



Ministry  
of Defence

de&s

## Defence Equipment & Support Annual Report and Accounts

# 2019-20



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

HC 823



Defence Equipment & Support

# **Annual Report and Accounts**

# **2019-20**

For the year ended 31 March 2020

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# GLOSSARY

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Acronym	Definition
AAR	Annual Assurance Report
ABC	Annual Budgeting Cycle
ACM	Asbestos Containing Materials
AP	Accounting Period
AFPS	Armed Forces Pension Scheme
ALB	Arm's Length Body
AMA	Agreed Management Action
ASE	Acquisition Safety & Environmental
ASEMS	Acquisition Safety & Environmental Management Systems
ASP	Acquisition Safety Project
AUC	Assets Under Construction
BAME	Black, Asian & Minority Ethnic
BCM	Business-Critical Models
BMS	Business Management System
BTE	Bespoke Trading Entity
CAAS	Cost Assurance & Analysis Service
CASP	Command Acquisition & Support Plan
CCI	Customer Confidence Index
CDS	Chief of the Defence Staff
CEO	Chief Executive Officer
CESO	Chief Environmental and Safety Officer
CETV	Cash Equivalent Transfer Value
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIPO	Customer Interface Portfolio Offices
CofE	Centre of Expertise
CoM	Chief of Materiel
COO	Chief Operating Officer
CPI	Consumer Price Index
D&I	Diversity & Inclusion
DCDS	Deputy Chief of the Defence Staff
DE&S	Defence Equipment and Support
DG	Director General
DIA	Defence Internal Audit
DOSG	Defence Ordnance Safety Group
DRC	Depreciated Replacement Cost
DSTL	Defence Science & Technology Laboratories
EDD	Equipment Delivery Date
EDP	Early Departure Payment
FLC	Front-Line Command
FReM	Financial Reporting Manual

FY	Financial Year
GGC	Greening Government Commitments
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
HO	Head Office
HR	Human Resource
IAS	International Accounting Standards
ICO	Information Commissioner's Office
IFRS	International Financial Reporting Standard
IT	Information Technology
KPI	Key Performance Indicator
KUR	Key User Requirement
LTPA	Long Term Partnering Agreement
MOD	Ministry of Defence
NAO	National Audit Office
NATO	North Atlantic Treaty Organisation
NED	Non-Executive Director
OBI	Order Book Item
OBR	Office for Budget Responsibility
OC	Operating Centre
OGSM	Objectives, Goals, Strategies & Measures
OHSE	Occupational Health, Safety & Environmental
OPC	Other Programme Costs
P&RR	Performance & Risk Review
P3M	Project, Programme & Portfolio Management
PCR20	Programme Cost Review 20
PCSPS	Principle Civil Service Pension Scheme
PES	Public Expenditure System
PMPS	Performance Management & Pay System
PPE	Property, Plant and Equipment
PSC	Personal Service Company
PSS	Private Sector Support
QM	Quality Management
RAF	Royal Air Force
RN	Royal Navy
SAR	Subject Access Request
SCS	Senior Civil Service
SDA	Submarine Delivery Agency
SLG	Senior Leadership Group
SOCiTE	Statement of Changes in Taxpayers Equity
SoCNE	Statement of Comprehensive Net Expenditure
SOFP	Statement of Financial Position
TLB	Top Level Budget
TU	Trade Union
UEL	Useful Economic Lives
UKGI	UK Government Investments
VAT	Value Added Tax
VCDS	Vice Chief of the Defence Staff

# 2019-20 Highlights

DE&S procures and supports a vast range of equipment and services for the UK's armed forces, whilst continuing to build on the successes of our significant transformation programme and learn from our experiences. We are now half way through our two-year DE&S@21 Improvement Plan which has simplified the DE&S vision into Great Delivery, Great People and Great Place to Work. We are committed to a culture of continuous improvement, embedding it into our business as usual and working with our customers to ensure we successfully deliver value for money equipment and support programmes for defence. A handful of DE&S' successes for this reporting year are detailed below.

## Savings for defence

We have worked hard to embed efficiency savings into our normal business, with our efforts continuing to produce significant results. We started to formally track efficiencies<sup>1</sup> in 2016-17 and since then, DE&S has delivered £6.2 billion of Equipment Plan financial savings<sup>2</sup>.

In each of the last four years, we have delivered efficiency savings for our customers, the Front-Line Commands (FLCs), that exceed our operating expenditure budget.

## Supporting wider Government Departments

Towards the end of the year, DE&S supported the nation-wide effort to combat COVID-19. DE&S staff were deployed internally to support the COVID-19 Operations Cell and externally to help support the NHS and other Government Departments. As of 31 March 2020, 41 staff were deployed to COVID-19 related posts.

DE&S also played a significant role during the European Union exit preparations, focusing efforts across three key areas: people, logistics and our supply chain. Overseen by the DE&S EU Exit team, approximately 900 of our staff volunteered to assist, with 150 staff subsequently deployed to support the Ministry of Housing, Communities and Local Government, and the Welsh Government. DE&S personnel worked against extremely tight timescales and uncertainty and were praised by other Government Departments for their true professionalism, camaraderie and positivity throughout the months of preparations.

## Improving our people model

We are committed to making DE&S a truly inclusive workplace for everyone and are involved in numerous business-wide and community activities which support Diversity and Inclusion (D&I). For example, we launched the Reverse Mentoring Pilot<sup>3</sup> and we participated in the 'Stepping Up' programme to develop Black, Asian and Minority Ethnic (BAME) leadership talent, both of which are run in collaboration with Bristol City Council.

Our people focus, and the safety and wellbeing of our staff has remained at the fore. We introduced a new internal promotion process that saw 350 of our people promoted from within the organisation and we undertook targeted actions to address retention issues in parts of DE&S, reducing the numbers of staff leaving us. We have implemented a number of wellbeing measures including the promotion of mental health awareness and clear signposting of the support services available, this being particularly important as we entered the period of the pandemic.

Member of staff at work in Manchester office



<sup>1</sup> An efficiency is a measurable improvement that achieves the same output for a reduced input, where there has been a genuine reduction against the original baseline costs.

<sup>2</sup> The Equipment Plan encompasses both equipment procurement and support. Source of £6.2 bn: All Equipment Plan financial benefits delivered from financial year 2016-17 to 2029-30.

<sup>3</sup> Junior members of staff, identifying as either women, ethnic minority, LGBT+ or disabled, are the mentors for a member of the Senior Leadership Group.



## Support delivery

A contract worth almost £350 million was signed to provide maintenance support for the EJ200 - the engines that power the UK's fleet of Typhoon fighter jets.

DE&S secured a new £177 million deal to support the repair and maintenance of small boats used by the Royal Navy (RN), Royal Marines, British Army, and the Ministry of Defence (MOD) Police.

An £85 million engine support contract for the maintenance of the RN's Type 23 frigates was awarded, which will see the overhaul of 30 engines from the UK and North Atlantic Treaty Organisation (NATO) partners Belgium, Portugal and the Netherlands.

A contract worth more than £60 million was placed to maintain the British Army's cutting-edge fleet of armoured vehicles including Foxhound, Mastiff, Jackal and Husky.

## Equipment delivery

A £2.8 billion contract was signed to provide more than 500 state-of-the-art Boxer 8x8 high mobility, network-enabled armoured vehicles to transport troops onto the frontline.

We awarded the first tranche of innovative contracts for General Munitions, which will collectively deliver up to £400 million of munitions to defence.

The UK Military Flying Training System team signed a £183 million contract to boost training services for new Rotary Wing pilots.

Testing of Protector – the first remotely controlled aircraft capable of attacking targets anywhere in the world – took place under a £100 million contract.

A £36 million contract was signed to provide the Royal Air Force (RAF) with the latest simulation training technology. The 'Gladiator' technology can replicate up to three real-life scenarios simultaneously and independently of each other. It will give the RAF unprecedented training flexibility and enable pilots to exercise capabilities, tactics and procedures that would be impossible in the live environment.

We formally awarded the contract for the RN's future Type 31 frigates to Babcock International Group Plc, to design and build a fleet of five ships. They will be assembled in Rosyth and involve supply chains throughout the UK.



British Soldiers in their Jackal 2, during a training exercise in Poland



Typhoon pictured as part of Exercise Cobra Warrior - Typhoon pilots will fly virtual missions using Gladiator technology



Ajax vehicle during cold weather trials in Sweden

# Chair's introduction

by Mark Russell, DE&S Chair

I am delighted to introduce this report, which is the first during my tenure, and covers the sixth year of DE&S' operation as a Bespoke Trading Entity (BTE) and Arm's Length Body (ALB) of the MOD. I must start by thanking James Dorrian, one of our Non-Executive Directors (NEDs), for acting as interim Chair following the departure of Paul Skinner in May 2019.

Over the course of the reporting year, DE&S has continued to procure and support a vast range of equipment for the UK's armed forces; an annual programme of work equating to around £10 billion within an operating expenditure budget of £1 billion<sup>4</sup>. There have been many highlights, some of which have already been described, illustrating the breadth of our multifaceted and demanding programme of work. Alongside tangible delivery to customers, DE&S has also continued its pursuit and identification of £4.7 billion<sup>5</sup> of financial savings within this Annual Budgeting Cycle (ABC), from an Equipment Plan that is typically worth over £100 billion in any ten-year period. This is a significant contribution to DE&S' overall savings delivered since 2016-17 and a direct reflection of the hard work of DE&S staff. Delivering these outputs safely and efficiently, while continuing the organisation's improvement journey built around Great Delivery, Great People and Great Place to Work, is testament to the pride, commitment and dedication I see in DE&S people.

Those attributes cannot be overstated. Towards the end of the year, our whole organisation, along with the rest of the world, faced considerable new challenges with the outbreak of COVID-19. I am immensely proud that DE&S people remained resilient and flexible in response to the outbreak, despite significant changes to the 'normal' working - and indeed home - environment. The skills, adaptability and professionalism of our people have been widely recognised across Government, following the successful deployment of procurement and logistics experts to support the national effort. The extent and enduring impact of COVID-19 on DE&S and the wider Department is not yet understood, however, looking ahead, I know that DE&S will work hard to continue the delivery of complex projects and programmes against this uncertain backdrop and support our shared recovery from the economic and social damage that the pandemic has caused.

This year has seen a number of changes to the DE&S Board, including the departure of one of our NEDs, Mr Gerard Connell, who provided valuable support and advice during his tenure. We have also welcomed Mr Henry Lloyd to the Board, to fulfil the role of corporate sponsor representative on behalf of the MOD, strengthening further our strategic governance framework.

I would like to express the entire Board's appreciation for the part played by all DE&S people in delivering our results throughout 2019-20.



<sup>4</sup> Operating budget allocations of £10bn (Equipment Plan) and £1bn (Operating expenditure) for 2019-20.

<sup>5</sup> Total Equipment Plan benefits delivered so far for the period 2020-21 to 2029-30. Source of £4.7 bn: Programme Cost Review 20 (PCR20) detailing efficiencies delivered so far (realised in forecast) for the period 2020-21 to 2029-30. PCR20 is a DE&S-chaired joint review with Front-Line Commands (our customers), in support of the wider Departmental Annual Budget Cycle.



HMS Albion conducting a Man Overboard Exercise and sea boat drills as training

# Section One

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## **Performance Report**

# OVERVIEW



# Chief Executive Officer (CEO) statement

by Sir Simon Bollom, CEO and Accounting Officer

The scope of our DE&S business is broad. It covers the UK's land, sea and air environments, as well as cyber and emerging requirements in the space domain and it will deliver £109 billion of the defence Equipment Plan in the next ten years. We have continued to successfully deliver complex projects for our armed forces through our dedicated and highly skilled workforce, at every level. Our notable achievements are wide-ranging in scale, scope and innovation across equipment procurement and through-life support as demonstrated in our 2019-20 Highlights page.

This Annual Report and Accounts reflects the outcomes of another extremely busy and rewarding year for DE&S. Alongside our delivery of equipment and support, we have also continued to deliver the DE&S@21 Improvement Plan. Throughout the year we have strengthened our three DE&S@21 aims of Great People, Great Delivery and Great Place to Work, by putting in place a new internal promotion process, introducing Success Profiles into the business for our staff and updating our acquisition safety processes and policies.

We must maintain and strengthen our relationships with the MOD and wider Government, our customers - the FLCs - and industry, to help us react quickly to the many changes ahead of us. COVID-19, EU Exit, and changes in defence driven by the Integrated Review and other transformation programmes, will impact on DE&S in ways that we do not yet fully understand. We must be ready for this, be proactive in our engagement with the wider defence programmes and continue to provide our wealth of expertise and experience to help shape our future within this wider context.

Towards the end of the year, we saw DE&S take on a new set of challenges with the outbreak of COVID-19, which forced us to change the way we work, whilst maintaining our support to defence of the UK as a priority and our obligation to maintain a safe working environment for all staff. The pandemic demonstrated how DE&S can react rapidly to new challenges, with the COVID-19 Operations Cell being established within 24 hours and staff quickly engaging with new ways of working. We provided clear guidance and information on a wide range of policy and personnel issues to help support our staff through this period, setting up a dedicated 'one-stop' intranet page to enable staff to quickly access the information they needed to help

them adjust to the new and unprecedented working environment. Having previously established smart and flexible working capabilities, with laptops provided to almost all staff, the vast majority were able to work effectively from home very quickly.

It is unclear what the economic impact of the COVID-19 pandemic will have on the delivery of our projects and programmes and on funding levels going forward into future years. The processes we have in place to manage our outputs, however, and our skilled workforce will enable us to respond to any challenges that lie ahead as we start to understand its enduring impact on the business. This is something I will actively monitor throughout 2020-21.

I have reviewed the 2019-20 report and accounts and our comprehensive internal controls. I am satisfied that this document accurately reflects the financial status and corporate position of DE&S during the 2019-20 reporting period and I am delighted with our achievement of an unqualified audit opinion by the National Audit Office (NAO) for the third consecutive year.



Sir Simon Bollom, CEO and Accounting Officer

# Chief Financial Officer (CFO) Report

by David Johnson, Director General Resources



David Johnson, Director  
General Resources

2019-20 is our sixth year of operation as an ALB within the MOD. This has been a particularly rewarding and demanding year in which we have continued to improve our delivery performance for our customers and take forward our internal Improvement Plan, DE&S@21, whilst in parallel providing support to EU Exit activity and more recently the UK response to the COVID-19 pandemic. During this period we have continued to drive efficiencies in the way we operate, maintaining focus across the organisation on getting the best value possible for the taxpayer.

## The Equipment Plan

This year we spent £9,979 million on acquiring and supporting equipment for the armed forces, as well as a further £1,018 million on inventory items to support that equipment. We delivered 746 new assets with a Gross Book Value of £5,004 million to our customers, of which the largest was HMS Prince of Wales (£2,981 million).

During the year we remained within our budgets and delivered efficiencies. On equipment acquisition and support, our outturn of £9,979 million was £103 million (1%) under the budget of £10,082 million. On inventory, our outturn of £1,018 million purchases was £167 million (14%) under the budget of £1,185 million. In turn our inventory consumption was also lower than planned and totalled £945 million, £125 million (12%) under the budget of £1,070 million. Reduced purchases and consumption of inventory were principally as a result of contract renegotiations based on improved understanding of customer requirements and buying patterns across a number of programmes, coupled with delays to supplier delivery schedules. All forecast changes were reviewed in detail with our customers throughout the year to ensure any impacts to business delivery were understood and managed appropriately.

Looking at the longer term, the projected ten-year costs of the Equipment Plan reduced by a further £1,068 million (1%), from £109,976 million to £108,908 million. The bulk of this reduction - about £550 million - represented efficiencies, bringing the total Equipment Plan efficiencies we have delivered for the period 2020-21 to 2029-30 to about £4.7 billion. Examples of the efficiencies delivered include £135 million on the MITER contract consolidation and £91 million on Sensor Support Optimisation Programme.

## Operating expenditure

We have continued to manage our operating expenditure carefully. DE&S' core operating costs for 2019-20 (excluding communicated costs<sup>6</sup>) totalled £1,043 million, staying within the budget of £1,044 million, making this the fourth straight year we have delivered an outturn within 1% of our funding envelope. The outturn figure for 2019-20 is £97 million higher than 2018-19 which is principally due to planned increases in our staff numbers and contingent labour to support the growing programme of work, the impact of the 2019 pay award and significantly higher employer contributions to military and civilian pensions from 1 April 2019. Our Infrastructure Plan out-turned at £125 million, £5 million (4%) under the budget of £130 million.

We remain focused on driving efficiencies in how we operate; in 2019-20 we achieved £75 million savings, exceeding the target for the year of £72 million and bringing the cumulative total delivered since efficiency targets were set in 2015-16 to £259 million.

## Finance Function – Continuous Improvement

Throughout 2019-20 we have continued to strive to develop the skills and capabilities of our people. Our work on digitising finance upskilling training has earned us recognition at the Public Finance Awards. As a member organisation of the Consortium of Advanced Management – International we have access to a wide network of finance professionals and have led and participated in various events and initiatives with industry counterparts, including a Forecasting Improvement project with defence suppliers, and working with the US Navy and Marine Corps on Finance Transformation.

Our internal Inventory Improvement Programme is well underway, strengthening ties with the Integrated Logistics function and embedding automated processes to improve the quality of inventory accounting. We have introduced a more interactive monthly financial performance review

<sup>6</sup> Communicated costs are indirect costs in support of DE&S operations that are incurred through activities with other MOD organisations.



process with our customers using shared dashboards, increasing transparency of reporting. Finally, we have undertaken a significant piece of work to assess over 2,500 of our live contracts for lease implications; while there is more work to do we are in a strong position leading into the Department's transition to adoption of International Financial Reporting Standards (IFRS) 16 from 1 April 2021.

## Process Automation

As part of DE&S' digital strategy we continue to invest in automation. We are currently operating 13 live automation processes, utilising robotic process automation, optical character recognition and Office 365 approval and workflow automation. To date these have delivered the automation of over 100,000 transactions across the business, providing indicative resource savings of over £0.3 million. Our aim is to deliver a further 20 processes in 2020-21 and exploit them to continue to improve our data quality and consistency, and reduce the manual burden of high volume, low complexity transactional activity throughout the organisation.

## Investing in Talent

In addition to programmes for developing senior leaders, and training schemes offering professional qualifications to existing staff, DE&S supports graduate and apprentice schemes in five functional areas (Finance, Project Professional, Engineering, Commercial and Corporate Services) and is launching similar schemes for the Information Management & Information Technology and Integrated Logistic Support functions. As well as our existing workforce, our focus is on entry talent, targeting schools and universities with a diverse population to ensure we are attracting high potential individuals into the organisation. We currently have over 730 graduates and apprentices and they are highly sought after as a resource within the organisation, bringing enthusiasm, energy and diversity of thought. Our schemes offer development programmes ranging from 18 months to five years in duration, during which individuals gain both professional qualifications and hands-on experience across the organisation.

## Governance and Counter-Fraud activity

Our approach to fraud prevention is overseen by our Fraud Board, which I chair. This forum drives delivery of fraud risk mitigations and monitors progress against our Fraud Prevention Plan. Over the course of 2019-20 we have continued to strengthen our fraud prevention capabilities across the organisation. Of particular note is the progress we have made in developing digital approaches to capturing and monitoring declarations of interest and to the governance of travel and subsistence payments. Our annual workshop reviewed our key fraud risks and we issued a comprehensive set of

communications to staff as part of International Fraud Awareness Week in November 2019.

Effective fraud prevention requires close collaboration with other stakeholders and DE&S has played a full and influential part in building and implementing pan-Governmental controls. In particular, we have continued to support the wider Departmental agenda with the MOD Fraud Defence team, positively contributing to the MOD Fraud Board and playing a key role in generating international counter-fraud capability with the UK's closest allies and partners. During the last year we have also established a specific sub-committee of the DE&S Fraud Board to work closely with the MOD Police on managing issues arising from investigations that are relevant to DE&S. Over this period we have successfully detected and acted on instances of potential fraud, including co-ordinating an approach to prevent an attempt at mandate fraud which had targeted several Government Departments. Finally, we continue to work closely with Defence Business Services to strengthen controls around supplier payments and reduce the risk of mandate fraud and duplicate invoicing, and we continue to promote our DE&S Whistleblowing and Raising a Concern Policy<sup>7</sup>.

## Outlook

Our immediate focus for financial year (FY) 2020-21 is on continuing to effectively deliver and drive improvements to the way we support our customers and fulfilling our DE&S@21 commitments. We will do this while adapting our policies and processes and maximising exploitation of available technology to accommodate an unprecedented new way of working in the MOD. In addition to this we will:

- Continue to support the COVID-19 response by keeping our people safe and deploying them where they are most needed, helping to protect our supply chain and collaborating with colleagues from other Government Departments as part of the wider Government effort;
- Support the Departmental input into the Government spending review and prosperity priorities;
- Continue to achieve further efficiencies on behalf of our customers and in our operating expenditure whilst building internal capability in efficiency delivery;
- Take further measures to review and develop our financial controls to ensure continued improvements in the quality of our accounts and audit results; and
- Work with cross-Government and industry colleagues to prepare for leaving the European Single Market and Customs Union.

I look forward to 2020-21 with confidence that we have the agility, drive and determination to succeed in what will undoubtedly be a challenging year for defence.

<sup>7</sup> Policy where individuals can anonymously report concerns about anything they think may be criminal activity, fraud or a breach of civil service code.

# About DE&S

## Our purpose

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

## Who we are

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

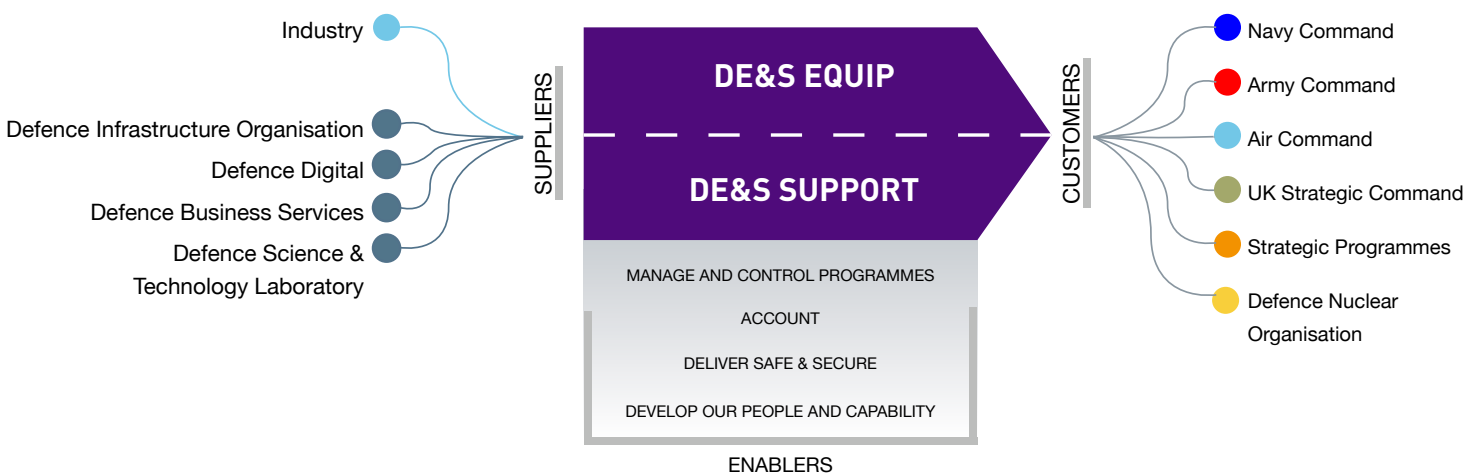
We are part of the MOD but operate as an ALB. We have a unique BTE status, with delegated management freedoms which provide greater flexibility to manage our business and workforce, thereby improving the quality of delivery to our customers. We are headquartered in Bristol and have people at numerous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

## What we do

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

We are safety focussed and work very closely with our customers in the FLCs - RN, Army, RAF and UK Strategic Command (encompassing Air, Land, Sea, Cyber and Space domains) - as well as MOD Head Office (HO), which includes Military Capability, led by the Deputy Chief of the Defence Staff (DCDS) and Director General (DG) Finance. Submarines business is led by the Submarine Delivery Agency (SDA), which is separate from DE&S.

