operational segments. The SDA's sponsor department, Defence Nuclear Organisation (DNO), recognises the SDA as a single entity operating and managed from a single central location in Bristol.

1.16 Reserves

The General Fund reserve represents the balance of taxpayers' equity in the SDA. Specifically, the General Fund reflects the net assets held at the end of financial year 2018-19. The SDA has no other reserves.

1.17 Provisions for Liabilities and Charges

Provisions for liabilities and charges have been established under the criteria of IAS 37 – Provisions are based on realistic estimates of the expenditure required to settle legal or constructive obligations that exist at the Reporting Period Date. On initial recognition provisions are charged to the SoCNE. Provisions have been made relating to an ongoing legal case. Further disclosure is not included to prevent any prejudice of the case. Estimates for the legal claims are based on historic volumes of claims and the anticipated settlement date. In addition, the SDA has disclosed a provision to the Dilapidation for a leased property (please see Note 11). The estimations for dilapidation are based on information provided by Defence Infrastructure Organisation (DIO) and the Government Property Agency (GPA).

1.18 IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are reportable for the first time in these financial statements. Implementation of these new standards has had no material impact on the SDA transactions and balances.

- IFRS 9 - the SDA does not have any financial instruments to report for this financial year.
- IFRS 15 - the SDA does not receive revenue from any contracts held with its customers.

IFRS 16 – Leases

There are no significant anticipated changes to the 2019–20 FReM. HM Treasury has deferred adoption of IFRS 16 – Leases for the public sector to 2020-21. IFRS 16 is expected to have a significant impact for the Department.

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.

The potential impact of IFRS 16 on the SDA will be assessed in 2019-20. Assets subject to leases that are currently accounted for as operating leases (please see Note 11) will become right-of-use assets included within property, plant and equipment. There will also be recognition of the associated lease liability. SDA is currently working towards establishing the quantitative impact of the introduction of this Standard.

2. TRANSFER OF FUNCTIONS FROM DE&S UNDER ABSORPTION ACCOUNTING

DE&S Transfers	2018-19 £000
Private Sector Support Accruals	8,231
Direct staff accrual	5,088
Trade Payables	228
Total	13,547

Adjustments to Transfers identified after SDA demerge from DE&S	2018-19 £000
Private Sector Support Accruals	(590)
Direct staff accrual	136
Trade Payables	124
Total	(330)

At 1st April 2018 the SDA demerged from DE&S. As of that date all balances relating to the former Submarines Operating Centre (SMOC) within DE&S transferred to the SDA under absorption accounting totalling £13,547k. Many of these balances were accruals which represented the best available estimate of liabilities held as of 1st April 2018. In 2018-19 the SDA settled these liabilities.

Following the transfer of liabilities, the SDA performed a detailed review of these balances which identified adjustments totalling £330k. As these adjustments improved the accuracy of the transferred liability balance but did not relate to 2018-19 expenditure, the adjustment was made through the general fund.

3. STAFF NUMBERS AND RELATED COSTS

3.1 Staff Costs Comprise:

Staff costs comprise:	2018-19		
	Permanent Employee Staff £000	Contingent Labour £000	Total £000
Salaries and Wage Costs	68,225	3,398	71,623
Social Security Costs	7,323	-	7,323
Other Pension Costs	15,527	-	15,527
Total	91,075	3,398	94,473
Paid To:	£000	£000	£000
Armed Forces	18,775		18,775
Civilian	72,300	3,398	75,698
Total	91,075	3,398	94,473

3.2 Average Number of Persons Employed:

Average Staff Nos (Full Time equivalent):	2018-19		
	Permanent Employee Staff	Contingent Labour	Total
Armed Forces	156	-	156
Civilian	1,266	19	1,285
Total	1,422	19	1,441

4. PRIVATE SECTOR SUPPORT (PSS):

	2018-19 £000
Specialist PSS	24,019
Manpower Support	22,246
Consultancy Support	5,477
Total	51,742

5. OTHER PROGRAMME COSTS

	2018-19 £000
Cash Expenditure:	
Staff travel and subsistence costs	4,290
IT and telecommunications	2,430
Rentals	1,553
Infrastructure expenditure	754
Staff training costs	356
Fees for Professional Services	316
Civilian Recruitment	135
Medical Non-Hospital treatment	205
HMRC Fines + Interest Payments	152
Legal Fees	132
Other Costs	73
Foreign Currency Losses	6
Total Cash	10,402

6. COMMUNICATED COSTS AND DE&S NON-CASH CHARGES**Communicated Costs**

The following costs have been incurred by other MOD organisations in support of SDA activities. These costs have been included as a non-cash item in the SDA statement of Comprehensive Net Expenditure to ensure a complete representation of Operating Expenditure is reported. There is no hard charge for these costs, which are apportioned by DE&S to the SDA on an equitable basis.