## DE&S Operating Model

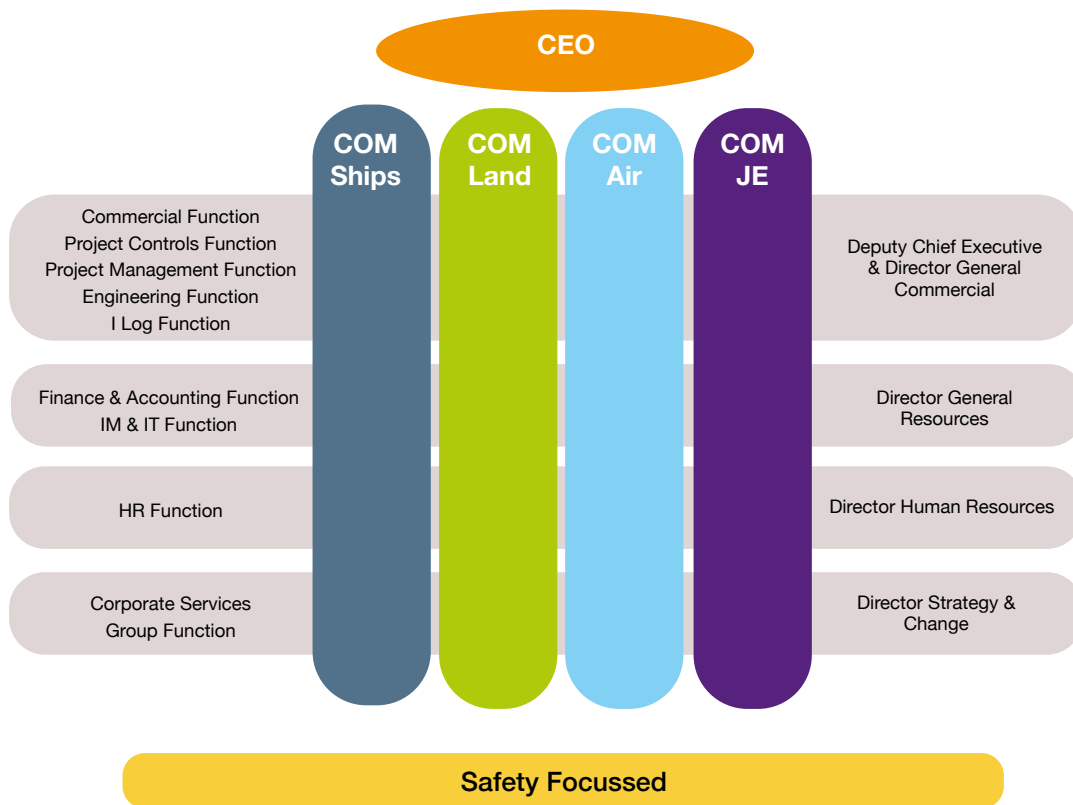


## How we are organised

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

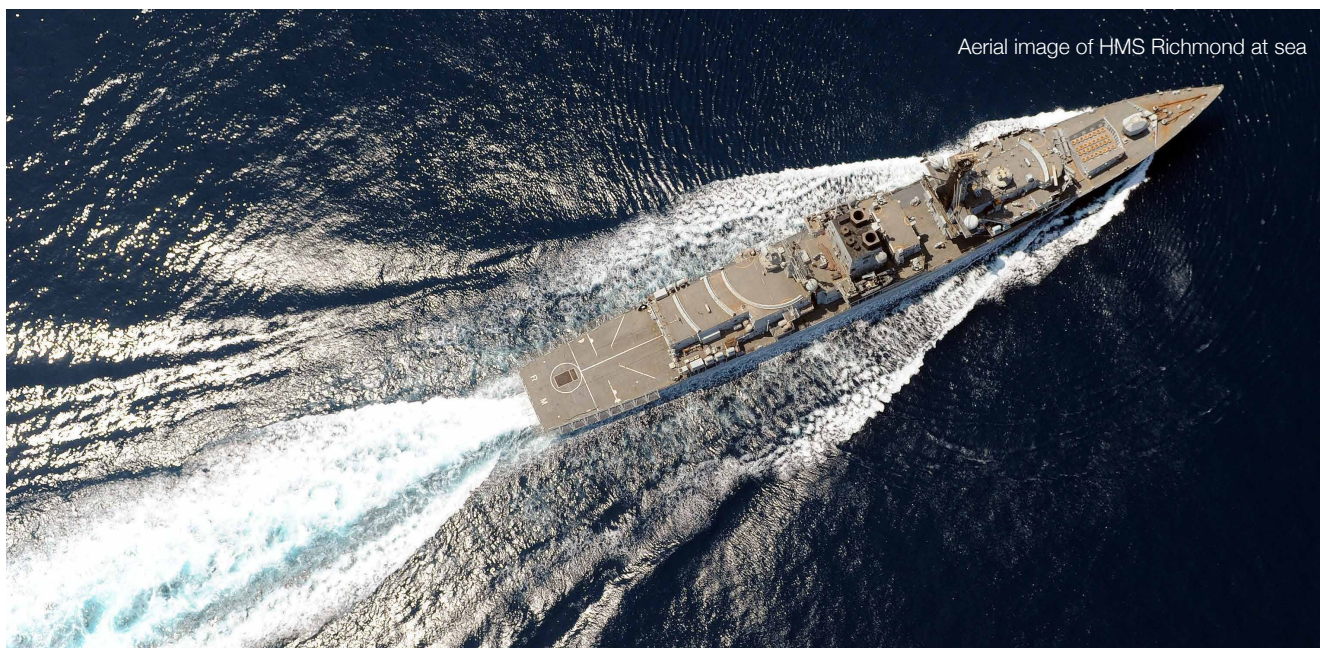
Delivery of our business is safety focussed and supported by nine enabling functions. Through the course of 2019-20, each function had an executive-level sponsor as depicted below:

### DE&S Management Structure as at 31 March 2020



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





## Our budget

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

Our agreed programme of work is set out in the Command Acquisition Support Plans (CASPs) – individual formal agreements with our customers that capture the outputs against which our teams will deliver. The agreements set out the equipment, support and services DE&S will acquire on our customers' behalf, for what budget and to what timescale. MOD HO holds us to account for delivery, and measures performance through the use of Key Performance Indicators (KPIs) which underpin our objectives, as set out in the DE&S Corporate Plan 2019-2022.

DE&S is directly responsible for its own operating expenses, and we carry out our business activities within an operating expenditure budget, which flows from MOD HO. Our operating budget includes staff costs, operating support, Private Sector Support (PSS)<sup>8</sup> costs and capital additions. In addition to these main sources of costs we also reflect within the accounts notional communicated costs, which cover the services that are incurred through activities with other MOD organisations. For 2019-20 our operating budget to support our activities was £1,044 million.

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

## Operating as a Bespoke Trading Entity

DE&S was launched as a BTE (and ALB) in April 2014, with unique management freedoms delegated by HMT and the Cabinet Office. DE&S has a separate governance structure and we use these freedoms to manage our outputs and workforce within operating cost budget. Our status has allowed us to strengthen the customer-supplier relationship with our military customers and facilitate a more business-like approach. We have also been able to implement changes outside of wider Government norms, particularly around the management of our people to help us to attract, develop, retain and deploy talent as required, to help meet our customers' requirements.

<sup>8</sup>PSS is not included in staff costs. This external support supplements our capacity and capability to manage DE&S' programme of work and may include support to business improvement /our change programme. PSS is explained in more detail on page 66.

## The DE&S Purpose and Vision

The DE&S Purpose is:

**Equipping and supporting the UK's Armed Forces for operations now and in the future**

Our DE&S Vision is to achieve:

**Great People, Great Delivery, Great Place to work**



The DE&S Vision is underpinned by the DE&S@21 Improvement Plan which is explained in more detail overleaf.

## The DE&S@21 Improvement Plan

The DE&S transformation programme (The Materiel Strategy) formally closed in 2018 with widespread recognition that it had enabled significant internal business improvements, as well as delivering significant benefits to wider defence. Building on this, at the start of FY 2019-20, the DE&S Executive put in place a new two-year Improvement Plan, namely DE&S@21. The intent is to instil a culture of continuous improvement across the business and to deliver further improvements in how we work and how we deliver to our customers. This will help us to achieve the future vision of DE&S as encapsulated by three simple aims: Great People, Great Delivery, Great Place to Work. Some of the activities undertaken during FY 2019-20 in support of this are described below.

### Great People

We have put in place new internal promotion processes, with campaigns running across all DE&S functions, helping to fill key gaps and providing the means for our staff to progress. New Success Profiles based on the wider Civil Service format have been published (replacing role profiles) for all roles, which show individuals how to achieve success in their current role and progress to the next. The Success Profiles show desired attributes from key responsibilities, to technical competences and behavioural expectations, and will be used as a key part of our talent management processes. Functional career paths and training prospectuses have been developed, for issue and adoption next year, ensuring that learning and development is focused on developing professional capability in line with our strategic objectives. We have also made improvements in our Human Resource (HR) casework team processes and structure. On D&I, we have committed to creating an inclusive working environment. Many engagements and activities took place throughout 2019-20 and there is an executive-level focus on D&I within the workplace, using metrics on representation and new joiner diversity to drive the right approach.

### Great Delivery

We have completed Tranche 1 of Delivery Framework Adoption<sup>9</sup> and have worked with the MOD Acquisition and Approvals Programme<sup>10</sup> to adopt the revised approvals processes. We have designed and delivered

improved delivery management information and dashboards to be used to improve executive oversight in Performance Committees and help delivery team leaders to manage their programmes and provide support at delivery level. We have also commenced the Inventory Improvement Programme to improve accuracy in material accounting, reduce surplus stock holding and address low stock availability and over-purchasing. We have launched the Future Capability Group to be the focal point for technology and innovation capability within DE&S, driving innovation into the heart of the business. We have updated our Acquisition Safety processes and policies<sup>\*</sup>, and mapped all roles into the new safety organisation definitions, as well as continuing our drive for Equipment Plan efficiencies, putting in place a DE&S efficiency hub and portal.

### Great Place to Work

We have developed Information Technology (IT) Roadmaps for all our functions, enabling development of plans to streamline and optimise our IT tools coherently. We have developed a data warehouse and analytics platform that provides a single source of trusted management information, together with improved enterprise data governance structures and processes, including the establishment of Data Quality Boards. Together with the FLCs we have adopted a new Customer Agreement Management System as a more efficient and effective means of defining and agreeing our outputs with our customers. We have continued to roll out improvements in our infrastructure across our sites, including those that support adoption of smarter working practices, as well as developing strategies to deliver our environmental obligations. We have launched a new MOD-wide Employee Assistance Programme, developed programmes to support our leaders and engaged with staff on empowerment and the behaviours that will best help us together deliver our DE&S@21 Vision.

<sup>9</sup> The Delivery Framework programme sets out to improve empowerment, accountability and the discipline with which we govern and control our delivery processes.

<sup>10</sup> Acquisition and Approvals Transformation is focussing on the culture, approaches and processes we use to acquire and support military capabilities across the Acquisition System in more flexible and agile ways, and embracing advances in technology.

<sup>\*</sup> <https://www.gov.uk/guidance/acquisition-safety-and-environment-group>

## Objectives Goals Strategies and Measures (OGSM) 2019-20

Our OGSM framework sets out in-year targets which are cascaded throughout the business. We have developed these metrics in support of the DE&S@21 Improvement Plan and to help achieve our vision, encompassing both business as usual and continuous improvement activities.

1

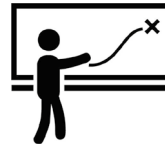
Objective  
**Hitting our numbers**



by staying within our Operating Expenditure budget and Equipment Plan allocation, and delivering the 19/20 pooled efficiency target.

2

Objective  
**Perform to plan**



by delivering the CASPs, we provide equipment that is safe to operate and support through its life.

3

Objective  
**Delivering cost effective support to the frontline**



by agreeing availability, reliability and sustainability targets with our customers and providing sustainable and efficient support solutions as part of the programme lifecycles.

4

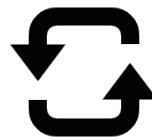
Objective  
**Satisfy our customers**



by effectively engaging with our customers, meeting their needs and playing our part in the deployment of capabilities.

5

Objective  
**DE&S@21: Continuously improving our performance**



by building our future capability, with fit-for-purpose tools and processes in place, enabling us to deliver to our customers.

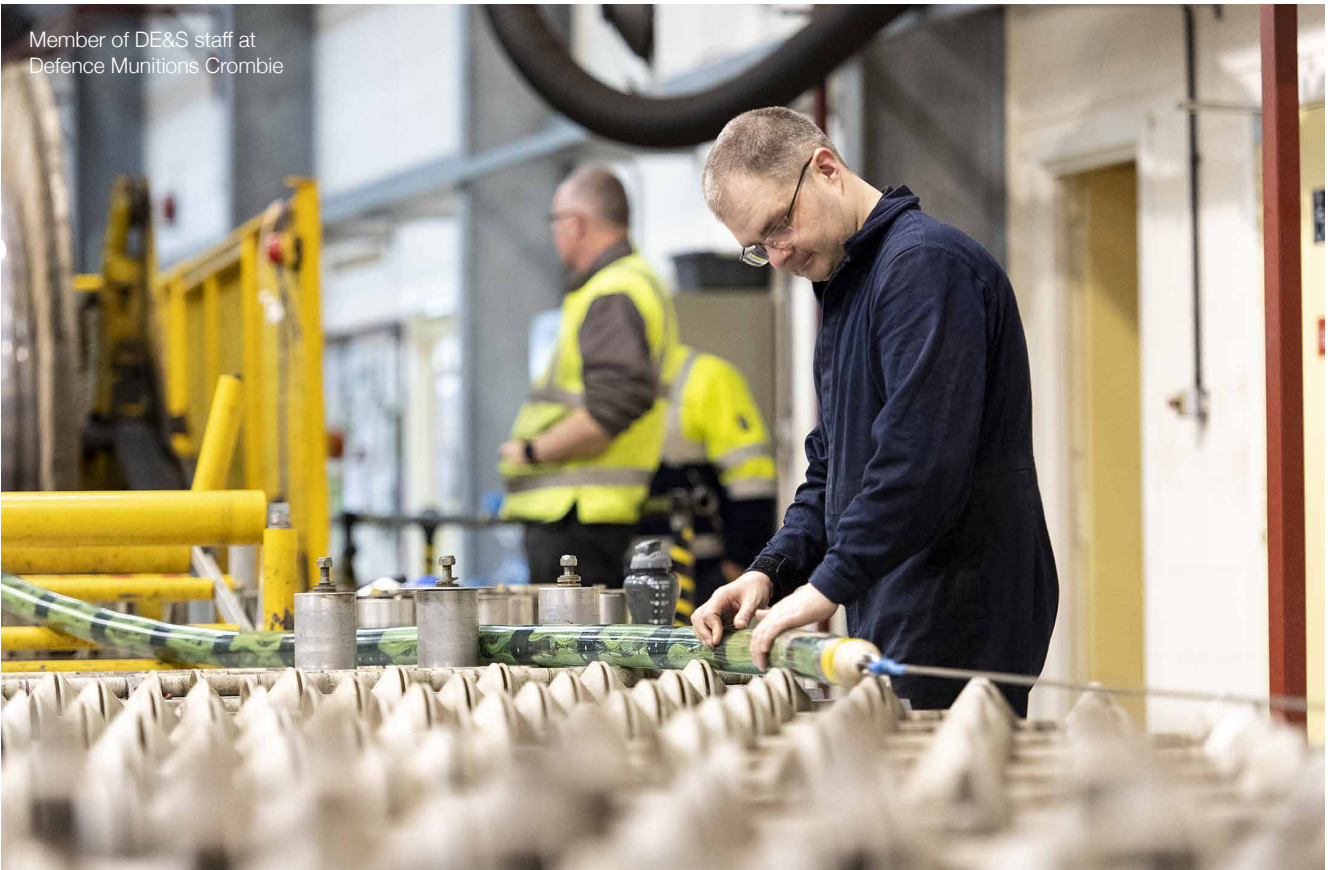
6

Objective  
**Enabling DE&S through empowered, diverse and high-performing people**



by attracting and retaining diversity of talent, with the right behaviours that generate an inclusive and empowering workplace, with improved HR data integrity and accuracy.

Member of DE&S staff at  
Defence Munitions Crombie



Member of DE&S staff at  
Defence Munitions West Moors





## Improving Our Delivery: Our New Ways of Working

Our focus for 2019-20 was to implement and achieve the first year of our DE&S@21 Improvement Plan, thus helping us to better understand and continue to embed the benefits of our transformation programme.

The project, programme, portfolio management (P3M) toolset, and how we utilise it, has matured throughout the year. Within our Order Book Items (OBIs) that comprise our programme of work, we have refined and integrated our processes to improve the quality of our project baselines and deepen our understanding of the P3M capabilities. This has enabled us to use the data available to us through the toolsets, thus improving our delivery management information for performance reporting across the organisation.

Operationally, we have successfully developed and piloted project dashboards, which are now being rolled out on a greater scale to assist delivery team leaders in managing their projects, both acquisition and support. Organisationally, we have refined our performance dashboards to improve executive oversight at domain and functional level performance reviews and greatly enhanced our annual business planning cycle.

Our programme, engineering and commercial delivery partners<sup>11</sup> have all reached full operating capability, significantly reducing the frictional costs of mobilising flexible personnel resources and reducing the lead times to provide niche, critical project support.

Following the conclusion of its successful pilot in March 2019 the Delivery Framework has moved on to facilitate a broad scale adoption across the organisation. Initially focused on endorsement decisions, we are now taking a tailored risk-based approach to governance and project assurance. We are making decisions at the most appropriate level and, in addition to significant reductions in execution times, the project teams continue to positively feedback on the greater empowerment and quality of outputs the framework gives. We continue to ensure the Delivery Framework principles align with the broader empowerment and improvement initiatives under the MOD Acquisition and Approvals Transformation Programme e.g. Project MAID (MOD's Approach to Investment Decisions) and the MOD Acquisition Review. This enables us to embed and adopt changes and improvements to better manage the delivery of OBIs.

## Commercial Improvements

Throughout 2019-20, the Commercial Improvement Programme has continued to focus on commercially-led business change that directly supports DE&S@21 and the commercial function by introducing improved commercial processes and systems and by injecting better cost consciousness into the DE&S delivery model. The benefits are generated by the systematic impact of improvement projects, together with their broader DE&S and MOD integration, with significant savings to be targeted over the next three years:

- **Category Management<sup>12</sup>:** DE&S is leading the MOD-wide programme to implement and embed Category Management. This includes working with each Top-Level Budget (TLB) organisation to build a model that delivers value for defence. In 2019, DE&S successfully piloted Category Management for Body Armour which culminated in the standing up of the Body Armour Category Team in March 2020. Two further categories are under development across Maritime Systems Support and Vehicle Support Teams with more category opportunities planned to be rolled out in 2020. The DE&S Category Management Centre of Expertise (CofE) has been created to provide a 'guiding hand' through coaching, mentoring and training our teams who are undertaking Category Management. We are also recruiting staff to join our CofE to increase and sustain our internal capability, working closely with our delivery partners.
- **Supplier Management:** We have influenced and implemented strong supplier management throughout defence, with our DE&S Sourcing Council team formally standing up in July 2019. The DE&S Sourcing Council focusses on supplier strategy and is integrated with wider MOD activities. For the first time, defence supplier data, market and project knowledge have been integrated, creating improved supplier strategies and commercial negotiation leverage. This has highlighted supply chain issues beyond our prime contractors, enabling defence leaders to focus on the right strategic supply issues.
- **Cost Optimisation Programme:** We have implemented our Indirect Cost Optimisation Programme, managing over 100 supplier business units and corporate cost centres. Our Indirect Cost Optimisation CofE focusses on exploiting

<sup>11</sup> We have delivery partners (contractors) in place to provide us with the additional resources, tools and techniques to further improve our delivery in a more efficient and effective way.

<sup>12</sup> Category Management seeks to improve value for defence through reducing capability costs and increasing agility to meet challenges and is an approach that segments and focuses on business activity by discrete groups of services or products.

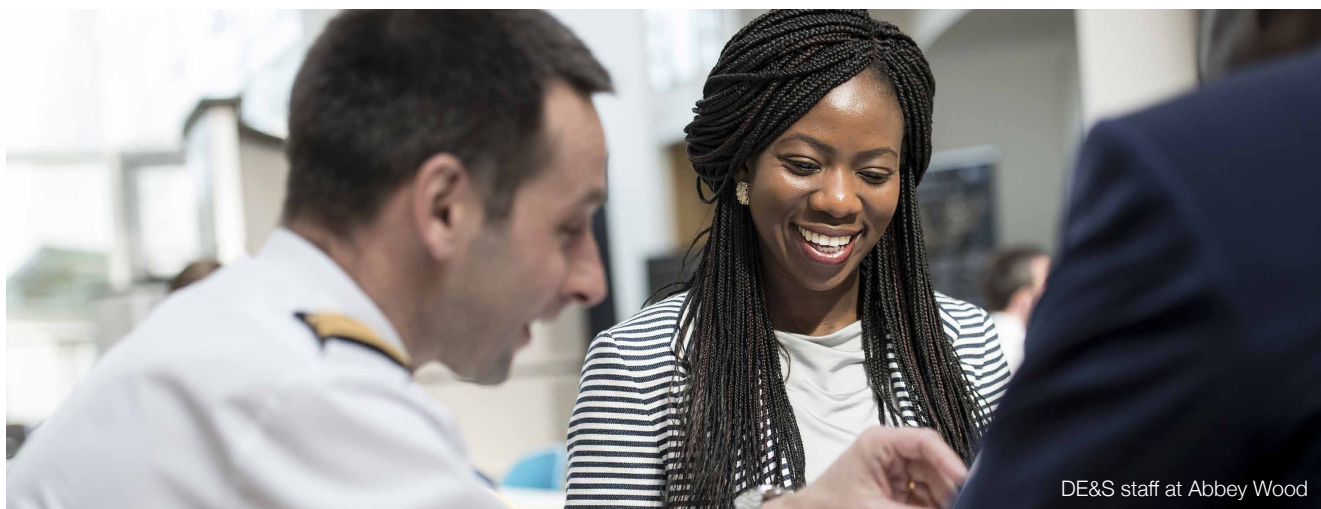
information gained from our cost investigations to enable more effective commercial negotiations. Work is underway to capture the significant cost reduction achieved through the programme and how that is reflected in our DE&S benefits system.

- **Commercial Management Information (MI):** We are driving improved data quality and consistency of commercial MI across the business. Our Commercial Data Analytics CofE stood up in February 2020 providing regular, structured and accessible MI to the business and other CofEs, supporting our commercial operations through a set of core products and services. We have created Commercial Performance Indicators that will support and inform domains and developed a Category Management MI tool in support of our category management strategy. A planned

approach to exploit and optimise our Contract, Purchasing & Finance (CF&F) system is in its final development stages with a focus on cross-functional ways of working that integrate the system across the business.

As we move into 2020-21, we will continue to roll out a succession of CofE to strengthen our operations, build internal capability and foster efficiency and effectiveness, with our Tender Evaluation & Negotiation CofE already under development. We continue to work with our commercial delivery partners to develop and implement products and services that drive greater efficiency and effectiveness into our commercial/acquisition operations, enabling significant business delivery benefits.





DE&S staff at Abbey Wood

## Our People

In October 2019 we conducted our annual staff engagement - the People Survey - which enabled our civilian and military staff to highlight what they think we are doing well and where we need to improve. The survey is part of the Civil Service-wide staff engagement exercise. 83% of staff (9,486) completed the survey this year, compared to 78% in 2018.

This year saw increases of between four to ten percentage points across all nine drivers of engagement. Our overall engagement score was 53%, which represents an increase of nine percentage points from the previous year's survey. Five of the nine top-level drivers had scores that were their highest since 2009. Whilst the results were pleasing and demonstrated that the continuous improvement programme initiated at the start of the year was beginning to have a positive effect, we are far from complacent.

We are continuing our reward review and have an executive-level focus on diversity and inclusion in our workplace, using metrics on representation and new joiner diversity to drive the right approach and behaviours. We have also continued a high-level of investment in learning and development for all our people. Our attrition rates, having increased throughout 2017-18, plateaued and have since reduced. Alongside capability and diversity, retention and wellbeing are key elements of the people plan for 2020-21.

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

The next DE&S People Survey will take place during autumn 2020.

## Delivering for Our Customers: Our Performance, Risks and Issues

Corporate performance for 2019-20 is set out in the following Performance Analysis chapter. Corporate performance – including performance against our KPIs, financial performance, management of risk and safety performance – is assessed each month by the Executive Committee and DE&S Board. Performance is also reviewed in detail in the monthly Domain Performance Committees, which are individual performance management conversations between the CEO and each CoM, where delivery against the CASP and KPIs are standing agenda items. The CEO uses the Function Performance Committees to hold the Function Managers to account. In addition we are held to account by HO, on behalf of the Minister for Defence Procurement - who has formal oversight of our performance - through our Performance and Risk Review (P&RR), which is chaired by the Vice Chief of Defence Staff (VCDS) and the MOD Chief Operating Officer (COO). We also hold regular CASP performance reviews with each of our customers.

DE&S' Corporate Plan 2019-22 presents our strategic outlook including the OGSM framework and provides the 2019-22 in-year delivery focus for the organisation. It can be found [here](#)\*

More information on our governance structures and activity for 2019-20, as well as information on our key risks and issues, is set out in the Governance Statement which forms part of the Accountability Report.

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

# PERFORMANCE ANALYSIS

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Equipping and supporting our military customers remains our purpose and our priority and we continue to perform well, whilst driving improvements against our KPIs.

Performance of our delivery and customer objectives is formally measured through the CASPs agreed with each of our customers. The CASPs set out metrics and targets which are used to measure our delivery performance and feed into the corporate KPIs outlined in our 2019-22 Corporate Plan. Our aggregate performance against the CASP metrics has a significant bearing on how well DE&S performs against its corporate KPIs.

For 2019-20, DE&S achieved or exceeded the majority (84 out of 90) of its CASP strategic milestones (KPI 1.1) which were measured and monitored throughout the year. For the fourth successive year we achieved all of our Key User Requirements (KUR) (KPI 1.2).

£37.5 million of cost growth was reported overall across the assessment, demonstration and manufacture phases of projects (KPI 1.3), primarily due to cost growth on the T26 Global Combat Ship and the Future Anti-Surface Guided Weapon (Heavy) (FASGW(H)) projects, offset by reductions achieved on the AJAX programme.

The Equipment Delivery Dates (EDD) performance (KPI 1.4.1) shows a total of seven months' delay across the population during the year, primarily attributable to Merlin CROWSNEST following a re-planning of programme milestones. Two of the Navy EDDs (KPI 1.4.2) also exceeded the threshold limit of two months, however overall this KPI remains within the KPI targets set.

We achieved our support targets (KPI 1.5) for availability and reliability across all five Commands and

sustainability and safety in four of the five Commands. We failed to achieve the Army sustainability target during the year and the safety target for Strategic Command due to poor contractor performance and one outstanding safety case report respectively.

We again achieved our operating expenditure efficiency KPI (KPI 2), with expenditure outturning at £1,043 million, £1 million under budget. In addition, the Infrastructure Plan was £5 million under budget at £125 million.

During the year, on behalf of our customers, we spent £9,979 million on delivering the Equipment Plan (KPI 4) against a budget of £10,082 million, a variance of -£103 million or 1% under budget.

DE&S realised £1.2 billion<sup>13</sup> of efficiencies in FY 2019-20 over the ABC 19 ten-year planning period (2019-20 to 2028-29). In each of the last four years the efficiency we have delivered for the FLCs has exceeded our annual operating budget.

This year our customer satisfaction (KPI 5) survey score of 6.5 is an improvement on last year's score, achieving improvement across three of the five Commands. Our aim remains to achieve an overall year-on-year improvement.

There is no change in the overall Amber assessment of health, safety and environmental protection (KPI 6) compliance this year, with DE&S remaining compliant in four elements of those measured. We are not complacent in our drive to achieve overall compliance and have instigated targeted auditing to be undertaken throughout 2020-21, to enable us to better understand the work needed to improve our overall assessment.

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



<sup>13</sup> Contributes to our overall Equipment Plan savings of £6.2 billion, achieved since 2016-17.

## KPI 1 – CASP DELIVERY PERFORMANCE

### Procurement projects

DE&S monitors delivery performance of all procurement projects. Our KPIs measure performance on all projects with an expected value of more than £20 million and a limited number of lesser value projects which are critical to the delivery of the customers' Command Plans. These are identified and agreed in the appropriate CASP. Procurement projects are approved with quality, cost and time constraints and are categorised by their phase in the procurement cycle. The CASPs set out metrics and targets which are used to measure our delivery performance and feed into the corporate KPIs outlined in our 2019-22 Corporate Plan.

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

1.1 Achievement of CASP milestones	Metric	Navy	Army	Air	Strategic Command	Strategic Programmes	DE&S
	Green ≥90% Amber ≥80% <90% Red <80%	85% (17 of 20)	87% (13 of 15)	95% (20 of 21)	100% (16 of 16)	100% (18 of 18)	93% (84 of 90)

Each CASP included a number of strategic milestones due to be delivered in-year and agreed with our customers as a significant measure of a project's success. In total, DE&S delivered 84 of 90 milestones during the year - 35 early and 49 on time. The six remaining milestones were missed or slipped right, mainly due to technical issues.

1.2 Key User Requirements	Metric	Navy	Army	Air	Strategic Command	Strategic Programmes	DE&S
	Green ≥97% Amber ≥96% <97% Red <96%	100% (68 of 68)	100% (61 of 61)	100% (147 of 147)	100% (14 of 14)	100% (42 of 42)	100% (332 of 332)

The quality of new equipment is measured by how well it will fulfil its KURs, which are agreed with our customers when a project is approved and specify the essential core characteristics the equipment must fulfil when in operational use. KURs will be achieved when an equipment enters into service.

Under all five CASPs we successfully achieved 100% of KURs in 2019-20.

1.3 Cost	Metric	Navy	Army	Air	Strategic Command	Strategic Programmes	DE&S
1.3.1 Demonstration and manufacture phase projects – aggregate cost variance	Green ≤ 0% Red > 0%	+0.4% (+£29.7M)	-0.3% (-£27.1M)	+0.2% (+£16.0M)	-0.1% (-£0.7M)	+0.7% (+£23.6M)	+0.1% (+£41.5M)
1.3.2 Assessment phase projects – aggregate cost variance	Green ≤ 0% Red > 0%	-4.3% (-£4.0M)	-0.0% (-£0.0M)	0.0% (£0.0M)	0.0% (£0.0M)	0.0% (£0.0M)	-0.9% (-£4.0M)

The cost variances under KPI 1.3.1 relate to the demonstration and manufacture phase and show how much the forecast cost to complete this phase of work changed over the year. Two of the five CASPs, Army and Strategic Command, reported an aggregate forecast cost reduction. Of the £41.5 million total cost growth reported for demonstration and manufacture, £29 million related to the Navy Type 26 Global Combat Ship programme owing to multiple technical issues which impacted the labour and supply chain. Despite this, Type 26 remained within its approved budget. Air saw an overall increase of £16 million, largely due to the introduction of a new staggered maintenance approach for Poseidon, while FASGW(H) reported a total cost increase of some £23 million against Strategic Programmes, largely due to more complex integration activities requiring additional work. These increases were offset by Army Command reductions, mostly (-£26 million) achieved on the AJAX programme due to infrastructure cost and contract changes.

KPI 1.3.2 is for assessment phase projects - the aggregate forecast costs metric was achieved across all CASPs.

An F-35B Lightning jet taking off on HMS Queen Elizabeth for the first Carrier Sea Training.



1.4 Time	Metric	Navy	Army	Air	Strategic Command	Strategic Programmes	DE&S
1.4.1 Demonstration and manufacture phase projects – aggregate time variance	Average monthly impact Green ≤0.6 months Amber >0.6 months ≤0.8 months Red >0.8 months	+0.6 months (10 months total)	0 months (0 months total)	-0.2 months (-3 months total)	0 months (0 months total)	0 months (0 months total)	+0.1 months (7 months total)
1.4.2 Demonstration and manufacture phase projects – time variance per project	Green ≤15% Amber >15% <25% Red ≥25%	11.8% (2 EDD)	0% (0 EDD)	0% (0 EDD)	0% (0 EDD)	0% (0 EDD)	+3.0% (2 EDD)
1.4.3 Assessment phase projects – aggregate time variance	Green ≤2 months Amber >2 months ≤3 months Red >3 months	-0.3 months (-1 month total)	0.7 months (6 months total)	2.5 months (5 months total)	0.3 months (2 months total)	0 months (0 months total)	0.5 months (6 months total)

The demonstration and manufacture phase projects time measures (KPI 1.4.1 and 1.4.2) track performance against a project's EDD, rather than its In-Service Date, providing a more representative assessment of DE&S performance.

For KPI 1.4.1 we achieved our CASP targets in all five Commands. Similarly in KPI 1.4.2 where there were a total of 67 EDDs, only two exceeded the two month slippage threshold.

For KPI 1.4.3 we achieved our CASP targets in all Commands with the exception of Air. This was due to one project extending the assessment phase duration by +five months in order for the contractor to mature costings to an acceptable level of uncertainty.

## Support projects

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

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



	Metric	Navy	Army	Air	Strategic Command	Strategic Programmes
1.5.1 Availability	Green ≥80% Amber ≥70% <80% Red <70%	87%	93%	88%	88%	100%
1.5.2 Reliability	Green ≥80% Amber ≥70% <80% Red <70%	96%	98%	95%	94%	100%
1.5.3 Sustainability	Green ≥80% Amber ≥70% <80% Red <70%	81%	80% <sup>14</sup>	89%	93%	85%
1.5.4 Safety Process Admin	Green ≥ 90% Amber ≥80% <90% Red <80%	94%	98%	95%	87%	100%

For this KPI, because the performance thresholds are negotiated separately with each customer, no overall DE&S target is set.

DE&S achieved our support targets for availability and reliability across all Commands, and sustainability and safety in four of the five. We failed to achieve the Army sustainability target during the year due to poor contractor performance, although this position is expected to improve during 2020-21 due to the introduction of a Joint Services Manual<sup>15</sup>. In addition, the safety target was not achieved for Strategic Command due to a small number of outstanding safety cases. There was no operational impact as a result of this and no equipment was deemed unsafe or removed from service.

## KPI 2 – OPERATING EXPENDITURE EFFICIENCY

	Performance
Reduce the total DE&S operating expenditure in line with agreed resource profile in the DE&S Corporate Plan	<p>We again achieved our operating expenditure efficiency KPI, with expenditure outturning at £1,043 million, 0.2% under budget.</p> <p>The delivery of an operating budget that outturns at year end just 0.2% under budget is clear evidence of our robust and effective financial management.</p>

## KPI 3 – INVENTORY MANAGEMENT

Further to the ownership and management of inventory budgets moving to the FLCs at the start of this reporting year, it was agreed between DE&S and MOD that new metrics for inventory management should be developed to ensure the targets put in place are relevant, measurable and take into account DE&S and FLC decision rights.

<sup>14</sup> The actual end of year figure for Army is 79.8% i.e. below the threshold and therefore scored as Amber.

<sup>15</sup> The Joint Services Manual is an evolving, living document that explicitly defines the key processes and outputs needed across DE&S/Army/contractor interface, to deliver the required improvements.

## KPI 4 – FORECAST ACCURACY AND STABILITY

	Metric	Navy	Army	Air	Strategic Command	Strategic Programmes	Unallocated EP	Total
4.1 Forecast accuracy (in year) – outturn below baseline	Baseline	£2,442M	£2,121M	£3,562M	£864M	£941M	£152M	£10,082M
	Overspend: Red Underspend: Green <0% Amber >=1.5% Red <-1.5% >=2% Red <-2%	-3.1% (-£75M)	-0.0% (-£1M)	-0.4% (-£15M)	-0.9% (-£8M)	-0.1% (-£1M)	-1.9% (-£3M)	-1.0% (-£103M)

The equipment programme outturn was £9,979 million against a budget of £10,082 million, which includes adjustments for foreign exchange movement and scope change. DE&S achieved the forecast outturn target (within 1.0% of the budget) in four of the five Commands. Significant in-year underspend against the Navy programme was driven mainly by the re-profiling activity for Merlin CROWSNEST (-£40 million) following under-performance by the contractor.

	Metric	Navy	Army	Air	Strategic Command	Strategic programmes	Other EP	Total
4.2 Forecast stability – 10-year equipment procurement plan – variance to costing	Costing	£10,103M	£13,336M	£8,723M	£3,730M	£8,768M	£0M	£44,659M
	Overspend: Red Underspend: Green	-£3M	+£144M	-£489M	-£46M	+£92M	£0M	-£302M

The 2019-20 forecast of DE&S' ten-year equipment procurement plan was £44,659 million against an adjusted baseline of £44,961 million, a total reduction of £302 million. Forecast reductions have been achieved in three of the five Commands. The cost growth in the Army forecast was primarily due to maturation of Chinook procurement costs, while the principal increase in the Strategic Programmes was on the SPEAR CAP 3 Programme.

	Metric	Navy	Army	Air	Strategic Command	Strategic programmes	Other EP	Total
4.3 Forecast stability – 10-year equipment support plan – variance to costing	Costing	£16,464M	£11,372M	£25,599M	£6,024M	£3,413M	£1,377M	£64,249M
	Overspend: Red Underspend: Green	-£83M	-£524M	-£281M	-£9M	+£122M	+£9M	-£766M

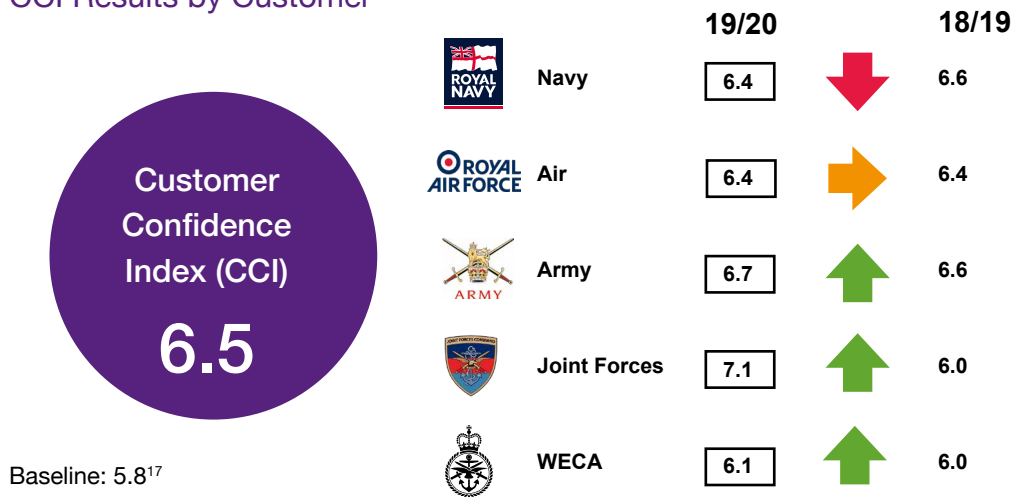
The 2019-20 forecast of DE&S' ten-year equipment support plan was £64,249 million against an adjusted baseline of £65,015 million, a total reduction of £766 million. Forecast reductions have been achieved in four of the five Commands. The increase in Strategic Programmes was primarily due to an increase in costs to the Sea Viper ASTER Mid Life Refresh programme.

## KPI 5 – CUSTOMER SATISFACTION

The DE&S Customer Satisfaction Survey is conducted annually. This year we have seen an improvement in overall customer satisfaction with the Customer Confidence Index (CCI) increasing to 6.5 from 6.4 last year<sup>16</sup>. The CCI is a score derived from numerical responses to themes in the suite of questions, against a one to ten scale where one is the most negative and ten the most positive. KPI 5 seeks an increase in scores for customer satisfaction each year, with the 2019-20 OGSM Objective 4 (Satisfy our Customers) reaffirming the goal to increase customer satisfaction.

For three of our five customers we achieved an increase in scores. For one of our customers the score decreased, with the two main causes being challenge – the level of constructive challenge between DE&S and the customer - and communication. Both had scored particularly well in 2019 but returned to a more average assessment in 2020. For our other customer the score remained the same, however this KPI is set at achieving a score greater than 6.5 overall and so it was scored as Amber for this year.

### CCI Results by Customer



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

The January 2020 survey achieved an 84% response rate which is the same as January 2019. For 2020 we invited 125 to respond to the survey and received 105 responses. This year also saw the introduction of face-to-face interviews – 17 of which were conducted in total for some of our more senior customers<sup>18</sup>.

The detailed results, together with the themes from the free text boxes within the survey, have been provided to the Customer Interface Portfolio Offices (CIPO) in each domain. A DE&S Corporate Action Plan has been developed and a cross domain and corporate working group was held in June 2020 to further analyse the January 2020 scores and feedback to understand any movements from the previous results. The outputs from the analysis will inform a set of action plans and the domain CIPO community will lead on the working level engagement with our customers. We are also learning lessons from this year's survey and updating our customer communications strategy.

<sup>16</sup> Scores are determined across a number of core themes, which are aggregated and a weighted average applied to create the CCI.

<sup>17</sup> Baseline score of 5.8 is based on the 2015-16 survey results.

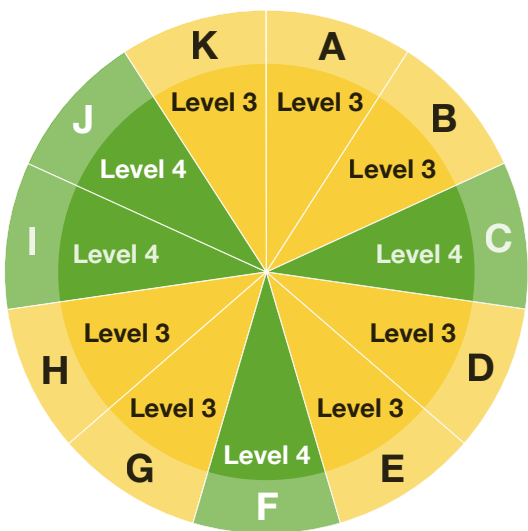
<sup>18</sup> Customers were interviewed using the same questions as the online survey however they had the opportunity to expand and comment after each question/theme as well as summarising in the Self-Reflection section at the end of the survey.

## KPI 6: HEALTH, SAFETY & ENVIRONMENTAL PROTECTION

KPI 6 is scored by DE&S against Red/Amber/Green, scoring Amber overall for this reporting year. It is measured across 11 different elements, each of which is assessed against the Defence Maturity Model descriptors shown below. All 11 elements must be assessed as compliant (level 4) or above for the KPI to be Green.

We continue our efforts across a number of areas to achieve overall compliance. DE&S is compliant in four of the 11 elements. This is the same number of compliant elements as 2018-19, although there has been a change to the elements showing as compliant since last year. Element C has become compliant due to the appointment of additional Local Safety Advisors in the Air Domain and the improvements in safety management through the Acquisition Safety Project (ASP).

Element G has dropped to level 3 due to the discovery of degraded asbestos cement sheet roofing on the majority of storage buildings at Ashchurch. The situation is being continuously monitored. The affected buildings have been taken out of use and the vehicles stored within these buildings are subject to an ongoing decontamination programme, managed by a specialist contractor. Thousands of air and personal tests have been carried out at the site, with the vast majority of results remaining below the Health and Safety Executive's Control Limit and Clearance Indicator. The potential level of risk to individuals is estimated as very low.



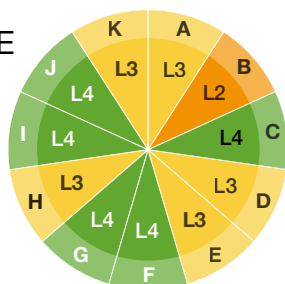
- A - Legislation, Regulations, Policy & Guidance
- B - Information Management
- C - Leadership, Culture, Capability & Change
- D - Personnel Competence & Training
- E - Risk Assessment & Safety Cases
- F - Equipment/Materiel & Infra Design & Manufacture
- G - Equipment/Materiel & Infra Maintenance
-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

Key: Defence Maturity Model	Level 1 (1.0 to 1.7)	Level 2 (1.8 to 2.7)	Level 3 (2.8 to 3.7)	Level 4 (3.8 to 4.7)	Level 5 (4.8 to 5.7)	Level 6 (5.8 to 7.0)
	Serious weakness(es)	Significant weakness(es)	Minor weakness(es)	Compliant	Developed	Excelling

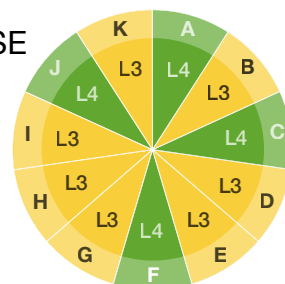
Each element is based on the Occupational Health, Safety and Environmental (OHSE) and Acquisition Safety and Environmental (ASE) measured by each DE&S Operating Centre (OC), who undertake a self-assessment on how they are doing against every element, which is then averaged across DE&S for KPI 6 reporting.

The following diagrams show DE&S compliance (level 4) in five elements for ASE and four for OHSE, an overall increase in two elements from last year.

DE&S ASE



DE&S OHSE



The following table shows our compliance level against each element for quarters one to four in 2019-20. OHSE achieved compliance for the first time in elements A and C and ASE achieved compliance in element C.

Element B remains a challenge across DE&S for acquisition safety, due to the lack of a rigorous records management system that is consistent across DE&S. We recognise the need to strengthen policy and implement a standardised approach for information management and a steering group has been set up to help us address this challenge. We will also implement better, more relevant descriptors on how we assess ourselves (including across all areas of ASE and OHSE), so that we can better understand and challenge ourselves to improve across all elements of KPI 6.

ASE and OHSE		ASE				OHSE			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A	Applicable legislation, Defence regulations, policy & guidance	3.5	3.3	3.4	3.3	3.6	3.6	3.5	3.8
B	Information Management	3.2	3.0	2.9	2.7	3.3	3.4	3.5	3.4
C	Organisational leadership, culture, capability & change management	3.7	3.7	3.8	3.8	3.5	3.7	3.7	3.8
D	Personnel competence & training	2.9	2.9	2.9	3.0	3.1	3.2	3.3	3.2
E	Risk assessment & safety cases	3.6	3.4	3.3	3.3	3.4	3.5	3.6	3.6
F	Equipment / material & infrastructure design & manufacture	4.1	4.1	4.0	4.0	4.0	4.0	4.0	3.8
G	Equipment / material & infrastructure maintenance	3.9	3.8	3.8	3.8	3.3	3.1	3.5	3.3
H	Supervision & control of activities	3.7	3.6	3.6	3.6	3.2	3.3	3.4	3.3
I	Incident management & learning from experience	4.1	4.1	4.1	4.0	3.7	3.7	3.8	3.7
J	Emergency arrangements	3.9	3.9	3.9	3.9	3.9	4.0	4.0	3.9
K	Self-assurance	3.7	3.8	3.8	3.7	3.2	3.3	3.4	3.5
KPI 6 is scored by DE&S against Red/Amber/Green. The status is Amber, as one or more elements are Level 3 or 2 against the Defence Maturity Model. All must be Green to achieve full compliance.		3.7	3.6	3.6	3.5	3.5	3.5	3.6	3.6

The following sections detail some of the activities that have driven the improvements and demonstrate our pursuit of full compliance. To help with this, targeted auditing is being implemented for 2020-21. This will be directed by the Safety, Health and Environmental Committee to those areas needing focus and drive to improve, and will be undertaken by the DE&S Quality, Safety and Environmental Protection team. These targeted audits will help inform where and how we can improve the scores further and help to provide better descriptors on how we can robustly assess ourselves against KPI 6 in future.

# SAFETY, SUSTAINABILITY AND SECURITY

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## Safety and Environmental Protection

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

In DE&S we regularly assess safety culture through an annual survey, which was launched on the all-staff Safety Day in June 2019. The return rate, 56%, was positive for this type of survey with the overall score improving from 3.64 to 3.76. Significantly, scores increased in all ten elements measured by the survey and this overall improvement placed DE&S higher up in the mid-range of the 'Managing Calculative Bureaucratic' category<sup>19</sup>. A corporate-level action plan has been produced to address the lowest-scoring areas. We also introduced OHSE and ASE awards this year, with a range of categories celebrating both individual successes and site performance.

## Acquisition Safety, Environmental Protection and Sustainable Procurement

We have built on the successful achievement of the first year of the ASP, working to create a measurably capable safety organisation, with a strong safety culture, clear governance and clear safety assignments. This year we took our awareness-raising training out to DE&S occupied sites around the country, reaching over 1,200 more people. We have completed, or scheduled, the assessment of personnel who hold formal safety delegations and regularly provide MI about our key safety assignments for executive oversight and decision making. Through the ASP, we now have visibility of where safety decisions are made across the whole delegation chain and have an auditable assessment of the competence of individuals fulfilling these assignments.

The ASP's improvements in safety management have been embedded in DE&S acquisition safety policy and guidance. We updated key publications to capture changes in the new duty holder structure, competence assessment requirements and generic assignment

specifications. These documents form part of our Acquisition Safety and Environmental Management System (ASEMS), which includes guidance on wider safety and environmental issues. We endeavour to continually improve our processes, and an important initiative this year has been the refinement of the framework for addressing environmental impacts, aspects and risks in ASEMS. We also carried out a review of Defence Standard 00-051, 'Environmental Management Requirements for Defence Systems'. This was introduced in 2018 to provide confidence that defence contractors are operating suitable environmental management systems, ensuring compliance and minimising the impacts of defence acquisition on the environment.

This year we have continued to deliver a portfolio of safety and environmental courses to members of the acquisition community. In March 2019 the Defence Academy announced they would no longer be able to deliver the suite of classroom-based safety training for our safety practitioners. In resolution, we worked with our engineering delivery partner to provide contractor-delivered safety and environmental training to almost 200 people.

During 2019-20, governance on sustainable procurement was provided by the Acquisition Environmental Steering Group. They focused on addressing priority environmental sustainability risks affecting the defence acquisition programme, such as our reliance on hazardous materials, and the upcoming tightening of legal restrictions on the use of substances such as fluorinated gases and ozone depleting substances. A key area of work has been management of Asbestos Containing Materials (ACM) and we continue to work hard to ensure all instances of ACM embedded in our equipment are appropriately managed. To help our people achieve this, we updated our guidance and ran an awareness and upskilling campaign, delivering workshops, masterclasses and a new 'Duty to Manage ACM' course.

Various other measures have been taken to further strengthen the way that environmental sustainability and protection is promoted and implemented. This includes the development of DE&S' first Environmental Strategy launched in June 2020, covering a ten-year period to 2030. This states our commitment to actively respond to, and report against, defence sustainability objectives which are driven by Government wide initiatives and targets, such as the Greening Government Commitments (GGC) and Net Zero by 2050. Alongside implementation of the Environmental Strategy, improving our environmental culture and continuing our work

<sup>19</sup> Based on the Patrick Hudson Scale for measuring Safety Culture

to meet the requirements under GGC targets, we will also ensure that sustainability is embedded into Departmental processes, procurement and decision-making. Within DE&S, GGC compliance is overseen by the Occupational Environmental Protection Steering Group.

As part of our efforts to increase awareness of the need to embed sustainability in acquisition, energy efficiency and waste reduction themes were included in our annual communications programme. In November 2019 we ran a high-profile conference on 'Net Zero by 2050', which brought together employees, customers and industry suppliers. It set out the challenges for MOD in meeting Government commitments and provided examples of how sustainability is being applied to military capability.

## Occupational Health, Safety and Environment

DE&S' Chief Environmental and Safety Officer (CESO), supported by the CESO CofE, has continued to provide independent, specialist advice on OHSE aspects to help the business meet its compliance responsibilities.

In June 2019, we held our fifth annual Safety Day. This built on the success of previous years and reinforced the message about our safety vision and commitment. All our people were actively encouraged to take part. We also held our first 'World Environment Day' event, providing a platform for us to build bigger events in future years.

The DE&S Incident Notification Cell continues to provide an accident and incident reporting system that satisfies both statutory and MOD policy requirements. Throughout the year these reports have been monitored for trends, with statistics reported monthly to the DE&S Executive Committee to inform them of organisational performance and any emerging issues that required attention.

The CESO CofE audit programme was completed and as a result, all DE&S sites have environmental management systems in place, which are compliant with the ISO 14001 management standard and regularly assessed through a robust self-assessment process.