MOD Organisation	Description of activities	Method of apportionment	2018-19 £000
Joint Forces Command	Information systems and communication services	Number of SDA Headcount relative to MOD	5,717
Defence Infrastructure Organisation	Infrastructure and facilities management costs	Cost per employee at SDA HQ extrapolated to total SDA headcount	2,278
Joint Forces Command	Training Services through the Defence Academy and Surgeon Services	Number of SDA training days relative to total MOD training days.	1,755
Defence Infrastructure Organisation	MOD Guard Service	Based on Abbey Wood as the primary SDA site, along with SDA's portion of related Equipment / Overhead costs.	309
Defence Business Services	Personnel and Payroll Services	Number of SDA employees relative to total MOD employees	1,296
Head Office and Corporate Services	Various	Based on actuals	160
Total			11,515

DE&S Non-cash Charges

As set out in the Business Agreement between the SDA and DE&S, DE&S charges the SDA for its share of the DE&S corporate overheads. This enables the appropriate overheads to be included in the accounts of both the SDA and DE&S. The Business Agreement formalises the service provision arrangements between the two organisations, identifies the programme dependencies and sets out how these will be managed. The DE&S Corporate Overhead Charge for 2018-19 was £7,765k

7. AUDITORS' REMUNERATION

The SDA is audited by the Comptroller and Auditor General. The charge of £125k reflects the costs incurred by the auditor in respect of the audit of the SDA 2018-19 Annual Report and Accounts.

8. TRADE RECEIVABLES AND OTHER ASSETS

	2018-19 £000
Amounts falling due within one year:	
Other receivables	141
Prepayments	26
Totals	167

Other receivables relate to a HMRC refund for over-payment of VAT during the financial year.

The prepayment recognised is in respect of Nuclear Graduates and Apprentices scheme operating within the SDA. The SDA makes an annual contribution to cover the costs of the MOD Nuclear skills strategy Group (this includes Labour Market Intelligence). The annual charge covers the Calendar year January to December 2019.

9. TRADE PAYABLES AND OTHER LIABILITIES

	2018-19 £000
Amounts falling due within one year:	
Private Sector Support accruals	(11,107)
Direct staff accrual	(6,972)
Trade payables	(2,457)
Sundry payables	(180)
Totals	(20,716)

The direct staff accrual includes a non-cash adjustment of £1,434k, reflecting the SDA share of the MOD liabilities for employee NI contributions and Employer's Pension contributions. The SDA share is £529k for employee NI contributions and £905k for Employer's Pension contributions.

10. PROVISIONS

Provision Description	2018-19 £000
Nuclear Suitably Qualified and Experienced Personnel (NSQEP)	(905)
Dilapidation Leased Building	(835)
Totals	(1,740)

The SDA has included a provision of £905k in the accounts relating to an ongoing legal case. Further disclosure is not included to prevent any prejudice of the case. In addition, the SDA is disclosing the requirement to include a provision in SDA accounts of £835k relating to the Dilapidation of the leased property (Note 11).

11. COMMITMENTS UNDER LEASES**Operating Leases**

Obligations under Operating Leases comprise:	2018-19 £000
Buildings:	
Liability less than one year	742
Later than one year but not later than five years	2,758
Later than five years	-
Total	3,500

The SDA has one operating lease (buildings), with a liability from 21 December 2018 until 20 December 2023. The expense incurred in year but not yet paid is £137k.

12. RELATED PARTY TRANSACTIONS

The SDA is an executive agency of the MOD. As such and for the purpose of these accounts the MOD is regarded as a related party. Funding comes in the form of Parliamentary funding with all payments and receipts relating to the SDA operations being processed by the MOD on the agency's behalf.

The MOD continues to undertake a number of transactional activities on behalf of the SDA with other government departments and other central government bodies. The most significant of which relate to 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 provides corporate services to the SDA to assist the 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. The SDA is charged by DE&S for its share of the DE&S corporate overheads, for 2018-19 this was £7.8 million.

Details of individuals who served as Board Members during the year are listed in the Remuneration Report. No Board Member or their related parties has undertaken any material transactions with the Agency during the year.

13. EVENTS AFTER THE REPORTING DATE

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





Submarine
Delivery Agency

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