## Security

The security of our people, information and the supply chain remain of utmost importance and we strive to achieve a robust safety and security culture. Governance and oversight of DE&S security activity

is driven by our Security Committee, which reports regularly into the Executive Committee and DE&S Board. The Committee sits on a quarterly basis to define the priorities and issue guidance for security provision of all elements of security within DE&S, including physical, personnel, cyber, and business resilience.

DE&S continues to make progress against its Corporate Security and Resilience Strategy for 2019-21 which has established aims and objectives to enhance the security culture and an ability to deliver assured capability. Responsibility and accountability for security and resilience has also been clarified at the DE&S corporate and domain levels to enhance transparency. A DE&S security and resilience risk appetite<sup>20</sup> developed last year has advanced the use of sound risk principles in the pursuit of DE&S objectives. This work is underpinned by the continuing development and professionalisation of the security specialism, which has positioned security professionals across the business to develop understanding of this discipline and deliver appropriate assurance to DE&S risk owners. DE&S is also actively supporting the development of the Government Security Profession which was launched in early 2020, by sharing our knowledge and experience learned during the skills profiling undertaken as part of our transition to a BTE.

This year has seen DE&S achieve one of its major milestones within our 2019-21 Corporate Security and Resilience Strategy: during November 2019 we successfully attained certification of the ISO 27001 information security standard through implementation of a framework of control standards across DE&S. These improvements to organisational governance will further enhance management of risk and protection of information assets.

DE&S continues to deliver a rigorous assurance programme for its Defence Critical National Infrastructure. Under the direction of the Security Committee, improvements have been delivered to Business Continuity Management at the domain and corporate levels, culminating in a revised corporate Business Continuity plan and IT Disaster Recovery strategy and the delivery of a funded programme to enhance IT resilience. Also, the aged infrastructure and constraints in resourcing within Policing and Guarding services are a challenge. A ten-year programme of work to help address this has started to deliver security improvements and DE&S remains able to use its freedoms to deliver cost effective, major and rapid improvements.

<sup>20</sup> Risk appetite is the amount and type of risk that DE&S is willing to take in order to sustain outputs.



A significant programme of work on developing cyber resilience processes and good practices has been established by the DE&S Chief Information Officer (CIO) and will run until 2021. The new processes and practices will deliver appropriate assurances across our acquisition and support projects. CIO will engage with stakeholders across DE&S and the wider MOD and Government to ensure all new processes and practices are aligned.

Work also continues to reinforce a good security culture, with additional resource brought in to enhance our

existing Security Education & Awareness team. The modernisation of the annual mandated security training and corporate induction programme for all new staff into DE&S continues to ensure a common day-one baseline of understanding and awareness campaigns continue to be delivered in alignment with national campaigns. This includes, for example, Counter Terrorism and Business Continuity weeks to raise the bar in terms of our security behaviours. The culture campaign continues to directly support achieving zero security breaches across all domains.



A C-130J Hercules flying over the Welsh countryside



# LOOKING FORWARD

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DE&S refreshes its Corporate Plan annually and the latest version can be viewed online here\*. The Plan sets out our strategic outlook and programme of work, including our DE&S@21 Improvement Plan. DE&S@21 continues our transformation journey and builds upon our significant achievements to date, with the aim of further improving delivery to our customers, the FLCs.

During 2020-21, we will continue to monitor the challenge and actively mitigate the impacts COVID-19 will inevitably have on DE&S, wider defence and the global strategic picture. We are committed to delivering DE&S outputs whilst responding to these unprecedented challenges and I am proud of how our skilled and dedicated people have adapted and continued to deliver under difficult circumstances. I am fully reassured that this spirit will continue throughout 2020-21. Our ways of working have been, and will continue to be, adjusted to adhere to Government guidelines, ensuring that staff can return to our sites safely as we carefully increase capacity in line with this guidance. We will continue to listen to feedback, engage with all stakeholders (including the Trade Unions (TUs)), and communicate the wide range of information available to help and support our staff through the pandemic, whilst developing a sustainable approach to long-term working from home. The safety and wellbeing of our staff is paramount and in this move to our new normal, there is an opportunity to embed some of the hard-won lessons in flexibility and adaptability that are emerging during the outbreak of COVID-19.

COVID-19 will undoubtedly have implications on the ability of industry, and our supply chain, to deliver our outputs. We are working closely with the FLCs, industry and wider stakeholders to understand the impact and drive recovery to activities affected by COVID-19 and we will continue to proactively assess the evolving situation. Our focus remains on monitoring and understanding the supply chain fragility and risk, whilst gaining better visibility of our critical suppliers. We also recognise that the broader economic impact of the COVID-19 crisis is likely to impact defence, as will the upcoming MOD Integrated Review which will bring significant changes as it sets out the Government's ambition for the UK's role in the world, and the long-term strategic aims for our national security and foreign policy.

Our co-ordination with defence priorities is more important than ever, including our planning for the EU Exit transition phase and beyond which will bring a significant change to our operating environment, and that of our industry partners and their own supply chains. A number of risk mitigation activities are underway, including our continued engagement with strategic and critical suppliers on business resilience planning, ensuring we are notified early of any disruption in the supply chain.

We continue to develop end-to-end supplier fragility processes so we can better monitor supply chain vulnerability and we have strengthened intelligence sharing processes across MOD and other Government Departments to ensure we can assess in real time the impact of EU Exit and beyond on all of our abilities to deliver. These activities clearly extend to mitigating the potential impacts of COVID-19.

Despite the challenges we face, we will continue to deliver a complex and varied programme of work to our military customers, acquiring new equipment and capabilities and supporting those in-service to ensure the armed forces have what they need, when they need it. Our organisational structure is designed to support interaction and strong professional relationships with our customers, with the agility to change to match their requirements. This enables us to deepen our understanding of their needs, whilst continuing to work with industry and wider MOD to deliver innovative solutions that ensure we are able to react to the evolving threats to our nation.

Within this everchanging landscape, continuous improvement remains at the forefront of our minds and is now business as usual. The DE&S@21 Improvement Plan will continue to provide our focus during the next reporting year, based around our three enduring aims of Great People, Great Delivery and Great Place to Work, which directly connect our people with delivery themes. This Plan will evolve as we adapt to the changing environment and demands placed upon us, providing a firm footing for our future strategy. One of many anchor points pre-COVID-19, DE&S@21 and the challenging objectives we set ourselves, will enable us to measure our performance and drive us to continue to apply best endeavours, that will minimise the inevitable slippage to our programme of work as a result of COVID-19.

We will also feel significant changes as a result of upcoming MOD-led reviews, for example the Integrated Review as I mentioned earlier, the Defence Security and Industrial Strategy and Defence Transformation. DE&S must play a pivotal part in the Defence Security and Industrial Strategy due to our experience and enduring relationship with industry. DE&S also has a wealth of experience, knowledge and lessons learnt when it comes to transformation, all of which we must continue to share with MOD to inform the wider programme. Now, more than ever, DE&S is committed to working with our MOD colleagues to ensure that we remain aligned and able to provide support. We will be proactive in using our considerable expertise and experience to help shape the future, and to develop our strategy for the next epoch of continuous improvement and development.



Sir Simon Bollom  
Accounting Officer  
2 December 2020

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



# Section Two

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## **Accountability Report**

# CORPORATE GOVERNANCE REPORT

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## Management

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

## Directorships and Significant Interests

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

## Personal Data Related Incidents

Issues concerning incorrect completion of a Subject Access Request (SAR) were reported to the Information Commissioner's Office (ICO). This was the only issue reported. After reviewing the incident, no formal action was taken by the ICO, with the expectation that DE&S will ensure compliance at all times and guard against future incidents occurring again.

As part of continuous improvement, a review of record management processes, SAR processes and improvements to be made to the Data Protection Impact Assessment process are planned, along with the establishment of a CofE. This will embed local data protection advisors into the business so that they can share knowledge on data protection matters and ensure consistency and enhanced compliancy.

## Statement of Accounting Officer responsibilities

Under the Government Resources and Accounts Act 2000, HMT has directed DE&S to prepare, for each FY, resource accounts detailing the resources acquired, used, held or disposed of during the year and a statement of accounts based on the Accounts Direction issued by HMT on 19 December 2019. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of DE&S and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the FY.

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

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

The Permanent Secretary of the MOD, as Principal Accounting Officer, has designated the CEO as Accounting Officer for DE&S whose responsibilities include the propriety and regularity of the public finances, keeping proper records, and safeguarding DE&S assets, as set out in Managing Public Money, published by HMT.

## Accounting Officer Confirmation

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

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

## Governance Statement

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

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

### Our governance structure

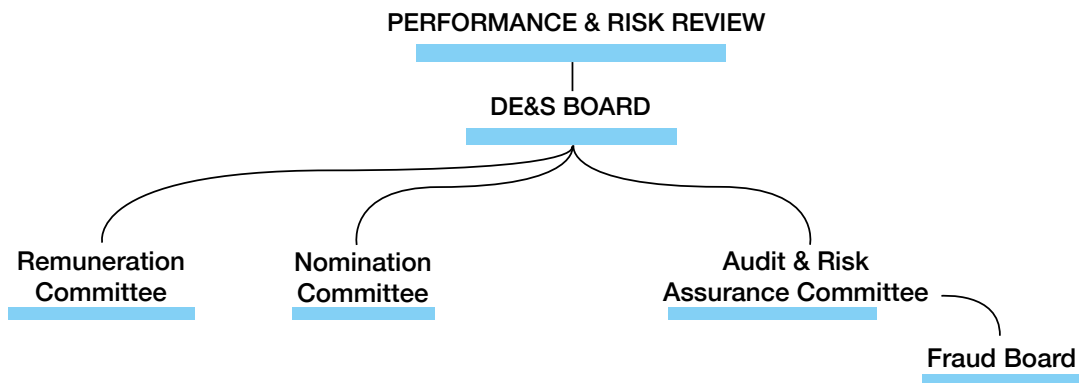
The DE&S governance hierarchy begins with the P&RR, which was introduced following the dissolution of the Owner’s Council in September 2018. The DE&S Board, along with associated sub-committees, exist to provide suitable assurance that DE&S is fulfilling its responsibilities to stakeholders, and being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

## Performance and Risk Review

The P&RR aims to meet on a quarterly basis to provide DE&S with support and challenge on key strategic issues. Standing P&RR members are listed below and meetings are chaired by either VCDS or MOD COO. In addition, the Permanent Secretary and Chief of the Defence Staff are invited to attend, and chair, every other meeting, with others attending at the discretion of P&RR members.

### Membership

- VCDS
- MOD COO<sup>21</sup>
- MOD DG Finance
- DCDS Military Capability
- Director UKGI (Defence) - Corporate Sponsor representative
- DE&S Chair
- DE&S CEO
- DE&S DG Resources



<sup>21</sup> The MOD COO is no longer a member of the P&RR or the DE&S Board, following Mr David Goldstone’s departure from the MOD COO role 31 March 2020.



## DE&S Board

The DE&S Board provides the strategic leadership of DE&S in delivering its objectives. As such it enables non-executive approval of the Corporate Plan ahead of Minister for Defence Procurement approval, and oversight of the delivery of DE&S business. The DE&S Board provides a forum for independent, non-executive, support and constructive challenge to the DE&S CEO and Executive Committee.

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

## Membership

- Mr Mark Russell, DE&S Chair<sup>22</sup>
- MOD Permanent Secretary<sup>23</sup>
- MOD COO
- DCDS Military Capability
- DE&S CEO
- DE&S DG Resources
- Mr James Dorrian, NED<sup>24</sup>
- Dr Ros Rivaz, NED
- Mr Iain Lanaghan, NED
- Mr Gerard Connell, NED<sup>25</sup>
- Mr Andy Lord, NED
- Mr Henry Lloyd, NED<sup>26</sup>

## DE&S Board as at 31 March 2020



<sup>22</sup> Mr Skinner was Chair until May 2019. Mr Dorrian was interim Chair from June 2019-October 2019. Mr Russell became DE&S Board Chair on the 1 November 2019.

<sup>23</sup> Mr Lovegrove was a member until 7 January 2020. While no longer a formal member, the Permanent Secretary has a standing invitation to attend.

<sup>24</sup> Mr Dorrian assumed the role of interim Chair upon Mr Skinner's departure until Mr Russell's appointment.

<sup>25</sup> Mr Connell resigned from the Board on the 9 March 2020.

<sup>26</sup> Mr Lloyd joined the Board on the 7 January 2020.

## DE&S Board activity

The Board met twelve times during 2019-20, this included one Board strategy day which was held in December 2019.

<b>Number of meetings attended 2019-20<sup>27</sup></b>	
Mr Paul Skinner (DE&S Chair until 31 May 2019)	3(3)
Mr Mark Russell (DE&S Chair from 1 November 2019)	7(7) <sup>28</sup>
Mr Stephen Lovegrove (Member until 7 January 2020)	6(9)
Mr David Goldstone	11(12)
AM Richard Knighton	11(12)
Sir Simon Bollom	12(12)
Mr Henry Lloyd (joined the Board on 7 January 2020)	3(3)
Mr David Johnson	12(12)
Mr James Dorrian (as interim Chair) (as a Non-Executive Director)	4(4) 8(8)
Dr Ros Rivaz	11(12)
Mr Iain Lanaghan	12(12)
Mr Gerard Connell (Member until 9 March 2020)	9(11)
Mr Andy Lord	10(12)

### DE&S Board Processes

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

### Board Performance

By Mark Russell, DE&S Chair

I assumed the role of Board Chair in November 2019, which was over halfway through this reporting year. From my discussions with Mr Dorrian - who acted as Interim Chair before my arrival - and through my own observations and interaction with Board members, it is clear that the Board is operating effectively, within a strong governance framework. The Board has a good mix of skills, capabilities and shared values and the addition of a Corporate Sponsor Representative at Board level underpins this. The quality of DE&S management information reviewed at the Board is high and the range of issues discussed is wide. The first external Board Effectiveness review took

<sup>27</sup> The figures displayed are the number of meetings attended by each individual, with the total number of meetings available to attend in brackets. There were two Board meetings in April 2019.

<sup>28</sup> Mr Russell attended the September and October 2019 meetings as an observer.

place in September 2019, examining the work of the Board, its use of time and the associated strengths and challenges. This has given rise to further work and analysis, focused on improving how the Board interacts with the Executive, given its advisory nature. I expect some of this to be captured in the next iteration of the DE&S Framework Document and work should conclude on this in the autumn. In the meantime, the Board will continue to focus on strategic issues, providing a high calibre forum which supports the DE&S Executive and provides assurance to MOD that DE&S is discharging its responsibilities in the most effective and efficient manner.

#### Key business discussed at the DE&S Board during 2019-20

Subject	Discussion	Outcomes
<b>Strategy</b>	The Board held a strategy day in December 2019. The Board discussed the external environment, performance management, the supply chain, the role of the Board and the development of DE&S@21. OGSM and the Corporate Plan were also discussed throughout the year.	The Board reviewed the strategic context and financial outlook from both the equipment programme and operating expenditure perspectives; and agreed the focus for DE&S' continuous improvement and OGSM principles.
<b>Risk</b>	DE&S strategic risks were scrutinised and discussed throughout the year. Risk management practices have continued to evolve.	A strategic risk workshop, involving Executive Committee members and Board NEDs, was held on 14 October 2019. This workshop reviewed the scope and nature of the risks managed by the business at Executive Committee and discussed at Board level.
<b>DE&amp;S@21 and Continuous Improvement</b>	Throughout 2019-20, DE&S and the Board focused on continuous improvement and refined the two-year DE&S@21 Improvement Plan.	The Board reviewed the DE&S@21 Improvement Plan and helped to shape 'Great People, Great Delivery and Great Place to Work'.
<b>Corporate documents</b>	The Board tracked the progress and publication of the DE&S Annual Report and Accounts and contributed to the development of DE&S@21 and the Corporate Plan.	The DE&S Annual Report and Accounts for 2018-19 was published in January 2020.
<b>DE&amp;S Committees</b>	The Board received reports on the progress, themes and membership of its sub-committees and considered the work being taken forward.	All DE&S sub-committees expanded their membership with the addition of Mark Russell in November 2019, and Henry Lloyd in January 2020.
<b>DE&amp;S Business Updates</b>	The Board received regular business updates from the Executive Committee members, which included updates from the CoMs. The Board also received updates from function leads, including HR and Engineering and Safety.	The Board engaged with the business and reviewed the development of DE&S@21, the Safety and Environment Report, the HR People Strategy and performance against strategic milestones.

## DE&S Board Sub-Committees

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

Name	Committee (meetings attended) <sup>29</sup>
Mr Paul Skinner	Remuneration Committee (1/1)
Mr Mark Russell	Audit and Risk Assurance Committee (1/2) Remuneration Committee (2/2) Nomination Committee (1/1) <sup>30</sup>
Mr James Dorrian	Remuneration Committee (7/7) Nomination Committee (2/2)
Dr Ros Rivaz <sup>31</sup>	Remuneration Committee (6/7)
Mr Iain Lanaghan	Audit and Risk Assurance Committee Chair (5/5)
Mr Gerard Connell	Audit and Risk Assurance Committee (4/4)
Dr Ilona Blue <sup>32</sup>	Audit and Risk Assurance Committee (4/4)
Mr Henry Lloyd	Audit and Risk Assurance Committee (2/2) Remuneration Committee (2/2) Nomination Committee (1/1)

### Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee's remit is to review and challenge the adequacy of internal controls and risk management assurance processes in DE&S. Where assurance is ineffective, the Committee will make recommendations to the DE&S Board for appropriate action to be taken.

The Audit and Risk Assurance Committee met five times during 2019-20. All meetings were chaired by Mr Lanaghan and formal membership comprised of a MOD NED, Mr Goldstone/Mr Lloyd<sup>33</sup>, DE&S NED's Mr Connell and Dr Blue, and DE&S Chair Mr Russell<sup>34</sup>.

The meetings were attended by DG Resources, Director Strategy and Change and the Head of Financial Accounting. Representatives from the NAO and Defence Internal Audit (DIA) were also in attendance.

The Audit and Risk Assurance Committee's programme of business over the course of the year primarily focussed on DE&S' Annual Report and Accounts, monitoring the progress of implementing the recommendations raised in the NAO management letters and the Annual Assurance Report (AAR). The Committee also reviewed the DIA outputs and findings, whilst monitoring the progress against Agreed Management Actions (AMAs) and routinely reviewed the strategic risk register. An effectiveness review was held in autumn 2019 where the Committee's terms of reference were updated, and the membership and attendance of the Committee reviewed.

Throughout the year, the Committee reviewed the IFRS 16, losses and special payments, assets under construction and Internal Controls Assurance Framework implementation. The Chair also provided an update to the Committee on the TLB Audit Chairs meeting, which was held in December 2019 and chaired by Mr Simon Henry, Chair of the Defence Audit and Risk Assurance Committee.

### Fraud Board

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

The Fraud Board met four times during 2019-20. The meetings were chaired by Mr Johnson, DG Resources. In attendance were the Director-level risk owners responsible for managing the principal DE&S fraud risks, the MOD Director Assurance, together with representatives from the DE&S corporate finance team, DE&S HR, DIA, Fraud Defence (the Department's central counter-fraud unit) and the MOD Police. A formal sub-group of the Fraud Board (Company Sub-Group) was established in 2019 to provide operational direction on issues arising from fraud cases being investigated by the MOD Police. This met twice during 2019-20.

<sup>29</sup> The number in brackets represents the number of meetings attended/the number of meetings available to attend.

<sup>30</sup> Mr Russell became the Chair of the Nominations Committee when he was appointed Chair of the DE&S Board.

<sup>31</sup> Dr Rivaz joined the Nominations Committee in February 2020.

<sup>32</sup> Dr Blue was appointed to the Audit and Risk Assurance Committee in April 2019.

<sup>33</sup> Mr Goldstone ceased to be a member of the Audit and Risk Assurance Committee on 7 January 2020. Mr Lloyd became a member of the Audit and Risk Assurance Committee on 7 January 2020.

<sup>34</sup> Mr Russell joined the Audit and Risk Assurance Committee on 18 December 2019.

The Fraud Board's programme during 2019-20 primarily focussed on assessing fraud risks and the appropriate mitigation activities (policies, systems and controls). The Fraud Board also received updates on fraud, corruption and theft investigations. During International Fraud Awareness Week in November 2019, a series of articles were published on the DE&S intranet dedicated to raising awareness about fraud, ways to detect it, what to do if someone suspects fraud has been committed and how staff can help to protect DE&S and taxpayers' money. A summary report of Fraud Board activity was provided to the Audit Risk and Assurance Committee after each meeting. Updates were also provided to the MOD Fraud Defence Board.

### Remuneration Committee

The Remuneration Committee advises the Minister for Defence Procurement, the DE&S Board and the CEO on matters relating to the proper development and application of the DE&S total remuneration strategy, including its pay and reward structures, within its freedoms, as set out in the DE&S Framework Document<sup>35</sup>. It also advises the Board on the remuneration of the CEO, the top civilian executive team and other senior staff as appropriate, where these are not set by Senior Civil Service (SCS) or Departmental guidelines.

During the 2019-20 period the Remuneration Committee met seven times. Discussion included a broad range of people strategy issues, including pay and performance policy, senior executive performance assessment and outcomes, and lessons learnt from people issues more generally. The Committee Terms of Reference were also reviewed and updated.

DE&S has continued to use its pay freedoms to manage its pay and reward strategy in line with the needs of the organisation and to recruit in the marketplace. The Remuneration Committee has provided advice and support about the application of these freedoms to the senior team, including the ability to pay up to 23 civilian members of staff at or above the control threshold set out in HMT's Guidance for approval of senior pay. As at 31 March 2020 there were 21 staff in this category, the employment of whom was enabled by DE&S' enhanced ability to recruit specialist skills in a highly competitive market. HMT's control threshold calculations assess all elements of salary, fees, allowances and performance award including the maximum payable, rather than actual sum received. Of the 21 DE&S staff in this pay freedoms category in 2019-20, only 14 actually earned more than £150,000.<sup>35</sup>

### Nominations Committee

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

Issues covered by the Nominations Committee during the 2019-20 period include senior level succession planning, NED recruitment, and longer-term workforce planning. The Committee Terms of Reference were also reviewed and updated.

### DE&S Executive Committee

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

- Provide collective leadership for the organisation;
- Ensure the business operates safely and securely, reviewing performance and managing risks;
- Manage business delivery and financial performance; and
- Take actions as necessary to ensure overall business performance is to the standards set by the Minister for Defence Procurement and within the remit prescribed in the Framework Document.

<sup>35</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/311029/20140513-des-framework-document-v1-May-2014.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/311029/20140513-des-framework-document-v1-May-2014.pdf)

<sup>35</sup> DE&S pay freedoms were previously monitored and reported in the ARAC against salary alone, in accordance with Annex A of the DE&S 2014 Framework Document (FD). Following a review of the FD, and in the context of the current HMT guidance, DE&S now reports against salary, fees, allowances and performance award. For consistency, applying this revised approach to the 2018-19 narrative (as at 31 March 2019) would have confirmed there to be 20 staff above the control threshold, with only 14 staff actually earning more than £150,000.

## DE&S Executive Committee as at 31 March 2020

Sir Simon Bollom is the DE&S CEO and the structure of the Executive Committee is depicted below. The Executive Committee structure is designed to support the balanced matrix and an integrated approach to business planning. There have been a number of changes since last reporting. These include the appointment of Vice Admiral (VAdm) Chris Gardner as CoM(Ships) and Adrian Baguley as CoM(JE) as of April 2019 and Chris Bushell as CoM(Land) from December 2019.



Following a restructure in 2019, Director Engineering and Safety and Chief of Materiel Director Programmes are no longer members of the Committee. Mr Barry Burton, Director Strategy and Change, retired on 31 March 2020. Miss Krishna Dhanak took up the position of Director Strategy and Corporate Operations (previously Director Strategy and Change) on 1 June 2020.

During 2019-20 the Executive Committee considered the following key issues:

**Embedding Change:** The Committee continued to encourage the embedding of the changes we need across the organisation. Discussion included the organisational changes implemented in respect of DE&S@21, reporting on the benefits gained from the Inventory Improvement Plan and a new Target Operating Model. Also discussed was the proposed Automated Access Control System to the Abbey Wood site and the implications for DE&S of the Joint Forces Command review. Decisions were made around the changes to Governance and specifically the structure of the Domain and Function Performance Committees. There was approval of the new Efficiency Hub and discussion about the proposed Information Systems and Services reset.

**Safety and Security:** The Committee regularly reviewed the safety dashboards on OHSE, equipment safety and acquisition safety. The Committee also reviewed the Safety Culture survey results and considered how to improve safety culture and behaviours. The Annual Safety Assurance Report was discussed, together with progress on the ASP more generally. As well as supporting the annual DE&S Safety Day, the Committee reviewed and supported the Spotlight on Safety events (engaging and interactive live theatrical events that focussed on real defence incidents to help bring acquisition safety to life). Throughout the year, the Committee reviewed infrastructure compliance and protective security.

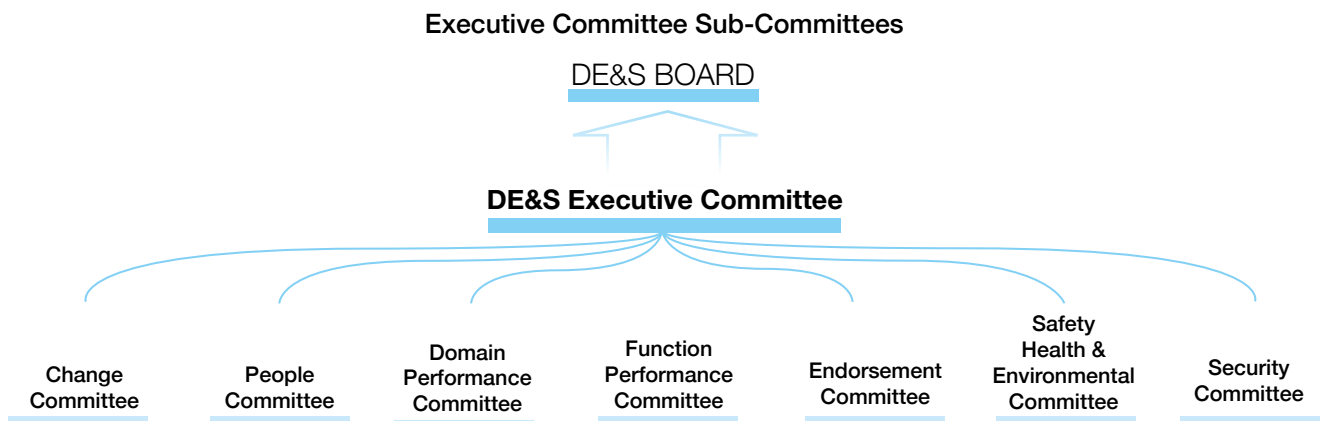
**DE&S People:** The Committee regularly discussed pay and performance policy throughout the year. An action plan in response to the results of the 2019 pulse and staff survey was developed and focused on improvements in managing change and performance management. The Committee agreed the D&I action

plan which set out a delivery plan for D&I interventions, focused on removing recruitment and progression barriers. Towards the end of the reporting year, the Committee agreed their initial response to COVID-19. This included protection of staff working in high traffic areas and an immediate change in policy on meetings, events and international travel. The Committee also discussed and agreed how to protect those staff with underlying medical conditions and/or caring for elderly or ill family members affected by COVID-19.

**DE&S Performance:** The Committee discussed progress against KPIs, CASP metrics and reviewed financial forecasts. An annual stocktake of strategic risks was undertaken and mitigation activities against selected strategic risks were reviewed at every meeting as part of a rolling programme of assessment. The Committee reviewed the AAR and the outstanding AMAs from DIA Audit Reports. Throughout 2019-20, the CFO Report has evolved to meet the reporting needs of the Committee. The Committee launched a review into Information Management of paper records, process, tools and Information Asset Owner responsibilities. The OGSM Balanced Scorecard proposal and a Risk Maturity Model were also reviewed.

**Equipment Support:** Throughout the year, the Committee discussed a range of equipment support issues. It has welcomed and made use of the work of Director Support to ensure DE&S is fully engaged with the work being undertaken on the Defence Support Operating Model. The Support Strategy has been updated to improve future support metrics, data analysis and management information. An audit of the Equipment Plan was undertaken and lessons taken forward.

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



The **Change Committee**, chaired by the CEO, drives the DE&S change and continuous improvement activity, with a focus on the DE&S@21 Improvement Plan to ensure it delivers the agreed outcomes and benefits.

The **People Committee**, chaired by the CEO, considers and makes recommendations on issues around the development and sustainment of a highly professional and motivated workforce. Its considerations include generation of the People Strategy, approval of the talent management plan, reviewing and approving senior appointments and approval of changes in HR policy and procedures. The Committee continued to evolve our approach to performance management and reward, with its recommendations being considered by both the Executive Committee and Remuneration Committee.

The **Domain Performance Committee**, chaired by the CEO, provides the forum to review the performance of each domain in terms of its delivery of equipment and support to agreed plans. This includes reviewing the relevant KPI and CASP metrics and any risks and contingency plans.

The **Function Performance Committee**, also chaired by the CEO, reviews the performance of each function's performance in delivering the right capability and capacity to the balanced matrix and assuring function performance and process adherence in support of delivery.

Safety throughout the organisation is governed by our **Safety Health & Environmental Committee** which has oversight of organisational key safety risks and directs work to develop and deliver improvement programmes for the business. The Committee was chaired by the CoM(Air) until June 2019. From June 2019, the CEO took over the chair role and Director Engineering and Safety, Tim Rowntree, was appointed as the deputy. A NED is invited to attend the Safety Committee as a permanent attendee.

The quarterly **Security Committee**, chaired by Director of Strategy and Change, oversees security and resilience in DE&S, including policing and guarding, physical, personnel and information security (incorporating Cyber). It also provides security assurance of DE&S sites and wider defence industry.

The **Endorsement Committee** chaired by the CEO, provides strategic direction for the development of all DE&S Category A, B and centrally approved C investment proposals prior to their consideration by the Investment Approvals Committee, or HO and Command delegated Approving Authorities.

Outside of this formal governance structure, there are a number of supporting senior level meetings. The CEO holds one-to-one meetings with the members of the Executive Committee. The CEO also meets regularly with the DE&S Senior Leadership Group (SLG) who are the highest grades in our structure, incorporating our senior civil servant and military rank equivalent population, to

keep DE&S leaders apprised of developments as our evolution continues. This forum also provides a robust forum for discussion and feedback.

## DE&S risk and control framework

### Risk management

Managing risk is all about reducing the uncertainty in our delivery to a level that allows successful management through the life of our projects and programmes. In DE&S, successful risk management is achieved through proactive identification, assessment, mitigation, monitoring and control, and takes place at all levels in the organisation. It enables DE&S to respond to uncertainty in an agile manner and make informed decisions.

The DE&S Board and the Executive Committee determine the governance and controls we have in place to manage risk, with a focus on strategic and sub-strategic risk. Lower level project risk management is organised and undertaken by our risk discipline in the project controls function and by our project managers.

The DE&S Board examines DE&S risk and the controls that are in place to manage risks and address opportunities. It pays particular attention to strategic risks facing DE&S, that is, those risks which might have a negative impact on the achievement of our strategic objectives and risks that expose the organisation to cost, reputation, output and capability, safety and environment implications.

Management of strategic risks is delegated to the Executive Committee. The Committee regularly reviews, supports and challenges risk owners to manage and reduce the risks as far as is reasonably practical. Scrutiny is applied to the effectiveness and measurable results of controls and mitigating actions designed to reduce threats to as low as is reasonably practicable, whilst maximising the benefits of opportunities. We continue to apply the MOD's risk management policy to our strategic risks, including reporting significant risks to the Defence Audit and Risk Assurance Committee and ultimately, the Defence Board.

Furthermore, the project controls function is delivering an ambitious software upgrade on DE&S' mandated risk management tool, Active Risk Manager™. This upgrade will offer a more sophisticated and powerful tool, enhancing the capabilities of those accountable and responsible for delivering risk management.

In 2019-20, we held our fifth annual strategic risk identification workshop. This was facilitated by the MOD Director of Assurance and attended by DE&S Executives and NEDs. The session enabled the retirement and delegation of several strategic risks and identified one new strategic risk.



## Principal Strategic Risks and their Mitigations during 2019-20

Strategic Risk	Potential Impact	Progress
<b>Provision of Safe to Operate Equipment</b>	A serious accident or incident involving products, systems or services we provide to the Front-Line, and determined as unsafe to operate.	ASP reached full operating capability, delivering clarity on safety responsibilities across the organisation, identifying competence shortfalls and enabling DE&S to become a measurably capable safety organisation. This year, ASP awareness training was delivered to a further 20% of DE&S employees. This has driven a discernible improvement in our annual safety culture survey score. As a result, the DE&S Safety, Health and Environmental Committee has declared a reduction in the probability of this risk materialising. Nonetheless, the ASP work has highlighted that significant challenges remain, especially in the areas of information management and resourcing for safety management roles.
<b>Workforce Insufficiently Skilled / Lacks Capacity and Capability to Deliver Planned Outputs</b>	Reduced delivery of projects and programmes, and reduced confidence in DE&S' capabilities to deliver.	DE&S has maintained positive headcount growth against demand through recruitment and reduced attrition. DE&S has successfully launched Success Profiles to better reflect the behaviours and technical competencies required by our people. These underpin a forthcoming skills gap analysis with our Strategic Workforce Plan and have been developed to support new career pathways and functional learning opportunities, enabling increased personal development. DE&S has embedded a new performance management process which is maturing. We have also initiated a 3-stage reward review, in conjunction with the MOD and the SDA. This ensures our reward strategy is fit for purpose, is attractive and protects retention. DE&S implemented an internal promotion process in June 2019 to enable development and progression of our talent. Addressing below-target diversity recruitment is an ongoing priority.
<b>Continuity of Supply</b>	Supply chain interruption, capability loss, cost increase, delays to equipment and support delivery and damage to DE&S reputation.	This risk now has effective key risk indicators and risk velocity assessments. This reduces both the risk probability and impact and realises the strategy to detect measurable changes in supplier performance. The Control Framework and Risk Response Plan have been further enhanced by the new key controls and mitigation actions, which focuses upon both strategic and critical suppliers, including those within the supply chain.
<b>Cyber</b>	Reduced safety, impaired military capability, loss of intellectual property or information asset, loss of business services, financial impact and reputational damage to defence.	Following audits against ISO27001 <sup>36</sup> , the National Institute of Standards and Technology, Information Assurance Maturity Model and numerous defence internal audits, CIO has continued to address the risk to Corporate IT. Subsequently, CIO achieved ISO27001 certification of its Corporate IT in November 2019. CIO has continued to reduce the Corporate cyber risk through improving asset management, risk reporting, staff awareness and resilient disaster recovery. COVID-19 saw huge demand on the IT systems and a change in our security posture. As a result, we reviewed the COVID-19 risks to Corporate IT and determined that our overall risk score would remain the same, with continual assessment throughout 2020-21. At the request of the CEO to better understand and protect MOD identifiable information in the supply chain, we have initiated a supply mapping project to provide capability to effectively assess risks and provide assurance against the Defence Cyber Protection Partnership requirements. Director CIO has been working closely with the Directorate of Security and Resilience to develop a proof of concept capability; exposing suppliers throughout the MOD supply chain, to identify security, resilience, and commercial concerns. This enables pan-Government and industry collaboration to control and mitigate risks.
<b>Customers lack of trust in, and understanding of, DE&amp;S</b>	Customers will look elsewhere for provision of equipment, support and services leading to reputational damage and potential disruption to the programme of work.	DE&S remains committed to delivering vital equipment and support to our customers, the FLCs. The annual customer satisfaction survey was reviewed with the FLCs, to assess scope for improvement. Testing and evaluation of the survey questions was undertaken, alongside an additional measure introduced to obtain FLC feedback via structured face-to-face interviews with a selection of senior customers. A DE&S and FLC focus group was also set up to consider how DE&S could become more customer-centric and a series of communication activities were undertaken to keep FLCs informed of progress. Strategic (DE&S Executive level) customer forum meetings were established with each FLC to help improve relationships. The effectiveness of these additional measures, as well as the actions undertaken in response to previous surveys, has been demonstrated, with customer interviewees all welcoming the chance to provide more in-depth feedback and with a slight increase in the scores for customer satisfaction (after three years of remaining static). This risk has been reviewed to take account of wider stakeholder groups. An up-to-date stakeholder map has been produced and activity is underway to specify the risk for each group, in order to define a proactive, targeted strategy to improve DE&S' reputation with these wider stakeholder groups over the next FY.

<sup>36</sup> ISO 27001 is a specification for an Information Security Management System (ISMS). An ISMS is a framework of policies and procedures that includes all legal, physical and technical controls involved in an organisation's information risk management processes.

## Update on Principal Risks Extant in 2018-19

The previous table outlines those principal risks in the DE&S Strategic Register in 2019-20. We reported on three other risks in the 2018-19 Annual Reports and Accounts:

### Fraud

The 2019-20 strategic risk identification workshop evaluated the existence of this 'parent' risk and elected to delegate accountability for the portfolio of fraud risks to the Fraud Board, thus retiring the risk. The Fraud Board meets at least quarterly with its remit focused upon assessing fraud risks and their controls and mitigating activities.

### Protective Security

Within the 2019-20 strategic risk identification workshop, the decision was made to incorporate this risk into DE&S' portfolio of security risks, managed by the Security Committee. The Security Committee meets regularly and is accountable for assessing security risks and their controls alongside mitigating activities. In attendance are the risk owners from each CoM area accountable for managing the principle DE&S security risks, together with the Principal Security Advisor, CIO, Directors Strategy & Change, HR, Weapons, Logistics Delivery, Support, Engineering and Safety programmes, Commercial Capability and the Head of Infrastructure.

### Infrastructure Compliance

During January 2020, the Executive Committee made the decision to detach constituent parts of this risk and integrate them within two extant risks. These risks being the provision of safe to operate equipment and continuity of supply. Both risks are consistently managed and scrutinised, as is the entirety of DE&S' strategic risk portfolio.

## Principal Internal Controls

All DE&S staff are expected to behave respectfully and to act with honesty and integrity as set out within the DE&S Code of Business Ethics<sup>37</sup>. Ultimately, everyone in DE&S shares accountability for managing their time, protecting public money and delivering their objectives. To enable this, we ensure that we delegate effectively; that the appropriate people have the authority to commit resources, with accountability for outcomes,

and that leaders and managers monitor progress. Delegation results in objectives that are agreed between individuals, their delivery managers and their function managers. Progress and achievements are reported through the DE&S annual performance management process, with equal weighting given to both delivery (the "what") and behaviours (the "how"). Underpinning this, we exercise a strong system of internal control for specific elements of our business. Where elements are determined to require strengthening, they are reviewed and the appropriate changes are implemented.

### Financial

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

DE&S has been granted significant freedom of action for staff pay, remuneration, recruitment and approvals of consultancy and we regularly review the appropriateness of letters of delegation as part of routine business.

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

We now have a well-established set of internal controls which are continually improved. These were extended in 2019-20 FY to include compliance testing, to ensure our staff were correctly interpreting and applying departmental policies and processes.

The freedoms granted to DE&S as a BTE mean that the organisation is exempt from all Cabinet Office controls except for information communication technology and property. The Cabinet Office has clarified that these exemptions include both equipment programme and BTE operating activities. Information about Cabinet Office controls can be found here\*.

### Assured Delivery and Support

DE&S is committed to providing the most effective equipment and services to our armed forces safely and to the agreed standards of performance, cost and time. The adoption of sound quality management principles is a key enabler to achieving this and we continue to

<sup>37</sup> The DE&S Code of Business Ethics sets out how DE&S staff should act and behave within the workplace.

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



update our Business Management System (BMS) and Quality Management (QM) capability to ensure we perform our processes in a consistent and acceptable manner.

Our commitment to quality starts with our Quality policy. Developed at Executive level and approved by the CEO, it is aligned to MOD policy and establishes the need for the BMS and our commitment to putting in place the appropriate controls to manage and assure quality. It also includes the establishment of clear functional ownership of processes, with each of our functions having developed their own essential processes required for delivery and support. Our approach to integrated processes remains a key driver in our goal to achieve certification to ISO9001 – the international QM system standard.

During 2019 we continued our progress towards achieving ISO9001 certification, placing a contract to engage a third-party Certification Body to provide independent assurance that our BMS meets specific requirements. Following an extensive gap analysis, the Certification Body recognised the advances DE&S has made towards improving quality management and that the BMS and common internal process audit platform were key cornerstones. We do recognise that further improvements are required, and we continue to work on implementing actions to meet requirements.

In recognition of the vital role our industry supply chain plays in providing quality products and services to our armed forces, we have provided confidence that the contractual requirements relating to quality are met for acquisition and logistics support of defence materiel and services. We continue to review the application of quality requirements in defence contracts to ensure they are applied consistently. Quality is further assured through direct risk-based tasking of the Defence Quality Assurance Field Force who conduct quality assurance activities as laid out in MOD Quality Policy. The field force has a wealth of quality experience at its disposal providing an independent and unbiased view of supplier performance at zero cost for UK and NATO procurement projects.

### Commercial

In 2019-20 a total of 826 new contracts were placed with a contract value of around £6.52 billion. Over the course of the year we managed around 2,900 contracts with a total value of approximately £127 billion. A focus on contract consolidation has reduced this from over 5,000 contracts four years ago. Major contracts placed this year include the Type 31 Design and Build contract (£1.4 billion), Chinook's Future Life Customer Support programme (£760 million) and the maintenance support contract (£346 million) for the EJ200, which are the engines that power the UK's fleet of Typhoon fighter jets. We continue to be fully compliant with the Single Source

Contract Regulations to benefit from the transparency of costs through the reporting regime. Our focus on Small and Medium Sized Enterprise engagement is contributing to our drive for greater innovation and more agile contracting. DE&S continues to contribute significant 'Prosperity' achievements in the exploitation of opportunities for high-value skills development, innovation and exports. Key projects supporting export opportunities include the sale of Typhoon and associated services to Qatar and wider initiatives such as the Combat Air Strategy (International-by-design), AJAX, 40 mm Cannon Series Production, Type 31 and Type 26 export campaigns.

In 2019, we undertook a review of the competitions we had run to establish whether they had been successfully performed. The findings demonstrated a positive outcome in that 93% of the 228 competitions conducted in 2019 were successfully completed. The assessment concluded that only 16 (7%) had been disrupted due to issues relating to tender evaluation difficulties. There were also some isolated examples of unclear requirements and funding or process compliance issues. We have used this learning to strengthen arrangements in the key areas. Most significantly, this has included setting up a CofE for tender assessment where best practice can be shared. The findings have been shared with the senior commercial officers within DE&S and emphasis also placed on ensuring that requirements are clear to the bidders and that sufficient funding is in place for a successful outcome.

Commercial resourcing across 2019-20 saw continued success in external recruitment leading to an overall stable and slightly increased level of delivery resource to meet the ongoing business demand, whilst supporting an increase in the SDA's commercial resource demand over the same period. Work to support new starters and existing staff, along with recruitment success, has had a positive impact on our external attrition rate which has seen a decrease for the year. These figures include the SDA.

Investment in the development of commercial staff has continued with excellent delivery to plan of anticipated training needs. A comprehensive and interactive Career Pathway was launched as a one stop shop for all training, career and function information, receiving a MOD Award nomination for this work. We have continued to deliver training via the Defence Academy with over 6,500 training days delivered. We have also launched a new Commercial Training Portal and published four Commercial Podcasts offering an innovative, inclusive and diverse variation of training

method. We have continued to make progress against the pan-MOD professional development target for all staff to hold a commercial delegation and licence after September 2020. To date, 75% of DE&S commercial staff are already at, or training for, the level of accreditation they need from the Chartered Institute of Procurement and Supply.

Our partnership with the commercial delivery partner, Paragon, continues to be a success and the use of its staff within project teams continues to add value in both general capability reinforcement, and the provision of specialist skills and services.

### **Safety, Security and Resilience**

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

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

### **Our People**

As part of transformation we reshaped the way our people are managed. We moved away from viewing our staff as generalists with add-on specialisms to an

environment where everyone is a defined professional within one of nine specialist functions. Individual performance and career management has come to the fore, including enabling staff to take responsibility and accountability. Since April 2017, corporate control of the demand for resources has been supported by our people model – a key pillar of our transformation – and our Executive Committee now meets monthly to conduct formal talent management and succession planning for our SLG. A review into leadership across DE&S was conducted this year, with a range of recommendations for potential implementation in subsequent years.

Throughout 2019-20 we have undertaken a review, in consultation with functional leaders and TUs, of our employment policies and processes to ensure they remain fit for purpose. We have also implemented Civil Service Success Profiles to replace the role profiles we had introduced in 2017. These Success Profiles (around 230 across our Levels 1 - 5) better describe the competences all staff are required to have within their assignment, reflective of their level and based on function-owned technical competence frameworks. Additionally, the profiles describe the required Civil Service behaviours for the role (such as leadership, communication and influencing, working together, making effective decisions) together with two that are DE&S specific (safety focus and working as one

team with our customer). Over the next year we will be introducing strengths and ability requirements to the Success Profiles in order to better support talent acquisition and progression assessment decision-making.

The new DE&S HR capability has supported these changes and the in-house casework team and talent acquisition capability are now more effective in delivering key enabling services. The introduction of an internal promotion process in June 2019 has proven very successful and has been well received by the staff, seeing 350 staff demonstrating the necessary capability and being promoted as a result. At the beginning of the year the People Committee directed the establishment of a retention workstream. This involved the functions and domains and tackled an increasing rate of preventable attrition (i.e. those staff who were leaving for reasons other than retirement, ill-health retirement, and dismissal), and a perception that we were losing too many new entrants within a year of joining. The workstream reviewed the data and a set of metrics were included within OGSM, so that management information would be visible at Executive level. Targets have also been set to improve processes during onboarding through to induction and to the end of probation. Attrition rates have reduced and the wide-ranging workstream will be continued throughout 2020-21 as a priority.



A Royal Air Force Support Chinook helicopter supporting the Environment Agency, carrying out repairs on the East Coast flood defences

## Continuous Improvement

The Executive Committee oversaw the establishment of the DE&S@21 Improvement Plan and reviewed its progress by tracking progress against a range of associated success measures, reviewing specific proposals for improvement and overseeing the coherence of the plan. This included alignment of internal DE&S activity and the appropriate attribution of resources for improvement activity versus the delivery of business as usual priorities for defence.

## Information Management

We established two CofEs for information management and records management, both of which are currently maturing. The CofEs are providing greater focus to their respective business areas and advice and guidance to the wider business.

Issues have been identified in terms of information maturity and both physical and electronic records management within DE&S. Improvement plans are being developed to address these issues and will be delivered over the next two to three years.

## Quality Assurance of Analytical Models

Recommendation four of the Macpherson<sup>38</sup> review requires Accounting Officers' governance statements to confirm that an appropriate quality assurance framework is in place for analytical models. The MOD continues to implement the Macpherson report recommendations and DE&S has been part of the Department's action plan to strengthen the approach to quality assurance. The 2020 list of business-critical analytical models, including those in use in DE&S, will be published online.

Following the transfer of the Cost Assurance and Analysis Service (CAAS) to the MOD on 1 April 2019, the DE&S project controls function conducted a quality assurance review of the of the Business-Critical Models (BCM) listed for 2019-20. Of the 50 BCMs declared, all models were found to have conducted appropriate quality assurance or have appropriate quality assurance planned. However, the review identified ten instances of minor deviations from the prescribed processes, mainly relating to Senior Responsible Owner completion of training and objectives. The review concluded that there is substantial assurance that the quality assurance of DE&S models has been conducted in a way that satisfies the requirements of HMT and the

recommendations from the Macpherson Review. This maintains the level of assurance given by CAAS for the annual reviews since 2015-16.

## Annual Assessment of Governance

As in previous years, the governance, risk management, internal control and assurance arrangements in DE&S have been comprehensively reviewed in conjunction with the Audit, Risk & Assurance Committee. Risks deemed to be of strategic importance are regularly reviewed by the Executive Committee and monitored by the DE&S Board. As described earlier, our latest review conducted in October 2019 resulted in a slightly revised set of strategic risks pertinent to our organisation's objectives.

We also undertake a number of internal and external reviews throughout the year that test the effectiveness of our controls. This culminated in our latest AAR which provides an overall opinion of 'substantial assurance' for 2019-20. While this reflects in part the improvements made since last year, we have nevertheless identified some areas in which there remains room for improvement.

The substantial assurance rating also aligns with the opinion provided by DIA in its own 2019-20 Annual Internal Audit Report. This report took into account our improved performance in the implementation of AMAs, with 90% of AMAs completed in 2019-20 compared to 52.8% completed in 2018-19. Any issues will be taken forward during 2020-21, with senior level oversight provided by DG Resources, and progress tracked at the Audit and Risk Assurance Committee and monitored by the Executive Committee and the Board.

<sup>38</sup> 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.



Typhoon aircraft taking part in a training exercise

## Chair's assessment

By Mark Russell, DE&S Chair

DE&S is performing well in its delivery of the outputs required by our customers and in our contribution to the wider increased economic benefits to defence. I have noted the considerable progress made since last year in addressing the areas for improvement which resulted in the 'limited assurance' assessment in the CEO's AAR for 2018-19. For 2019-20, the department's approach to assessing corporate assurance has changed considerably and this has brought more focus to building a coherent framework. I believe that our own assurance assessment of 'substantial' represents an honest and appropriately self-critical view which, while robust, does nevertheless recognise where there is scope for further improvement.

I welcome the support and challenge we continue to receive from DIA, whose work is vital to good governance. I am keen to ensure that we work closely together to extract more benefit from the audit programme, which is approved up-front and monitored by the Audit and Risk Assurance Committee. Indeed, we have strengthened further the relationship between DIA's programme of activity, our AAR and our strategic

risks over the course of the 2019-20 FY. As noted by the CEO in this year's AAR, building greater coherence across all elements of our assurance and control framework will be our focus for the next 12 months.

I am confident that our governance structure itself remains robust, with the operation of the DE&S Executive Committee and supporting committees continuing to evolve. Our Board effectiveness review was, for the first time, conducted externally this year and generated useful analysis of current strengths and future challenges. We will build on the review's findings going forward, focussing on strategic issues and Board interaction with key stakeholders.

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

# REMUNERATION AND STAFF REPORT

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## Remuneration Policy

The following remuneration policy refers to the employment of DE&S Directors on the DE&S Board and Executive Committee. Remuneration details for the Minister for Defence Procurement and MOD representatives on the P&RR and other DE&S Committees are not included as they are not paid by DE&S. Information on their remuneration can be found within the MOD Annual Report and Accounts. During 2018-19, seven<sup>39</sup> members of the DE&S Executive Committee were members of the SCS, one was on secondment from Network Rail, and three<sup>40</sup> were senior officers of the armed forces.

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

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

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

## Performance and Reward

The 2019-20 Statement of Comprehensive Net Expenditure (SoCNE) reflects payments made or due to directors during the FY. Salary and reward for the CEO and Executive Committee members was considered by the DE&S Remuneration Committee.

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

As a direct result of the COVID-19 outbreak, the Executive Committee confirmed that there would be no requirement for staff and managers to complete annual performance appraisal reports for 2019-20. Delivery managers were directed to continue to hold performance conversations with their people, reinforcing the performance culture and supporting the continued development of staff in their assignments. As no performance ratings were generated through the appraisal system, a pay offer was negotiated with the TU based on all staff below SLG receiving a flat percentage salary increase, that was not adjusted for distance from the market benchmark. Eligible staff below SLG also received a performance award based on their level and the corporate performance outcome. For industrial and shop-floor staff, their performance award (a pilot for 2019-20) was based on the achievement of site KPIs. The pay offer negotiation was concluded following publication of the HMT Pay Remit and was implemented in the July 2020 payroll.

Following an Executive review and in consultation with the Board, it was decided that the SLG would complete formal performance appraisals for the performance year 2019-20 to record their end-of-year conversations. This was consistent with the approach for SCS across all Departments and supported the intent to maintain momentum towards a mature performance management culture. As part of the process, SLG members were also awarded performance ratings reflecting achievement of objectives and behaviours. Those who were rated in the top three (of five) ratings received a non-consolidated performance award, which was also informed by the corporate performance outcome. Although our freedoms allow for higher performance award outcomes, the Executive decided to

<sup>39</sup> Sir Simon Bollom, Mr Johnson, Mr Bushell, Mr Baguley, Mr Burton, Mr Griffiths, Mr West (Interim CoM(Land))  
<sup>40</sup> Lt Gen Jaques, VAdm Gardner, AM Sir Julian Young

cap awards for all SLG pay bands in order to maintain a consistent approach with below SLG awards, and to demonstrate pay restraint. All eligible SLG also received a flat-rate percentage salary increase, irrespective of performance outcome, in common with the below SLG approach. The pay offer for SLG was negotiated with TUs in July 2020, following publication of the Review Body on Senior Salaries<sup>41</sup> guidance, and implemented in September 2020 payroll.

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

All senior (2\* and above) military officers' pay is dependent on their performance, time in rank and position on the pay scale. Individuals can be awarded a single increment or no increment, and progress accordingly up the incremental pay scale for their rank. The average value of one incremental rise was 2.6% of salary in 2019-20 (it was 2.6% in 2018-19).

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

## Senior Manager Contracts

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

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

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

Mr Bushell, CoM(Land) took up post on 9 December 2019 having been appointed through open competition. His initial contract of employment is for three years.

Mr Elliott, DG Commercial, took up post on 5 July 2016. He transferred into the department on secondment from Network Rail for a period of two years with an option to extend by one year at a time for an additional two years and during the period of this report, a one-year extension was approved until 30 June 2020. On 1 April 2019 Mr Elliott was appointed as Deputy Chief Executive, in addition to his role as DG Commercial, with responsibility for driving internal business coherence and efficiency. DE&S does not pay Mr Elliott's salary, but makes a fixed sum contribution paid to Network Rail on a quarterly basis. This fixed sum goes towards covering his employment costs.

Mr Burton CBE, Director Strategy and Change, retired from the Civil Service on 31 March 2020.

## Management

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

<sup>41</sup> The Review Body on Senior Salaries provides independent advice to the Prime Minister, the Lord Chancellor, the Secretary of State for Defence, the Secretary of State for Health and the Home Secretary on the pay of Senior Civil Servants, the judiciary, senior officers of the armed forces, certain senior managers in the NHS, Police and Crime Commissioners and chief police officers.

\* [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

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

DE&S Executive Directors	2019-20					2018-19				
	Salary <sup>1</sup> £000	Annual <sup>2</sup> Performance Award £000	Benefits in Kind to Nearest £100	Pension <sup>3</sup> Benefits £000	Total £000	Salary £000	Annual Performance Award £000	Benefits in Kind to Nearest £100	Pension Benefits £000	Total £000
Sir Simon Bollom	275-280	25-30	-	-	305-310	270-275	85-90	-	-	360-365
David Johnson	145-150	10-15	-	113	270-275	135-140	25-30	-	46	210-215
Nick Elliott <sup>4</sup>	265-270	25-30	-	-	290-295	230-235	50-55	-	-	280-285
Daniel Griffiths	160-165	15-20	-	62	240-245	90-95 [160-165]	10-15	-	36	140-145
Air Marshal Sir Julian Young	155-160	-	-	120	275-280	145-150	-	-	117	265-270
Lieutenant General Paul Jaques (to 6 September 2019) <sup>5</sup>	70-75 [155-160]	-	-	29	100-105	145-150	-	-	64	210-215
Adrian Baguley <sup>6</sup>	150-155	15-20	-	151	320-325	50-55 [140-145]	30-35	-	18	100-105
Barry Burton <sup>7</sup>	135-140	10-15	-	21	170-175	115-120	25-30	-	19	165-170
Christopher Bushell (from 9 December 2019) <sup>8</sup>	70-75 [220-225]	5-10	-	10	85-90	-	-	-	-	-
Vice Admiral Christopher Gardner (from 1 April 2019) <sup>9</sup>	140-145	-	-	206	345-350	-	-	-	-	-
Roger West (from 6 September 2019 to 9 December 2019) <sup>10</sup>	40-45 [165-170]	0-5	-	6	50-55	-	-	-	-	-

Notes

- Salary includes gross salary, overtime, reserved rights to London Weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowances to the extent that it is subject to UK taxation. Figures in brackets reflect the annual equivalent salary for members who have joined or left the Executive Committee during the year.
- Performance awards are based on performance levels attained and are made as part of the appraisals process. The performance awards reported in 2019-20 relate to performance in 2018-19 and the comparative figures reported for 2018-19 relate to that performance year. Military terms and conditions do not include provision for performance award.
- The value of pension benefits accrued during the year is calculated as the increase in pension multiplied by 20, plus the increase in any lump sum less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to transfer of pension rights.
- Salary value for Mr Elliott reflects the contribution made by DE&S to his Network Rail remuneration package. In addition to this, DE&S also contribute £76k towards other employment costs, including pension and National Insurance contributions. Pension costs are not shown separately as they are included in the Network Rail pension scheme as part of the Department for Transport Annual Report and Accounts.
- The salary and pension costs for Lt Gen Jacques reflect the actual remuneration received during his appointment until he stepped down from the role of CoM (Land) on 6 September 2019. The figures in brackets reflect his annual equivalent salary. He continued to work for DE&S in a non-executive capacity until 5 December 2019.
- Mr Baguley assumed the role of CoM (Joint Enablers) on 1 April 2019. Prior to that he was a member of the Executive Committee as Director Programmes.
- Pension costs for Mr Burton reflect contributions made to his Partnership pension account in 2019-20.
- Mr Bushell assumed the role of CoM (Land) on 9 December 2019. 2019-20 salary and pension costs reflect the actual remuneration received from his membership of the Executive Committee. The figures in brackets reflect his annual equivalent salary. Pension costs reflect contributions made to his Partnership pension account.
- VAdm Gardner assumed the role of CoM (Ships) on 1 April 2019. 2019-20 salary and pension costs therefore reflect the actual remuneration for the full FY.
- Mr West assumed the role of Interim CoM (Land) between 6 September 2019 and 9 December 2019. The salary and pension costs reflect the actual remuneration received during this appointment. The figures in brackets reflect his annual equivalent salary. Pension costs reflect contributions made to his Partnership pension account.

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

DE&S Non-Executive Directors <sup>1</sup>	2019-20 <sup>2</sup> £000	2018-19 Restated £000
Mr Paul Skinner (to 31 May 2019) <sup>3</sup>	0-5 [5-10]	5-10
Mr Stephen Lovegrove <sup>4</sup>	-	-
Mr David Goldstone <sup>5</sup>	-	-
Air Marshal Richard Knighton <sup>6</sup>	-	-
Mr James Dorrian	25-30	25-30
Dr Ros Rivaz	25-30	25-30
Mr Iain Lanaghan <sup>7</sup>	25-30	25-30
Mr Gerard Connell	25-30	20-25 [25-30]
Dr Ilona Blue <sup>8</sup> (from 1 April 2019)	-	-
Mr Andy Lord	25-30	10-15 [25-30]
Mr Mark Russell <sup>9</sup> (from 1 November 2019)	60-65 [145-150]	-
Mr Henry Lloyd <sup>10</sup> (from 7 January 2020)	-	-

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

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

<sup>3</sup> Remuneration received by Mr Skinner represents the amounts paid up until his departure on 31 May 2019, figures in brackets represent annual equivalent fees. Mr Skinner decided to waive the majority of his fee during his time as DE&S Chair.

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

<sup>5</sup> Mr Goldstone received no remuneration for DE&S Board membership as he is a MOD employee. His salary details are reflected in the MOD Annual Report and Accounts.

<sup>6</sup> Air Marshal Knighton received no remuneration for DE&S Board membership as he is a MOD employee. His salary details are reflected in the MOD Annual Report and Accounts.

<sup>7</sup> Mr Lanaghan's 2018-19 salary has been restated to correct the 2018-19 disclosure.

<sup>8</sup> Dr Blue receives no remuneration for her role on the Audit and Risk Assurance Committee as she is a Department for Transport employee.

<sup>9</sup> Remuneration received by Mr Russell represents the amounts paid since he became a NED on 1 November 2019, figures in brackets represent annual equivalent fees.

<sup>10</sup> Mr Lloyd received no remuneration for DE&S Board membership as he is a UKGI employee.

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

DE&S Executive Directors <sup>1</sup>	Total accrued pension at pension age [and related lump sum] as at 31 March 2020 [£000]	Real increase in pension [and related lump sum] in 2019-20 [£000]	CETV <sup>2&amp;3</sup> as at 31 March 2020 or cessation of employment if earlier [£000]	CETV as at 31 March 2019 or last date if later [£000]	Real Increase in CETV <sup>4</sup> [£000]
David Johnson	60-65 [140-145]	5-7.5 [5-7.5]	1,174	1,038	83
Daniel Griffiths	5-10	2.5-5	99	35	49
Air Marshal Sir Julian Young	85-90 [265-270]	5-7.5 [15-17.5]	2,257	2,117	89
Lt Gen Paul Jaques	75-80 [230-235]	0-2.5 [2.5-5]	1,934	1,828	-4
Adrian Baguley	60-65 [155-160]	7.5-10 [10-12.5]	1,287	1,106	122
Vice Admiral Christopher Gardner	65-70 [205-210]	7.5-10 [25-27.5]	1,813	1,572	204
Barry Burton	50-55 [160-165]	0-2.5 [0-2.5]	1,254	1,233	0

<sup>1</sup> Sir Simon Bollom is not a member of any DE&S pension scheme and no pension contributions have been made by DE&S. Mr Elliot is on loan from Network Rail; he continues to be paid by them and as such all pension costs are separately reported within the Department for Transport's Annual Report and Accounts. In 2019-20 Mr Burton, Mr Bushell and Mr West are not members of the Principal Civil Service Pension Scheme (PCSPS). DE&S contributed to their Partnership Pension Accounts as part of their overall remuneration package (£37k). Mr Burton has accrued PCSPS pension rights from previous years, as identified in the table above.

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

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



Members of DE&S staff at work in Manchester office

## Pay Multiples (subject to audit)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest paid military director in DE&S in 2019-20 was £157,500 (2018-19, £148,500). This was 3.13 times (2018-19, 2.98) the median remuneration of the workforce, which was £50,282 (2018-19, £49,886). The median remuneration of the workforce has increased in 2019-20 due to the general pay uplift awarded in 2019-20.

The banded remuneration of the highest paid civilian director in DE&S in 2019-20 was £307,500 (2018-19, £362,500). This was 9.02 times (2018-19, 10.8) the median remuneration of the workforce, which was £34,085 (2018-19, £33,570). The median remuneration of the workforce has decreased in 2019-20 due to the cap applied to the SLG performance awards.

In 2019-20, zero (2018-19, 0) employees received remuneration in excess of the highest-paid director.

Military remuneration ranged from £24,508 to £157,500 (2018-19 £21,166 - £148,500). Civilian remuneration ranged from £15,796 to £307,500 (2018-19 £15,144 - £362,500).

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.

	2019-20	2018-19
Mid-Point of the £5,000 band for the annual equivalent remuneration of the highest earning military board member.	157,500	148,500
Median total remuneration of armed forces personnel	50,282	49,886
Military pay ratio	3.13	2.98
Mid-Point of the £5,000 band for the annual equivalent remuneration of the highest earning civilian board member.	307,500	362,500
Median total remuneration of civilian staff	34,085	33,570
Civilian Pay Ratio	9.02	10.80

## Staff Report

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

The number (head count) of SCS within the DE&S SLG, as at the end of the FY is as follows.

SCS Pay Band	2019-20	2018-19
Band 1	93	86
Band 2	16	14
Band 3 and above	3	2
<b>Total</b>	<b>112</b>	<b>102</b>

The SCS head count has increased for 2019-20 due to promotions across pay band 1 to 2, newly funded requirements and the replacement of military personnel with civilian personnel. On a monthly basis, CEO chaired the SLG Talent Board to review all new SLG demands and to routinely assess opportunities to appropriately reduce the SCS head count.

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

	2019-20	2018-19
Permanent Staff	11,454	11,360
Contingent Labour <sup>42</sup>	643	211
<b>Total</b>	<b>12,097</b>	<b>11,571</b>

Permanent staff numbers have increased by 94, however the 2018-19 figures in the above table include 291 belonging to CAAS which transferred out of DE&S on 1 April 2019. When excluding these, average DE&S permanent staff numbers have increased by 385, which is consistent with an overall increase in staff costs. The average number of contingent labour staff also increased by 432 over the year. These increases reflect the ongoing recruitment of staff into DE&S to meet the demand requirements as the programme of work continues to grow. To deliver the programme of work at pace DE&S uses a mix of workforce options, including PSS for specific tasks where it would not be economic to hold the capability and capacity in-house on a permanent basis, and contingent labour to provide capability and capacity that we have not been able to recruit into the core workforce. This blended approach provides flexibility and better value for money overall than trying to build a permanent workforce with the spare capacity to cover every potential addition to the programme of work.

<sup>42</sup> Contingent labour is separate to PSS and is included in DE&S' staff costs. It is used to fill funded posts within DE&S on a short-term basis. This is explained in more detail on page 66.

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

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

Staff costs comprise:	2019-20			2018-19		
	Permanently employed staff £000	Contingent labour £000	Total £000	Permanently employed staff £000	Contingent labour £000	Total £000
Salaries and wages	467,954	76,394	544,348	448,706	33,132	481,838
Social security costs	47,625	-	47,625	45,638	-	45,638
Other pension costs	141,531	-	141,531	107,973	-	107,973
<b>Total</b>	<b>657,110</b>	<b>76,394</b>	<b>733,504</b>	<b>602,317</b>	<b>33,132</b>	<b>635,449</b>

2018-19 costs include CAAS staff costs of £15.8 million. Permanent staff costs, including social security and pension costs, have increased in 2019-20 in accordance with the increase in staff numbers during the year and as a result of the 2019 pay award. Contingent labour costs have also increased in 2019-20 in line with the increased numbers of workforce substitutes.

For the year ended 31 March 2020, of the total pension contributions for DE&S in the table above, £97.2 million (2018-19, £72.9 million) were payable in respect of the various schemes in which civilian staff were members. For the year ended 31 March 2020, of the total pension contributions for DE&S in the table above, £44.3 million (2018-19, £35.1 million) were payable in respect of the AFPS in which military staff were members.

The cost of employer contributions to military and civilian pensions increased substantially from 1 April 2019 following the outcome of valuations, which used revised discount rate assumptions, resulting in an additional increase to pension costs.

Where employees opened a Partnership pension account with an employer contribution, DE&S made contributions of £1.3 million (2018-19, £942k) to the relevant pension providers. This is included within the £97.2 million of civilian pension costs above.

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

### Principal Civil Service Pension Scheme

The PCSPS and the Civil Service and Other Pension Scheme, known as “Alpha”, are unfunded multi-employer defined benefit schemes. DE&S is unable to identify its share of the underlying assets and liabilities. An actuarial valuation of the PCSPS has been completed and can be found [\\*here](#).

Contributions to the PCSPS in 2019-20 were calculated at one of four rates in the range 26.6% to 30.3% 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 2019-20 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

The contributions to the PCSPS for the 2019-20 period represent a significant increase from those as at 2018-19. This is to reflect the additional cost burden associated with the scheme as a result of the McCloud judgement, details of which can be found [\\*here](#).

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

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

## Armed Forces Pension Scheme

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

Employer's contribution rates are determined by the Government Actuary. For 2019-20, the employer's contribution rates increased from 2018-19 to 65.5% of pensionable pay for officers and other ranks. These include a contribution towards the Armed Forces Compensation Scheme at 2% for officers and other ranks. No changes to the contribution rates are expected until 2023-24.

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

We are committed to the health and wellbeing of our staff and have a comprehensive sickness absence policy. During 2019-20 the average number of days for sickness absence was 6.1 days per employee, compared with 5 days per employee in 2018-19; this increase was not related to COVID-19, instead we saw higher than average figures over the late autumn, early winter period. The largest cause of sickness absence, as recorded by employees and as seen in previous years, was anxiety, depression or stress. In 2019-20 this was 28% of all recorded sickness absence. We also saw increases in respiratory illnesses and musculoskeletal issues. DE&S' average compares favourably with the MOD average of 6.8 days. The launch of a revised DE&S health and attendance policy in April 2017, together with the launch of our own in-house casework service that can better support managers when dealing with sickness absence, has ensured that we maintained a robust, clearly understood procedure for managing sickness absence. We have instigated a range of well-being measures including on-site health fairs tied to national focus days, the promotion of mental health awareness and signposting to support services including mental health first aiders, promotion of a range of discounts and networks available to all staff, and the ongoing cycle-to-work scheme introduced in April 2018. The MOD-wide Employee Assistance Programme, launched in January 2020 and which has been well received by staff, provides a range of excellent support services including stress and anxiety counselling, bereavement support, and medical advice and information.



DE&S staff at Abbey Wood

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



## Staff Policies

### Diversity and Inclusion - Our Vision

At DE&S we believe that a diverse and talented workforce brings greater creativity, innovative thought, productivity and better decision-making and enables DE&S to deliver against its objectives in an efficient and cost-effective way. Harnessing the individual and diverse talent that our workforce brings, regardless of their background or identity, will support DE&S becoming the employer of choice in our local areas.

Managing the diversity of our workforce is equally important and we are committed to creating an inclusive working environment where everyone can contribute to their full potential. It is important to us that our employees are engaged and feel they belong to the DE&S community, one that encourages individuals to build long and fruitful careers with us. Over the last year we have undertaken a range of business-wide and community activities and engagement. Highlights included:

- Monthly surgeries to support the completion of Equality Impact Assessment;
- Running 'Barriers to Progression' focus groups specifically for Women, Ethnic Minority and Disability groups to understand root causes and interventions, which then informed the revised Diversity & Inclusion strategy approved by the People Committee in September 2019;
- New Reasonable Adjustments and Workplace Adaptations Process, Policy, Procedure and Guidance documents launched with supporting material and face to face training;
- The National Inclusion Week Conference held in September 2019 with 40+ 'Windows to Inclusion' and Behavioural Insights workshops delivered;
- A review of the Wigston Review<sup>43</sup> recommendations, leading to a detailed action plan that underpins the 2020-21 diversity plan;
- The development of function-owned D&I plans to address specific functional D&I challenges and under-representation; and
- Hosting a highly successful International Women's Day conference (with keynote by CoM(Ships)) at DE&S Abbey Wood in Bristol, celebrating women's achievements in defence and providing guidance for women's progression and other relevant topics.

Employee Networks have remained active throughout this year, with an increasing demand for involvement and engagement in more mainstream activity such as

policy reviews. In 2019-20, there were 13 Employee Networks active within DE&S. All of the Networks are exclusively run by volunteers, with the Chairs of these networks given 20% facilities time for these roles and Committee members given 10%. The majority of the Employee Networks have an SLG sponsor. They have proven to be a positive influence in supporting members to raise concerns and get specialist support where needed.

Our strategy for 2020-21 will build confidence that as an organisation we are serious about creating a welcoming environment where everyone can thrive. We will be resolute in tackling inappropriate behaviours so that our employees, customers and visitors can expect to feel safe and be treated with dignity and respect. We will take steps to eradicate discrimination, harassment and victimisation through effective policy implementation and raising awareness across our workforce. We will use demographic data provided by individuals in a meaningful way that will inform how we shape our policies, processes and practices and reduce barriers where they exist.

We recognise that we must diversify our organisation across all levels and functions, and we will continue to improve the ways we attract more diverse candidates and ensure that the processes we use to recruit new employees are fair, transparent and free from bias. We will continue to monitor how we recruit and onboard new staff and use our analysis to inform future policies, practices and initiatives in this area.

As a public sector organisation, it is important that we consider the impact of everything we do on different groups of people to ensure that we operate in a fair and consistent manner. Where appropriate we will consult with our internal stakeholders to ensure that we take account of the perspectives and lived experiences of different groups. We will continue to work towards the requirements of the Women in Defence Charter and will utilise good practice across the Civil Service and other sectors and industries to inform the way we address equality, diversity and inclusion.

<sup>43</sup> A review into inappropriate behaviour in the armed services by Air Chief Marshal Wigston.

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

#### Staff breakdown

	31 March 2020	31 March 2019
<b>Civilian total headcount</b> <small>44,45</small>	<b>10,858</b>	<b>10,465</b>
<b>Gender</b>		
Female	3,708	3,491
% female	34%	33%
<b>Ethnicity</b>		
BAME	685	625
% BAME	6%	6%
<b>Disability</b>		
Declared a disability	1,078	968
% declared a disability	10%	9%
<b>Sexual orientation</b>		
Lesbian, gay, bisexual	283	235
% declared LGB <sup>46</sup>	3%	2%
<b>Religion or belief</b>		
Non Christian religion	409	393
% Non Christian religion	4%	4%
Secular	3,839	3,300
% Secular	35%	32%
Christian	4,092	3,962
% Christian	38%	38%

#### Gender breakdown at DE&S Board and Executive Committee level

	31 March 2020	31 March 2019
Total DE&S Board and Executive Committee	17	19
Female	1	1
Male	16	18
% Female	5.9	5.3
% Male	94.1	94.7

After the end of the reporting year, we appointed two female executive members, Krishna Dhanak (Director Strategy and Corporate Operations) and Morag Stuart (Interim Director General Commercial), both replacing male predecessors.

We continue to work hard with our executive recruitment partners to seek female new joiners to improve our representation at the most senior levels.

#### Gender breakdown at SCS level

	31 March 2020	31 March 2019
Total DE&S SLG (SCS)	112	102
Female	25	21
Male	87	81
% Female	22	21
% Male	78	79

#### Trade Union Relationships

The separate DE&S and SDA Framework Documents give both organisations the freedom to agree their own approach to TU engagement. Following the establishment of DE&S as a BTE in 2014, an Employee Relations Framework Agreement was created to govern successful engagement between DE&S and the TUs. This included the principles, behaviours and processes under which both parties will operate, to ensure good employee relations. The agreement was signed by the Chief of Defence Materiel and the five recognised TUs<sup>47</sup> on 2 February 2015. The HR team within DE&S leads on TU consultation for both DE&S and SDA (since

<sup>44</sup> Totals include all industrial and non-industrial civilian personnel of DE&S, but excludes all Royal Fleet Auxiliary, for whom declaration data is currently unavailable.

<sup>45</sup> Percentages shown for ethnicity, disability, sexual orientation and religious belief are based on declarations made compared with total civilian workforce; as there is no requirement to make a declaration, they are likely to under-represent actual numbers of each characteristic.

<sup>46</sup> The statistics for sexual orientation represents those staff who declared their sexual orientation as either "gay", "bisexual" or "other", in the HR management system.

<sup>47</sup> The five recognised TUs are: Public and Commercial Services, Prospect (representing engineers, managers, scientists and other specialists in the public/private sector), First Division Association (for senior and middle management civil servants), Unite (fights to protect workers' rights) and General Municipal Boilermakers (representing a number of different sectors).

its formation in 2018) and until the SDA establishes its own Employee Relations Framework Agreement. Consultation with the TUs takes place in compliance with the law and to initiate engagement in the spirit of reaching agreement.

The TU (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017. These regulations place a legislative requirement on relevant public sector employees to collate and publish, on an annual basis, data on the amount and cost of facility time. DE&S and SDA currently act within the same collective bargaining unit, with TU representatives undertaking TU duties across both organisations. Consequently, facility time costs for 2019-20 are shared between DE&S and SDA and this is reflected in the annual facility time data return as a combined expenditure. This is shown below for the period 1 April 2019 to 31 March 2020:

#### Relevant Union Officials

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
25	24.6

#### Percentage of time spent on facility time

Percentage of time %	Number of employees
0%	1
1-50%	24
51-99%	0
100%	0

#### Percentage of pay bill spent on facility time

<b>Total cost of facility time</b>	£41,042.91
<b>Total annual civilian pay bill<sup>48</sup></b>	£622,554,034.34
<b>Percentage of total civilian pay bill spent on facility time %</b>	0.01

#### Paid trade union activities

<b>Time spent on paid trade union activities as a percentage of total paid facility time %</b>	0.00 <sup>49</sup>
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TU activities means time taken off under section 170 (1) (b) of the 1992 TULR(C)A. These might include: attendance at branch, regional or national TU meetings or conferences, meeting with full time officers regarding issues related to the workplace, and voting in TU elections. The above information is also published by the Cabinet Office online\*.

#### Civil Service and other compensation schemes exit packages

The figures in the next table include redundancy and other departure costs paid in accordance with the Civil Service Compensation Scheme. Where DE&S has agreed early retirements, the costs are met by DE&S and not by the Civil Service Pension Scheme. There were three non-compulsory redundancies in 2019-20, none of these were individuals retiring early on ill health grounds.

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

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

<sup>48</sup> The total annual civilian pay bill as defined by the Cabinet Office: The sum of direct wages and salaries, pension contributions and National Insurance Contributions. Includes all staff-related costs, comprising direct wages and salaries (including non-consolidated payments), employer pension contributions and employer National Insurance Contributions'.

<sup>49</sup> DE&S do not approve payment for TU officials to undertake TU activities.

\* <https://www.gov.uk/government/publications/trade-union-facility-time-publication-service-2018-19>

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

Numbers in brackets are 2018-19 comparators.

Exit Package cost band	Number of compulsory redundancies	Number of other agreed departures	Total number of exit packages by cost band
<£10,000	- -	- -	- -
£10,000-£25,000	- (1)	2 (2)	2 (3)
£25,000-£50,000	- -	- -	- -
£50,000-£100,000	- -	1 -	1 -
£100,000-£150,000	- -	- -	- -
£150,000-£200,000	- -	- -	- -
Total Number of Exit Packages	- (1)	3 (2)	3 (3)
<b>Total resource cost (£000)</b>	<b>- (15)</b>	<b>121 (38)</b>	<b>121 (53)</b>

#### Expenditure on Consultancy and Temporary Staff

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

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

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

#### High Paid Off-Payroll Appointments

Government policy is that individual Departments must exercise governance over appointments where the appointees are not engaged directly on Departmental payrolls. Details of DE&S' most highly paid off-payroll appointments are shown in table 1. These represent temporary workers who are employed for limited periods of time, usually to fill short term vacancies, to deliver finite pieces of work, or to provide key skills needed to deliver the business which are not available internally.

The number of appointments reported has increased compared to 2018-19<sup>50</sup>. This principally reflects the additional use of contingent labour recruited through the main DE&S Delivery Partner contracts across project management, project controls, engineering, commercial and integrated logistics functions, to meet demand requirements as the programme of work continues to grow. The use of contingent labour enables us to supplement our capability and capacity more quickly than we would be able to build a core workforce. This blended approach provides flexibility and better value for money overall than trying to build a permanent workforce with the spare capacity to cover every potential addition to the programme of work.

<sup>50</sup> In 2018-19 DE&S reported 164 existing engagements of six months or more as at 31 March 2019 and 165 new engagements, or engagements reaching six months in duration, that lasted for more than six months.

**Table 1:** All off-payroll engagements as at 31 March 2020, for more than £245 per day and that last for longer than six months:

<b>Defence Equipment &amp; Support Bespoke Trading Entity</b>	
1. No. of existing engagements as of 31 Mar 20	<b>393</b>
<b>of which</b>	
2. No. that have existed for less than one year at time of reporting.	<b>253</b>
3. No. that have existed for between one & two years at time of reporting.	<b>127</b>
4. No. that have existed for between two and three years at time of reporting.	<b>13</b>
5. No. that have existed for between three and four years at time of reporting.	<b>0</b>
6. No. that have existed for four or more years at time of reporting.	<b>0</b>

**Table 2** provides an analysis of all new off-payroll engagements, or those that reached six months in duration, between 1 April 2019 and 31 March 2020, paid more than £245 per day and that last for longer than six months:

<b>Defence Equipment &amp; Support Bespoke Trading Entity</b>	
1. No. of new engagements, or those that reached six months in duration, between 1 Apr 19 and 31 Mar 20	<b>483</b>
<b>of which</b>	
2. No. assessed to be in-scope of IR35.	<b>210</b>
3. No. assessed to be out of scope of IR35.	<b>273</b>
4. No. engaged directly (via a Personal Service Company (PSC) <sup>51</sup> contracted to department) and are on the departmental payroll.	<b>0</b>
5. No. of engagements reassessed for consistency / assurance purposes during the year.	<b>0</b>
6. No. of engagements that saw a change to IR35 status following the consistency review.	<b>0</b>

There were no off-payroll engagements of Board members or senior executives with significant financial responsibility between 1 April 2019 and 31 March 2020.



<sup>51</sup> A PSC is a term used to describe a common type of limited company that is set up by self-employed workers, contractors and consultants. The PSC supplies professional services to end-user clients directly via the contractor or through an agency.



# PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

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## Parliamentary Accountability Report

In 2019-20 we responded to 224 Parliamentary Questions and 208 pieces of Ministerial and Treat Official correspondence from Members of Parliament, Peers and the public, exceeding our departmental targets for on-time delivery. We supported a range of Parliamentary Committee business including House of Commons Defence Committee oral evidence sessions on the MOD Annual Report and Accounts 2018-19, and a defence procurement update inquiry, which focussed on A400M, E-7 Wedgetail, GE Rugby and Fleet Solid Support ships. We also contributed to a Parliamentary debate on the National Shipbuilding Strategy.

We continue to fulfil our statutory obligations under the Freedom of Information Act 2000 in responding to requests for information from members of the public. During 2019-20 we answered 298 requests for information, again exceeding our departmental target for on-time delivery. Interest in DE&S' activities remains high. Requests cover DE&S business across all domains, with a particular focus on shipbuilding programmes, contracts activity and DE&S pay and promotion.

In line with Cabinet Office guidelines on transparency, DE&S proactively publishes a range of information online, including senior officials' business expenses, hospitality and meetings, and expenditure over £25,000 (above £500 on Government Procurement Card). DE&S data is not published separately, but is included on gov.uk as part of overall MOD information.

## Fees and Charges (subject to audit)

DE&S provides a range of services to external entities, principally industry partners, other Government Departments and other Governments, either where we have spare capacity or to enable delivery of elements of the MOD Equipment Programme. All charges are levied on a cost recovery basis. Full details of income generated are outlined in the financial statements Note 6.

## Remote Contingent Liabilities (subject to audit)

DE&S does not have any remote contingent liabilities in addition to those disclosed under International Accounting Standards (IAS) 37 within the Notes to the Accounts.

## Regularity of Expenditure (subject to audit)

All material expenditure and income incurred by DE&S in 2019-20 was in accordance with the requirements of HMT and other Government guidance.

## Losses and Special Payments (subject to audit)

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

Losses during the year totalled £0.5 million. This figure is mainly made up of low value fruitless payments which principally relate to Her Majesty's Revenue and Customs (HMRC) interest charges for late payment of VAT, and charges linked to hire cars and travel cancellations. For FY 2020-21 VAT training is being refreshed and increased to help manage down the number and value of interest payments. Of the total fruitless payments reported in 2019-20, 76 payments totalling £42,000 were reported as being due to the impact of COVID-19.

The increase to Minor Equipment losses in FY 2019-20 is due to the theft of a drone and associated data collection system used to support the provision of safety advice, which had a Net Book Value of £97,500. A full investigation has taken place and security procedures reviewed with the team involved.

## Losses Statement

Volume of Cases	2019-20	2018-19
Fruitless Payments (volume of cases)	580	414
Fruitless Payments (value £000)	435	662
Cash Losses (volume of cases)	-	-
Cash Losses (value £000)	-	-
Minor Equipment Losses (volume of cases)	3	2
Minor Equipment Losses (value £000)	98	2
Claims waived or Abandoned (volume of cases)	-	-
Claims waived or abandoned (value £000)	-	-
<b>Total Losses (volume of cases)</b>	<b>583</b>	<b>416</b>
<b>Total Losses (value £000)</b>	<b>533</b>	<b>664</b>
<b>Details of closed cases over £300,000</b>	<b>2019-20</b>	<b>2018-19</b>
<b>Volume of cases</b>	-	-
<b>Value £000s</b>	-	-

No advance notifications required separate disclosure in 2019-20. There was one advance notification disclosed in 2018-19, relating to potential DE&S element of charges for hotel 'no shows' and unreconciled hotel charges on lodged credit cards used by Hogg Robinson Group to guarantee travel bookings on behalf of the MOD. Work undertaken by MOD during 2019-20 has reduced the estimated remaining DE&S unreconciled element to below £300,000<sup>52</sup>.

Details of Advanced Notifications over £300,000	2019-20	2018-19
Volume of cases	-	1
Value £000s	-	507

### Special Payments

No special payments have been made in 2019-20. 2018-19 special payments were made in relation to staff grievances; for legal reasons, no further information can be provided on these cases.

Special Payments	2019-20	2018-19
Total number of special payments	-	3
Total Value of Special Payments (£000)	-	129

### Long term Expenditure trend by category

Total Departmental Expenditure Limit DE&S BTE (£M)	
Estimate 2021-22	1,060
Estimate 2020-21	1,096
Outturn 2019-20	1,043
Outturn 2018-19	946



Sir Simon Bollom  
Accounting Officer  
2 December 2020

<sup>52</sup> We are required by 'Joint Service Publication 462' and 'Managing Public Money' to separately disclose all advance notifications of losses >£300k in value.



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

### Opinion on financial statements

I certify that I have audited the financial statements of Defence Equipment and Support for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of Defence Equipment and Support's affairs as at 31 March 2020 and of the total comprehensive net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Opinion on regularity

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

### Basis of opinions

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

### Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Defence Equipment and Support's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Defence Equipment and Support have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Defence Equipment and Support's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Responsibilities of the Accounting Officer for the financial statements

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Defence Equipment and Support's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of the Defence Equipment and Support's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Defence Equipment and Support ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause Defence Equipment and Support to cease to continue as a going concern.

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**

**9 December 2020**

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



# Section Three

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## **The Financial Statements**

# ACCOUNTING INFORMATION

## STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2020

	Note	2019-20 £000	2018-19 £000
<b>Expenditure - Direct Programme Costs</b>			
Direct Staff Costs	3	733,504	635,449
Private Sector Support Costs	4	207,364	235,972
Other Programme Costs	5	114,433	98,654
<b>Total Direct Programme Costs</b>		<b>1,055,301</b>	<b>970,075</b>
<b>Income - Direct Programme</b>	6	<b>(17,999)</b>	<b>(30,859)</b>
<b>Net Direct Programme Expenditure</b>		<b>1,037,302</b>	<b>939,216</b>
<b>Expenditure - Non-Cash Items</b>			
Communicated Costs from Other MOD Organisations	7	106,950	98,047
Auditors' Remuneration	8	160	150
Asset write off, disposals and impairment	9&10	190	(771)
Depreciation	9&10	7,697	6,566
Use of provision	13	223	98
		<b>115,220</b>	<b>104,090</b>
<b>Total Net Operating Expenditure</b>		<b>1,152,522</b>	<b>1,043,306</b>
Non-operating gain on transfer by absorption <sup>53</sup>	2	(1,824)	(13,895)
<b>Total Net Expenditure for the year</b>		<b>1,150,698</b>	<b>1,029,411</b>
<b>Other Comprehensive Net Expenditure</b>			
Net (gain)/loss on revaluation of property, plant and equipment	9	(7)	(24)
Net (gain)/loss on revaluation of intangible assets	10	2	(464)
<b>Total Comprehensive Net Expenditure</b>		<b>1,150,693</b>	<b>1,028,923</b>

The Notes on pages 80-96 form part of these accounts. The 2018-19 comparatives include the CAAS function costs.

<sup>53</sup> See note 2 to the accounts. Gain on transfer by absorption in 2019-20 reflects benefit to DE&S from having transferred out liabilities totalling £1.8 million to MOD as part of CAAS Transfer of Function. Equivalent figures in 2018-19 represent transfer out of liabilities to MOD and Submarine Delivery Agency.

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Note	2019-20 £000	2018-19 £000
<b>Non-current assets</b>			
Property, plant & equipment	9	5,532	3,964
Intangible assets	10	11,286	15,301
<b>Total non-current assets</b>		<b>16,818</b>	<b>19,265</b>
<b>Current assets</b>			
Trade and other receivables	11	6,984	7,749
<b>Total current assets</b>		<b>6,984</b>	<b>7,749</b>
<b>Total assets</b>		<b>23,802</b>	<b>27,014</b>
<b>Current liabilities</b>			
Trade and other payables	12	(124,496)	(130,921)
Provisions	13	(1,317)	(1,147)
<b>Total current liabilities</b>		<b>(125,813)</b>	<b>(132,068)</b>
<b>Total assets less total liabilities</b>		<b>(102,011)</b>	<b>(105,054)</b>
<b>Taxpayers equity and other reserves</b>			
Revaluation Reserve	Statement of Changes in Taxpayers Equity (SOCiTE)	1,042	1,044
General Fund	SOCiTE	(103,053)	(106,098)
<b>Total Reserves</b>		<b>(102,011)</b>	<b>(105,054)</b>

The Notes on pages 80-96 form part of these accounts. The 2018-19 comparatives include the CAAS function costs.

ACCOUNTING OFFICER SIGNATURE



Sir Simon Bollom  
Accounting Officer  
2 December 2020

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2020

	Note	2019-20 £000	2018-19 £000
<b>Cash flows from operating activities</b>			
Total net operating expenditure		(1,152,522)	(1,043,306)
<b>Adjustments for non- cash transactions</b>			
Communicated costs	7	106,950	98,047
Auditors remuneration	8	160	150
Amortisation/depreciation, impairment, write off/on and disposal.	9&10	7,887	5,795
Movement in provision	13	223	98
(Increase) / Decrease in Trade and Other Receivables	11	765	1,431
Increase / (Decrease) in Trade and Other Payables	12	(6,425)	(6,209)
Adjustment for movements in payables relating to items not passing through operating costs		1,740	(3,293)
Gain on transfer by absorption		1,824	13,895
Use of provisions	13	(53)	(195)
<b>Net cashflow outflow from operating activities</b>		<b>(1,039,451)</b>	<b>(933,587)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment <sup>1</sup>	9	(3,525)	(2,018)
Purchase of intangible assets <sup>2</sup>	10	(3,650)	(844)
<b>Net cash outflow from investing activities</b>		<b>(7,175)</b>	<b>(2,862)</b>
<b>Cash flows from financing activities</b>			
<b>Net Parliamentary Funding - drawn down</b>		<b>1,046,626</b>	<b>936,449</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period</b>		<b>-</b>	<b>-</b>

<sup>1</sup> Investing cashflow figure for purchase of property, plant and equipment is calculated as £2,485K capital additions (as per Note 9) plus cash payments to discharge opening liabilities of £1,590K, less closing liabilities of £550K.

<sup>2</sup> Investing cashflow figure for purchase of intangible assets is calculated as £2,950K capital additions (as per Note 10), plus cash payments to discharge opening liabilities of £1,920K, less closing liabilities of £1,220K.

The Notes on pages 80-96 form part of these accounts. The 2018-19 comparatives include the CAAS function costs.



## STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2020

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
<b>Balance at 31 March 2018</b>		<b>(111,333)</b>	<b>556</b>	<b>(110,777)</b>
Gain on transfer of function		13,895	-	<b>13,895</b>
Total net operating expenditure		(1,043,306)	-	<b>(1,043,306)</b>
Net Parliamentary Funding - drawn down		936,449	-	<b>936,449</b>
Non-cash charges - Auditors Remuneration		150	-	<b>150</b>
Non-cash charges - Communicated Costs		98,047	-	<b>98,047</b>
Net (loss)/gain on revaluation of property, plant & equipment		-	24	<b>24</b>
Net (loss)/gain on revaluation of intangible assets		-	464	<b>464</b>
<b>Balance at 31 March 2019</b>		<b>(106,098)</b>	<b>1,044</b>	<b>(105,054)</b>
Gain on transfer of function	SoCNE	1,824	-	<b>1,824</b>
Total net operating expenditure	SoCNE	(1,152,522)	-	<b>(1,152,522)</b>
Net Parliamentary Funding - drawn down	Statement of Cash Flows	1,046,626	-	<b>1,046,626</b>
Non-cash charges - Auditors Remuneration	8	160	-	<b>160</b>
Non-cash charges - Communicated Costs	7	106,950	-	<b>106,950</b>
Net (loss)/gain on revaluation of property, plant & equipment	9	-	7	<b>7</b>
Net (loss)/gain on revaluation of intangible assets	10	-	(2)	<b>(2)</b>
Transfer between reserves	SoCNE	7	(7)	-
<b>Balance at 31 March 2020</b>		<b>(103,053)</b>	<b>1,042</b>	<b>(102,011)</b>

The Notes on pages 80-96 form part of these accounts. The 2018-19 comparatives include the CAAS function costs.

# NOTES TO THE ACCOUNTS

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## 1. STATEMENT OF ACCOUNTING POLICIES

The financial statements contained within the Annual Report and Accounts relate to the FY 1 April 2019 to 31 March 2020 (2019-20) with comparative analysis for the prior year 2018-19. They have been prepared in accordance with the Accounts Direction given by HMT under Section 7 of the Government Resources and Accounts Act 2000 and in accordance with HMT guidance as set out in the FReM.

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

DE&S is classified as an Executive Agency which operates as a BTE in line with Chapter 7 of Managing Public Money. The 2019-20 financial statements are the sixth set of published accounts for DE&S.

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

### 1.1 Accounting Convention

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

### 1.2 Basis of preparation of annual accounts – accounting boundary

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

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

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

### 1.3 Critical accounting judgements and key sources of estimation uncertainty

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

- Accounting boundary: DE&S has robust and well-established policies and governance arrangements supporting the delineation of costs between those recognised as operating costs and reported in the DE&S financial statements from those equipment procurement/support activities that are reported in the MOD's financial statements. These policies and governance arrangements have been paramount in the preparation of

these accounts by DE&S finance staff. Decision making continues to be supported by the PSS Steering Group, which is chaired by a senior finance manager, providing structured consideration of accounting boundary decisions.

- Activities undertaken with our main industrial partners continue to be excluded from our DE&S operating costs in recognition of the fact that the PSS activities within these arrangements continue to remain integral and indivisible from equipment programme activities. Activities that DE&S cannot undertake due to requirements for independent review and specialist one off/short term technically complex activities are treated as equipment programme expenditure and not PSS.
- PSS expenditure includes activity in support of demonstration and manufacture phase programmes which are capitalised on the MOD accounts but correctly recorded here as operating costs.
- Communicated costs: DE&S receives a number of benefits driven by the activities of other MOD organisations which support our operations. There is no mechanism in place for these costs to be directly charged to DE&S, so these costs are recognised within the DE&S accounts as communicated costs. These costs reflect the best estimates available and the majority are allocated based on an apportionment of costs based on staff number ratios. Note 7 provides further detail on communicated costs.
- Accruals – payables and receivables: in instances where revenue/expenditure has been earned/incurred but not invoiced, an estimate is made of the amount to be accrued as a payable or receivable item. DE&S reviews annually the appropriateness of the materiality level set to ensure it continues to remain relevant. For 2019-20, a guideline materiality threshold of £10,000 (2018-19 £15,000) has been applied in the recognition of payables and receivables. The threshold was amended in 2019-20 to bring it in line with the rest of the MOD. The impact of this change is the inclusion of liabilities totalling £0.5 million, based on journalled accruals between £10,000 and £15,000. This represents 0.4% of the total 2019-20 liabilities balance. Of these accruals, £0.4 million relate to PSS, £0.1 million to other programme costs.
- **Consideration of the Impact of COVID-19** - The World Health Organisation declared COVID-19 as a pandemic on 11 March 2020. As such, there is potential for this event to impact on the Accounts. There is considerable uncertainty of the impact of COVID-19, particularly as the pandemic was declared so close to the 31 March year end. Potential impacts, and DE&S' consideration of them, are explained in the relevant sections below.

## 1.4 Changes in Accounting Policies and Disclosures

### Changes impacting the preparation of these annual accounts

#### Transfer of Functions

As at 1 April 2019 the CAAS team, previously managed and accounted for by DE&S, was transferred to MOD HO and Corporate Services, another TLB of the MOD. The net assets/liabilities of £1.8 million relating to CAAS have been transferred and accounted for in accordance with the FReM, via absorption accounting. The comparator figures have not been adjusted. However, Note 2 describes the financial impact of the CAAS function on the 2018-19 comparators.

#### New Accounting Standards

2019-20

There are no new accounting standards or significant changes to the 2019–20 FReM affecting the preparation of the accounts. The implementation of IFRS 16, which was due to be adopted in 2020-21 within central Government, has been deferred for another year in light of the COVID-19 pandemic. IFRS 16 will now be effective from 1 April 2021.

#### Changes Impacting the Preparation of Future Annual Accounts

2021-22

IFRS 16 *Leases* replaces IFRIC 4 and IAS 17: *Leases* (as well as SIC15: *Operating Leases – Incentives* and SIC 27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*). The standard is effective in the private sector for accounting periods commencing on or after 1 January 2019. DE&S will adopt IFRS 16 in the FY commencing 1 April 2021, along with central Government.

IFRS 16 introduces different lease identification criteria. This is based on whether the contract gives the right to control the use of an identified asset through the right to obtain substantially all of its economic benefits and the right to direct its use.

The standard simplifies the classification and measurement of leases by introducing a single lessee accounting model which removes the distinction between operating leases and finance leases for lessees. The standard requires lessees to recognise all leases except where the lease term is 12 months or less, or the underlying asset meets the IFRS 16 criteria to be classified as “of low value”. This will result in the recognition of a right-of-use asset, measured at the present value of future lease payments, and a corresponding 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.

IFRS 16 will be implemented using the cumulative catch-up method. As a result, comparatives will not be restated and the measurement of the asset and liability balances recognised with effect from 1 April 2021, with the cumulative effects of initially applying IFRS 16 recognised as an adjustment to the opening balances of taxpayers’ equity. It is expected that the IFRS 16 cost model will be an appropriate proxy for current value in existing use or fair value.

DE&S expects that its single existing operating lease will fall within the scope of IFRS 16 under the ‘grandfathering’ rules mandated in the FReM for the initial transition to IFRS 16. Therefore, implementation of IFRS 16 will bring right of use assets and liabilities on to the Statement of Financial Position.

DE&S is in the process of measuring its lease liability and associated right-of use assets for its lease currently classified as an operating lease under IAS 17. Additionally, DE&S is undertaking significant work in assessing its material legacy contracts in accordance with IFRS 16 to establish if these contracts are, or contain, a lease. Due to this significant work in transitioning to IFRS 16, the financial impact of recognising right-of-use assets and liabilities in the BTE is not yet certain, but is estimated to be approximately £3 million.

2023-24

IFRS 17 Insurance Contracts was issued in May 2017 replacing IFRS 4 Insurance Contracts. The effective date of IFRS 17 in the public sector is for accounting periods beginning on or after 1 January 2023. IFRS 17 requires that insurance liabilities be measured at present value of future insurance cash flows, resulting in more uniform measurements and presentation for all insurance contracts. Management has assessed the likely effect of the new standard and has concluded that there are no material assets or liabilities recognised as insurance contracts in DE&S. This standard will therefore have no impact on DE&S’ financial statements.

## 1.5 Going concern

DE&S continues to be 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 DE&S does not operate a bank account, and liabilities are being met by the MOD, the year-end net liabilities position in the Statement of Financial Position (SOFP) represents a timing difference that will be offset by future net parliamentary funding from the MOD.

DE&S forms an integral part of the MOD operating model and is responsible for the delivery of the ten-year Equipment Plan. The MOD continues to fund DE&S’ core operating costs whilst the FLCs provide funding for project specific activity. There is no suggestion that current or future funding will be impacted by COVID-19. It is therefore considered appropriate to prepare these financial statements on a going concern basis.

Discussions continue with HO in regard to a future funding model for DE&S which will provide a closer alignment between operating cost and Equipment Programme activity. Should any future decisions result in a requirement to hard charge customers, then DE&S’ time recording, project management and finance systems are in an advanced state of delivery in order to undertake this activity.

## 1.6 Revenue and expenditure recognition

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

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

Revenue is recognised in accordance with IFRS 15 – *Revenue from Contracts with Customers* following the IFRS 15 Five Step Model. DE&S has two main sources of revenue:

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

**Impact of COVID-19:** The majority of income generated by DE&S BTE relates to ongoing contracts for weapons storage and processing with major defence suppliers as part of delivering the main Equipment Programme and ‘post costing’ receipts (reclaims from suppliers of profits made in excess of those expected at the time of contract negotiation). There is no suggestion that these income streams have been, or will be, affected as a result of COVID-19.

### 1.7 Programme costs

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

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

### 1.8 Communicated Costs

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

### 1.9 Value Added Tax (VAT)

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

### 1.10 Non-current assets

Equipment assets delivered and supported by DE&S for use by the Commands (Navy, Air, Army and UK Strategic Command) are owned and reported in the MOD accounts as the risks and rewards of ownership are deemed to reside with the Commands and MOD. Where assets are purchased for the sole benefit of DE&S and funded through our Operating Cost Expenditure budget, these are considered for capitalisation where they meet the recognition threshold of £15,000 and are intended for use for a period of over 12 months. Given the relatively low volume and value of assets purchased specifically for DE&S use, it is not our current policy to pool assets. We revisit this policy annually to ensure that we are not omitting any material assets from our Non-Current Asset Register.

### 1.11 Property, Plant and Equipment (PPE)

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

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

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

### 1.12 Intangible non-current assets

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

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

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

### 1.13 Depreciation

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

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

Main category	Sub category	UEL
<b>Plant &amp; Machinery</b>	Equipment	5-25
	Plant & Machinery	5-25
<b>IT &amp; Comms</b>	Office Machinery	3-10
	Communications Equipment	3-10
<b>Intangible Assets</b>	Software Licences	3-16

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

**Impact of COVID-19:** The impact of COVID-19 on Non-Current Assets has been assessed by DE&S. There is no evidence to suggest that the useful economic lives of assets have changed.

#### 1.14 Impairment

Impairment charges reduce the carrying amount of intangible and property, plant and equipment assets to their recoverable amount. DE&S has reviewed all existing assets and only minor impairments, related to changes in indices used to revalue IT & Comms non-current assets have occurred during the year. Reviews continue to be undertaken periodically in order to establish whether there have been any impairment events that may result in a requirement for impairment action to be taken in respect of the recognised non-current assets.

**Impact of COVID-19:** The COVID-19 pandemic is considered by DE&S to be an indication that Non-Current Assets may be impaired in accordance with IAS 36 - *Impairment of assets*. As such, DE&S has reviewed the appropriateness of its asset valuations as at 31 March 2020 and considers that they are not materially misstated. In addition, it is not considered that there has been any reduction in service potential as a result of COVID-19. DE&S considers that these assets continue to be held to meet DE&S objectives and they are still expected to generate their future economic benefits.

#### 1.15 Cash and cash equivalents

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

#### 1.16 Inventories

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

#### 1.17 Financial instruments – receivables and liabilities

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

Under IFRS 9, trade and other receivables are tested annually for impairment with any identified losses charged to the SoCNE. The carrying value of trade and other receivables in the SOFP is shown net of any impairment provisions. Provisions are made for expected credit losses. DE&S receivables and liabilities are de-recognised when the receivable or liability has been discharged, that is the payment required for settlement has been made, or the receivable or liability has been determined to no longer exist.

**Impact of COVID-19:** As at 31st March, the main trade and other receivables recorded on the DE&S BTE Statement of Financial Position related to post costing receipts and other receivables with major defence suppliers/consultants and other governments. DE&S considers that there is no indication that any receivables are irrecoverable or should be impaired, and most receivables have since been paid in the post reporting period.

#### 1.18 Employee benefits

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

The 2019-20 value of employee performance awards reflected within the SoCNE reflects those earned for performance in 2019-20.

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

### 1.19 IFRS8 Segmental Reporting

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

### 1.20 Reserves

The Revaluation Reserve reflects the unrealised element of the cumulative balance of revaluation and indexation adjustments on non-current assets. The General Fund reserve represents the balance of taxpayers' equity in DE&S (BTE). Specifically, the General Fund reflects the net assets less liabilities entered during FY 2019-20.

### 1.21 Provisions for Liabilities and Charges

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

In calculating provisions, an estimate has been made of the cash flows required to settle the obligations. Estimates are based on the historic volumes of claims and the anticipated settlement date. HMT specifies the nominal rate (applied to cash flows which include inflation) to be used to discount general provisions. For ease, as per HMT Public Expenditure System (PES) guidance, DE&S has inflated cashflows using the combined rates (based Office for Budget Responsibility (OBR) Consumer Price Index (CPI) forecasts for inflation and nominal rates for discounting).

**Impact of COVID-19:** There is no indication that liabilities have changed in the light of COVID-19. DE&S' provision was valued using appropriate mechanisms and discount rates at 31 March 2020. There have been no additional provisions or contingent liabilities identified through any support mechanisms for suppliers.

### 1.22 Leased Assets

DE&S has one operating lease related to the hire of vehicles for the purposes of personnel and goods transportation. Operating lease payments are recognised as an expense in Net Operating Expenditure on a straight-line basis over the lease term.

**Impact of COVID-19:** DE&S does not consider that this lease has become onerous due to COVID-19. Lease vehicles are used for a variety of purposes within DE&S and there is a requirement to retain availability, despite the pandemic, for example for security patrols at depots. Vehicles hired for employee duty travel purposes are 'spot hires' and do not form part of the lease arrangement.

## 2. TRANSFER OF FUNCTIONS ON 1 APRIL 2019

The transfer of the CAAS function on 1 April 2019 involved the transfer of 291 full-time equivalent civilian staff (zero armed forces staff) from DE&S to MOD Head Office and Corporate Services, another TLB in MOD. In addition, liabilities of £1.8 million were transferred. CAAS did not hold any current or non-current assets. The associated revenue and expenditure for CAAS is reflected in the BTE SoCNE up to the transfer on 1 April 2019, and thereafter treated as revenue and expenditure in MOD and not DE&S accounts. The 2018-19 related expenditure was £18.3 million, of which £15.8 million related to staff costs, £1.6 million PSS and £0.9 million other programme costs.



### 3. STAFF NUMBERS AND RELATED COSTS

#### 3.1 Staff costs comprise:

3.1 Staff Costs Comprise:	2019-20			2018-19		
	Permanently Employee Staff £000	Contingent labour £000	Total £000	Permanently employed Staff £000	Contingent labour £000	Total £000
<b>Salaries and wages</b>	467,954	76,394	544,348	448,706	33,132	481,838
<b>Social security costs</b>	47,625	-	47,625	45,638	-	45,638
<b>Other pension costs</b>	141,531	-	141,531	107,973	-	107,973
<b>Total</b>	<b>657,110</b>	<b>76,394</b>	<b>733,504</b>	<b>602,317</b>	<b>33,132</b>	<b>635,449</b>
<b>Paid to:</b>						
<b>Armed Forces</b>	127,944	-	127,944	116,150	-	116,150
<b>Civilian</b>	529,166	-	529,166	486,167	-	486,167
<b>Contingent Labour</b>	-	76,394	76,394	-	33,132	33,132

2018-19 costs include CAAS staff costs of £15.8 million. Once adjusted, total DE&S staff costs have increased by £113.9 million.

The cost of employer contributions to military and civilian pensions increased substantially from 1 April 2019, following the outcome of valuations which used revised discount rate assumptions, resulting in an additional increase to pension costs of £30 million. After taking this into account, costs for permanently employed staff, including salary, social security and pension costs, have increased in 2019-20 in line with the corresponding increase in staff numbers during the year and the 2019 pay award.

Contingent labour costs have also increased in 2019-20, in line with the increased numbers of workforce substitutes engaged to support DE&S with the delivery of its programme of work.

#### 3.2 Average number of full-time equivalent staff employed:

	2019-20			2018-19		
	Permanently employed Staff	Contingent labour	Total	Permanently employed Staff	Contingent labour	Total
<b>Employed by DE&amp;S</b>	11,454	643	12,097	11,360	211	11,571
<b>Of which:</b>						
<b>Armed Forces</b>	1,191	-	1,191	1,211	-	1,211
<b>Civilian Personnel</b>	10,263	-	10,263	10,149	-	10,149
<b>Contingent Labour</b>	-	643	643	-	211	211

Permanent staff numbers have increased by 94, however the 2018-19 average figures in the above table include 291 belonging to CAAS which transferred out of DE&S on 1 April 2019. When excluding these, DE&S permanent staff numbers have a real increase of 385 (3%), which has contributed to the overall increase in staff costs. The average number of contingent labour staff also increased by 432 over the year. These increases reflect the ongoing recruitment of staff into DE&S to meet the demand requirements as the programme of work continues to increase. The use of contingent labour, via the Delivery Partner arrangements, provides additional flexibility to enable DE&S to deliver the programme of work at pace.

#### 4. PRIVATE SECTOR SUPPORT

	2019-20 £000	2018-19 £000 (Restated <sup>54</sup> )
PSS Contractor Support – Transformation	-	14,311
PSS Contractor Support – Other	114,162	123,172
PSS for programmes in concept and assessment phases	7,228	13,757
PSS for programmes in demonstration and manufacture phases	28,203	30,877
PSS for programmes in in-service support and disposal phase	49,619	48,520
Consultancy Support (Project management, organisation design, finance & legal)	8,152	5,335
<b>Total</b>	<b>207,364</b>	<b>235,972</b>

2018-19 comparators include £1.6 million of PSS costs relating to CAAS. Once adjusted there has been a reduction in overall PSS of £27.0 million, driven predominantly by the conclusion of the transformation programme, which has resulted in a reduction of £14.3 million.

The decrease for PSS Contractor Support-Other is mainly due to a planned reduction in safety and airworthiness activity for combat aircraft. This reflects the reduced requirement for contractor support to the Typhoon and Tornado projects as planned, driven by Tornado going out of service in March 2019 and the completion of Project Centurion in 2018-19, which drove a high level of certification activity in previous FYs. (£11 million).

A number of drivers have caused the decrease in costs for PSS for programmes in concept and assessment phases. The largest is due to the Fleet Solid Support assessment phase being temporarily halted in 2019-20. Competition is due to recommence in 2020-21 (£3.1 million reduction compared with 2018-19). In addition, there has been a reduction in Hercules C130J operational testing & evaluation costs (1.6 million) due to scheduling of contract milestones, and a reduction in research and development support following completion of the first phase of assessment stage activity for an Unmanned Aircraft Systems project. The contract for assessment phase two was signed January 2020.

For Demonstration and Manufacture PSS, reductions in technical support to A400m Strategic Enterprise (£1.7 million) and Merlin Sustainment Programme (£1.3 million) reflect the progression of these projects from the Manufacture to the In-Service Phase. This also contributes to the increase in In-Service phase PSS.

The growth in Consultancy Support costs is driven by an increase in the requirement for legal support to the Future Maritime Support Programme, in support of the tender, bid and contractual processes.

<sup>54</sup> In 2019-20 a resource account code (RAC) previously used to capture non-specified "Contractor Support - Other" PSS was restricted. Contracts using this code were re-coded to alternative RACs, which align to the DE&S functions or phase of programme incurring the PSS. The 2018-19 comparators have been restated to reflect how the expenditure in 2018-19 would have been classed if the same mapping had been in place. The impact of this is a £14.7 million adjustment from the Contractor Support PSS category to the "In-Service support phase" category. There is no change to the overall PSS expenditure in 2018-19.

## 5. OTHER PROGRAMME COSTS (OPC)

	<b>2019-20 £000</b>	<b>2018-19 £000</b>
Staff travel and subsistence costs	21,209	21,333
IT and telecommunications	36,155	30,940
Other infrastructure expenditure	10,100	9,165
Staff training costs	7,741	5,815
Rentals	6,203	4,665
Regulatory safety costs	1,694	2,031
OPC Defence Science & Technologies Laboratories	21,218	18,244
Other costs	10,113	6,461
<b>Total</b>	<b>114,433</b>	<b>98,654</b>

2018-19 comparators include £0.9 million of OPC relating to CAAS. Once adjusted, DE&S OPC has increased by £16.6 million. The largest increase being in IT and telecommunications expenditure (£5.2 million), which has been driven by significant work being undertaken by the DE&S CIO business area to meet DE&S@21 and IT strategy objectives. This includes investing in IT services to improve the resilience of our IT systems and security, exploiting innovative uses of IT within the organisation to deliver increased automation, and providing improved data analysis and management information to the business.

There has been a £3 million increase in expenditure with Defence Science and Technology Laboratories (DSTL) for research and development to support the Air Platform Systems and P8A Maritime Patrol Aircraft Delivery Teams.

The £3.7 million increase in other costs is also largely driven by increased specialist research activity within the Defence Ordnance Safety Group (DOSG).

The rise in staff training costs of £1.9 million was due to the increased training opportunities made available during 2019-20 as DE&S continues to invest in providing the right training for its people. This has been offset by a reduction in communicated costs relating to Defence Academy (see note 7 to the accounts).

## 6. PROGRAMME INCOME

	<b>2019-20 £000</b>	<b>2018-19 £000</b>
Defence Munitions commercial revenue	10,832	15,383
Logistics Commodities Services revenue (including British Forces Postal Office)	1,563	1,869
DE&S BTE Corporate receipts	4,864	12,873
Other programme Income	740	734
<b>Total</b>	<b>17,999</b>	<b>30,859</b>

Almost all DE&S income falls within scope of IFRS 15 – *Revenue from contracts with customers*. Less than 1% of income falls outside the scope (£0.1 million) and relates to staff receipts (included within Other Income).

The largest source of revenue relates to Defence Munitions who undertake munitions processing work on behalf of defence contractors. The income is recognised in the accounts when DE&S satisfies the performance obligations of the contracts, which is as services are rendered and availability targets met. Revenue generated is used to offset the costs of running the facility. Defence Munitions income has reduced in 2019-20 following the expiry of a major contract.

There has also been a reduction in income generated by post-costing activities undertaken by DE&S during the year (2019-20 £4.8 million / 2018-19 £12.8 million). Post-costing activity is the key driver of BTE corporate receipts. This income is recognised in the accounts once the value of costs to be recovered is agreed between DE&S and the supplier. The income generated by post-costing activity varies depending on the contracts being audited, and the value of costs identified as recoverable.

## 7. COMMUNICATED COSTS

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

MOD Organisation	Description of activities	Method of Apportionment	2019-20 £000	2018-19 £000
UK Strategic Command	Defence Digital Information systems and communication services	Number of DE&S users relative to MOD users	60,266	45,469
Defence Infrastructure Organisation	Infrastructure and facilities management costs	Cost per employee at DE&S headquarters extrapolated to DE&S total head count	14,610	18,789
UK Strategic Command	Training services through the Defence Academy and Surgeon General Services	Number of DE&S training days relative to total MOD training days and total DE&S users relative to total Abbey Wood staff	7,252	9,692
Defence Infrastructure Organisation	MOD Guard Service	Costs of main DE&S geographical locations extrapolated across total DE&S headcount	13,444	12,062
Defence Business Services	Personnel and Payroll Services	Number of DE&S employees relative to total MOD employees	10,318	10,731
Head Office and Corporate Services	Various	Based on actuals	1,060	1,304
<b>Total</b>			<b>106,950</b>	<b>98,047</b>

Of the overall increase in communicated costs of £9 million, the largest variance is for Defence Digital and Information systems (£14.8 million). This is primarily due to Defence Digital (formerly Information Systems and Services) incurring increased depreciation charges following delivery of new assets, and a review of the UEL for existing IT infrastructure assets, which support their services provided to DE&S (£6.9 million). DE&S was also allocated a higher percentage of overall costs from Defence Digital than in 2018-19, based on proportion of DE&S staff to overall MOD staff (£6.4 million).<sup>55</sup> Communicated costs from Defence Infrastructure Organisation in relation to infrastructure and facilities management have reduced by £4.2 million; the most material drivers of this variance are business rates rebates (£1.3 million) and a reduction in DE&S specific maintenance activity in 2019-20 (£0.9 million). The reduction in communicated costs from UK Strategic Command (£2.4 million) primarily relates to a decrease in training days with the Defence Academy; this is partly because of lack of availability of certain classroom-based courses (e.g. for safety practitioners) which were instead delivered by external providers, and partly due to a move towards more in-house and digitised training to increase accessibility to all staff.

## 8. AUDITOR'S REMUNERATION

DE&S is audited by the Comptroller and Auditor General. The £160k charge reflects the costs incurred by the auditor in respect of the audit of the DE&S 2019-20 Annual Report and Accounts. This is a notional, non-cash charge and is reflected in the SoCNE.

<sup>55</sup> DE&S proportion of costs were 4.57% in 2018-19 compared to 5.21% in 2019-20.

## 9. PROPERTY, PLANT AND EQUIPMENT

	IT & Comms £000	Plant Machinery and Vehicles £000	Assets Under Construction (AUC) £000	Total £000
<b>Cost or Valuation</b>				
<b>At 31 March 2018</b>	<b>741</b>	<b>117</b>	<b>181</b>	<b>1,039</b>
Additions	1,021	589	1,816	3,426
Disposals	-	-	-	-
Impairments & Adjustments	-	-	(36)	(36)
Revaluations	23	7	-	30
Reclassifications	-	572	(572)	-
<b>At at 31 March 2019</b>	<b>1,785</b>	<b>1,285</b>	<b>1,389</b>	<b>4,459</b>
Additions	184	109	2,192	2,485
Disposals	(98)	(88)	-	(186)
Impairments & Adjustments	-	-	-	-
Revaluations	(3)	11	-	8
Reclassifications	253	1,569	(1,822)	-
<b>Balance as at 31 March 2020</b>	<b>2,121</b>	<b>2,886</b>	<b>1,759</b>	<b>6,766</b>
<b>Depreciation</b>				
<b>Balance at 31 March 2018</b>	<b>(185)</b>	<b>(19)</b>	<b>-</b>	<b>(204)</b>
Charged In Year	(208)	(77)	-	(285)
Disposals	-	-	-	-
Impairments	-	-	-	-
Revaluations	(5)	(1)	-	(6)
Reclassifications	-	-	-	-
<b>At 31 March 2019</b>	<b>(398)</b>	<b>(97)</b>	<b>-</b>	<b>(495)</b>
Charged In Year	(398)	(383)	-	(781)
Disposals	5	38	-	43
Impairments	-	-	-	-
Revaluations	-	(1)	-	(1)
Reclassifications				
<b>At 31 March 2020</b>	<b>(791)</b>	<b>(443)</b>	<b>-</b>	<b>(1,234)</b>
<b>Net Book Value</b>				
Balance at 1 March 2018	556	98	181	835
Balance at 31 March 2019	1,387	1,188	1,389	3,964
<b>Balance at 31 March 2020</b>	<b>1,330</b>	<b>2,443</b>	<b>1,759</b>	<b>5,532</b>

DE&S holds PPE assets including server hardware to support DE&S owned IT applications, and DOSG test equipment to enable DE&S to fulfil safety obligations. In-year additions include additional purchases of DOSG test equipment such as Resonant Acoustic Mixers, electrostatic discharge test equipment, an aerial data capture drone and survey equipment. The reclassification of AUC to the IT and Comms and Plant and Machinery categories reflects DOSG equipment delivered into service during the FY.

In addition, DE&S has entered into undertakings for future capital expenditure for further manufacture of bespoke test equipment of £0.6 million, which is not yet accounted for in the financial statements. This will be recorded once the liability is incurred. Of this, £0.5 million relates to a Resonant Acoustic Mixer (RAM 5) which is to be used for generating evidence necessary for safety qualification and certification of munitions.

Disposals relate to a DOSG drone and associated data collection system equipment, which has been written off following an incident of theft.

#### 10. INTANGIBLE NON-CURRENT ASSETS

	Software £000	AUC (Development Costs) £000	Total £000
<b>Cost or valuation</b>			
<b>Balance at 31 March 2018</b>	<b>12,174</b>	<b>8,632</b>	<b>20,806</b>
Additions	2,728	-	2,728
Disposals	-	-	-
Impairments/Adjustments	-	807	807
Revaluations	599	-	599
Reclassifications	9,439	(9,439)	-
<b>At 31 March 2019</b>	<b>24,940</b>	<b>-</b>	<b>24,940</b>
Additions	83	2,867	2,950
Disposals	(360)	-	(360)
Impairments/Adjustments	-	-	-
Revaluations	(2)	-	(2)
Reclassifications	-	-	-
<b>At 31 March 2020</b>	<b>24,661</b>	<b>2,867</b>	<b>27,528</b>
<b>Amortisation</b>			
<b>Balance at 31 March 2018</b>	<b>(3,223)</b>	<b>-</b>	<b>(3,223)</b>
Charged In Year	(6,281)	-	(6,281)
Disposals	-	-	-
Impairments	-	-	-
Revaluations	(135)	-	(135)
Reclassifications	-	-	-
<b>At 31 March 2019</b>	<b>(9,639)</b>	<b>-</b>	<b>(9,639)</b>
Charged In Year	(6,916)	-	(6,916)
Disposals	313	-	313
Impairments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
<b>At 31 March 2020</b>	<b>(16,242)</b>	<b>-</b>	<b>(16,242)</b>
<b>Net Book value</b>			
Balance at 31 March 2018	8,951	8,632	17,583
Balance at 31 March 2019	15,301	-	15,301
<b>Balance at 31 March 2020</b>	<b>8,419</b>	<b>2,867</b>	<b>11,286</b>

Software values include licenses for DE&S Time Recording and Charging system, Active Risk Manager™, P3M suite of Oracle tools and a DOSG ricochet assessment software tool, as reported in prior FY. In-year additions relate to the development costs for the future HR system (£2.9 million).

In addition, DE&S has entered into undertakings for future capital expenditure for further development of the future HR system of £1.3 million, which is not yet accounted for in the financial statements. This will be recorded once the liability is incurred.

Disposals relate to software licences which have been retired as fully depreciated (nil net book value), or which have been superseded by an alternative software capability and are no longer in use.

## 11. TRADE AND OTHER RECEIVABLES

	2019-20 £000	2018-19 £000
<b>Amounts falling due within one year</b>		
Accrued income	1,765	1,591
Other receivables	3,600	4,156
Trade receivables	-	-
Prepayments	1,554	1,528
Staff loans and advances	65	474
<b>Total Current Receivables</b>	<b>6,984</b>	<b>7,749</b>
<b>Amounts falling due after more than one year</b>	<b>-</b>	<b>-</b>

Receivables are not impacted by the transfer of CAAS as none of the 2018-19 balances related to CAAS. The expiry of a major Defence Munitions revenue contract for Torpedo capability support has resulted in a reduction of other receivables, consistent with the decreased income in FY 2019-20.

## 12. TRADE AND OTHER PAYABLES

	2019-20 £000	2018-19 £000
<b>Amounts falling due within one year</b>		
PSS accruals	(45,201)	(59,438)
Direct staff accruals	(65,281)	(50,718)
Trade payables	(13,124)	(19,599)
Sundry payables	(890)	(1,166)
<b>Total Current Liabilities</b>	<b>(124,496)</b>	<b>(130,921)</b>
<b>Amounts falling due after more than one year</b>	<b>-</b>	<b>-</b>

2018-19 comparators include £1.8 million of liabilities relating to CAAS. Once adjusted, there has been a reduction in liabilities of £4.7 million.

The largest reductions in PSS accruals are for the Typhoon and Tornado Strategic Enterprise contract within Air Domain (£5.1 million) and the commercial business improvement programme (£4.8 million).

The increases to staff accruals are mainly driven by an uplift to the accrued value for civilian employees' annual leave entitlements earned, but not yet taken at 31 March 2020 compared to 2018-19 (£2.7 million), increased DE&S performance award (£1.1 million), and higher liabilities for contingent labour due to the increased uptake of the Delivery Partner contracts this year, in response to the growing programme of work (£7.6 million). Other payroll and pension liabilities also increased (£3.5 million), mainly in relation to military pension contributions.

## 13. PROVISIONS

Provisions have been made for the legal claims made by DE&S employees and third parties seeking compensation



for loss or injury suffered as a result of motor and other workplace incidents. In calculating the provisions, an estimate has been made of the cash flows required to settle the obligations. Estimates are based on the historic volumes of claims and the anticipated settlement date.

	2019-20 £000	2018-19 £000
<b>At 1 April</b>	<b>1,147</b>	<b>1,244</b>
Increase in Provision	236	29
Provisions Used	(53)	(195)
Unwinding Discount	(13)	69
<b>Balance at 31 March</b>	<b>1,317</b>	<b>1,147</b>

#### 14. CONTINGENT LIABILITIES AND ASSETS

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

Descriptions and Key uncertainties	31 March 2019 £000	Increase/ Decrease In Year £000	Liabilities Crystallised In Year £000	Obligation Expired In Year £000	31 March 2020 £000
Legal Claims (personal)	194	96	(13)	(77)	200
This liability is created by the percentage of legal claims that are repudiated by the Company who manage the Department's legal claims. The percentage remains variable.					

There are no contingent assets.

#### 15. OPERATING LEASES

This relates to the Phoenix car hire contract which provides DE&S employees with transport for official duty travel. The totals of future minimum lease payments under operating leases for the periods are set out below.

Operating Lease - Phoenix	2019-20 £000	2018-19 £000
Less than 1 Year	548	562
1-5 Years	1,423	1,607
Greater than 5 Years	182	300

During 2019-20, DE&S incurred £0.6 million in relation to operating lease payments for this lease. These are reflected in the SoCNE under other programme costs – rentals.

## 16. RELATED PARTY TRANSACTIONS

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

DSTL is a related party and DE&S incurred costs of £21.2 million during 2019-20 undertaking business activities with DSTL. (2018-19, £18.2 million)

The MOD continues to undertake several transactional activities on behalf of DE&S, the most significant of which relate to direct staff costs including the calculation and processing of taxation with HMRC and pension benefits for both the AFPS and the PCSPS.

DE&S provides corporate services to the SDA to assist in delivering its objectives and to maintain compliance with the requirements of being part of a Department of State. Corporate services include, but are not limited to, business support, function management, HR services, communications and infrastructure and estate. DE&S recharge SDA for its share of the DE&S corporate overheads, for 2019-20 this was £5.9 million. (2018-19, £7.7 million)

Details of individuals who served as Board Members during the year are listed in the Remuneration Report.

No senior employee of DE&S has undertaken any material business transactions in the period to 31 March 2020.

## 17. BUDGET RECONCILIATION NOTE

DE&S is responsible for its own operating expenses and carries out its business activities within an agreed operating expenditure limit. The budget comprises both revenue and capital expenditure and DE&S has full control over how this funding is utilised. For 2019-20 this was £1,044.5 million, however our outturn position for the year was £1,042.7 million, a reduction against budget of £1.8 million.

The net revenue outturn position of £1,037.3 million is captured in the SoCNE and is made up of Direct Staff Costs, PSS Costs and OPC of £1,055.3 million offset by the income generated by DE&S in 2019-20 of £18 million.

The capital outturn position of £5.4 million represents continued investment in software assets including the future HR system and the purchase of new PPE assets relating to DOSG; these are highlighted in the PPE and Intangible Asset Notes.

## 18. EVENTS AFTER THE REPORTING DATE

A number of DE&S organisational and Executive personnel changes have taken place with effect from 1 June 2020, as follows:

- CoM titles changed to DG in each respective domain area, to bring DE&S in line with other Civil Service departments and better reflect our business focus
- JE domain became Strategic Enablers (SE) to reflect the relationship with its primary customer, UK Strategic Command, as well as its increasing importance in ensuring future integration of defence capabilities
- Mr Adrian Baguley, DG (SE), took on the Deputy Chief Executive role following the departure of Mr Nick Elliott who had undertaken this responsibility alongside his DG Commercial role
- Ms Morag Stuart became DG Commercial (interim) following Mr Elliott's departure
- Miss Krishna Dhanak took up the position of Director Strategy and Corporate Operations (which was previously Director Strategy and Change)

### Accounts authorised for issue date

The accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG Audit Certificate.





Ministry  
of Defence



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