



Ministry
of Defence

de&s



DEFENCE EQUIPMENT & SUPPORT
ANNUAL REPORT AND ACCOUNTS

2020-21

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



DEFENCE EQUIPMENT & SUPPORT ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2021

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1 HIGHLIGHTS

The COVID-19 pandemic resulted in a year of extraordinary challenge, requiring agility, determination, innovation and courage. Regardless, Defence Equipment and Support (DE&S) achieved many successes. Our people worked from home where they could, adapting quickly to a fast-evolving situation, while remaining focused on delivery, safety and professionalism. Our successes include the conclusion of the DE&S@21 Improvement Plan, extensive support to wider Government to combat and react to COVID-19 and our commitment to embracing and strengthening a culture of Diversity and Inclusion. A handful of our highlights for this reporting year are detailed below.

SAVINGS FOR DEFENCE

We have worked hard to embed efficiency¹ savings into our normal business, with our efforts continuing to produce significant results. Since 2016-17, we have delivered £6.8 billion of Equipment Plan financial savings².

|| **Since 2016-17, we have delivered £6.8 billion of Equipment Plan financial savings.** ||

SUPPORTING WIDER GOVERNMENT DEPARTMENTS

We have supported Ministry of Defence (MOD) Head Office and wider Government on numerous aspects of COVID-19. During 2020-21, 217 of our people were deployed to Other Government Departments to support the nation-wide effort to combat COVID-19, including the NHS, Department for Health and Social Care (DHSC) and the Department of Business, Energy and Industrial Strategy. We helped with the roll out of COVID-19 vaccines, supported the acquisition of Personal Protective Equipment and helped with the establishment of the Bristol Nightingale hospital.

Our Logistics Delivery Operating Team worked closely with MOD and Team Leidos to distribute medical equipment, including ventilators, oxygen concentrators and humidifiers to NHS hospitals throughout the pandemic. A DE&S-led Personal Protective Equipment team was set up to provide the NHS with critical supplies. This resulted in the procurement by DHSC of over 11 billion items of Personal Protective Equipment worth £5.9 million, which included 4.9 billion gloves, 3.5 billion face masks and 156 million gowns. DE&S also stored and distributed over 30,000 items of critical care medical equipment, including ventilators, on behalf of the NHS.

All of our efforts were recognised in the Minister for Defence Procurement Acquisition Awards, with seven of our teams receiving this award for their outstanding achievements. This is the highest accolade teams can achieve within this field, which included the new "Support to the COVID-19 Pandemic" award. This award was created in recognition of defence's support to the Nation's COVID-19 response, with our COVID-19 Support Teams being collectively chosen as winners.

¹ 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.

² The Equipment Plan encompasses both equipment procurement and support. Source of £6.8 bn: All Equipment Plan financial benefits delivered from financial year 2016-17 to 2030-31.

“The safety and wellbeing of our people remains at the fore.”



OUR PEOPLE PRIORITIES

The safety and wellbeing of our people remains at the fore, alongside the drive towards ensuring we are a truly supportive and inclusive place to work. We undertook a comprehensive review of bullying, harassment and discrimination to inform the development of revised policy and procedure, that improves the lived experiences of our people. To help create a more confident and informed workforce, we delivered a new series of workshops Let's Talk About Race. The workshops form part of our ongoing activities to advance race equality at DE&S. We also undertook a significant rollout of working from home equipment, delivered to our people through a Click and Collect scheme and home delivery.

We maintained our commitment to Entry Talent recruitment and development, recruiting 183 Graduates and Apprentices onto schemes throughout 2020-21. We also implemented a wide range of leadership development opportunities, at all levels, successfully delivered virtually and well received across the business.

SUPPORT DELIVERY

A £395 million contract to extend the life of the Merlin Helicopter Mk4 platform to at least 2030 was signed, providing the Royal Navy (RN) Commando Helicopter Force with the capability to transition ready-to-fight combat forces from the sea to the shore.

We helped to negotiate an investment of £317 million for the Royal Air Force (RAF) Typhoons, securing more than 600 jobs across the UK. This funding will ensure that the development of the new world-leading radar for RAF Typhoons is continued. The cutting-edge European Common Radar System Mk2 will provide Typhoon with a capability edge in an increasingly contested battlespace.

A £240 million contract to maintain, manage and support the MOD's fleet of construction, protected plant and mechanical handling vehicles. The vehicles underpin peacetime and defence deployment activities around the world, as well as humanitarian missions.

A £76 million aircraft support contract to maximise the availability and capability of the UK's F-35B Lightning II stealth jets. This Lightning Air System National Capability Enterprise will ensure the jets are ready for combat operations across the globe.

EQUIPMENT DELIVERY

A £2.4 billion contract awarded to equip our armed forces with essential firepower under the Next Generation Munitions Solution, providing an array of ammunition and sustaining 4000 jobs around the UK.

A new £550 million contract for SPEAR3 surface-attack missiles was signed, securing hundreds of UK jobs. The missile system has a range of more than 140 kilometres and can operate across land or sea, day or night, to overpower enemy air defence systems, while the pilot and aircraft remain at a safe distance.

£184 million investment in the Maritime Mine Counter Measures programme through a joint production contract with France. The contract sustains 215 jobs in the UK and when operational will provide the RN with an autonomous system to detect and neutralise sea mines, keeping personnel safer.

Delivered a £100 million state-of-the-art strategic facility for the P8-A Poseidon fleet at Lossiemouth. The facility will also provide a base for the E-7 Wedgetail fleet and house RAF squadrons and flight simulators.

A £46 million contract to provide rapidly deployable bridges for the British Army which offer flexibility to the Commander on the ground and can be utilised at pace during both military operations and humanitarian relief.

■ A new £550 million contract for SPEAR3 surface-attack missiles was signed, securing hundreds of UK jobs. ■



Royal Marine Commandos carrying out routine training exercises with HMS Mersey and her Pacific 24 sea boats



Soldier taking part in a training exercise

CHAIR'S INTRODUCTION

MARK RUSSELL



I am delighted to introduce this report, which is the second during my tenure and covers the seventh year of DE&S' operation as a Bespoke Trading Entity and Arm's Length Body of the MOD.

Over the last year our whole organisation, along with the rest of the world, faced many new challenges, from adjusting to working from home, to ensuring that our Supply Chain remains resilient. In the face of COVID-19 I am exceptionally proud of how resilient and flexible our people have been. Our civilian and military workforce have continued to demonstrate their specialist procurement, engineering and logistics skills in supporting Government Departments throughout the pandemic, from helping to negotiate contracts to procure personal protective equipment, to deploying staff to the NHS in support of the creation of vaccine hubs and the establishment of the Nightingale Hospital in Bristol.

Throughout this difficult period there have been many highlights, some of which have already been described in the previous pages. Alongside these achievements, I am really encouraged by our 2020 People Survey results, where we saw an increase in scores across all themes, despite COVID-19. These results were our best for many years, and I remain positive that we are moving in the right direction. I also recognise that there are areas which we need to improve on, especially in some of our more complex programme delivery. Areas of concern are being addressed and lessons learned will be further embedded into DE&S.

Building a diverse organisation is important and the DE&S Board has given, and will continue to give, considerable focus and attention to improving representation and diversity throughout DE&S. The implementation of the comprehensive Equality, Diversity,

Inclusion and Wellbeing Strategy will ensure that we are creating an inclusive working environment, whilst building a culture where wellbeing is integrated into the every day. More information on the steps DE&S are taking can be found within our Remuneration and Staff Report.

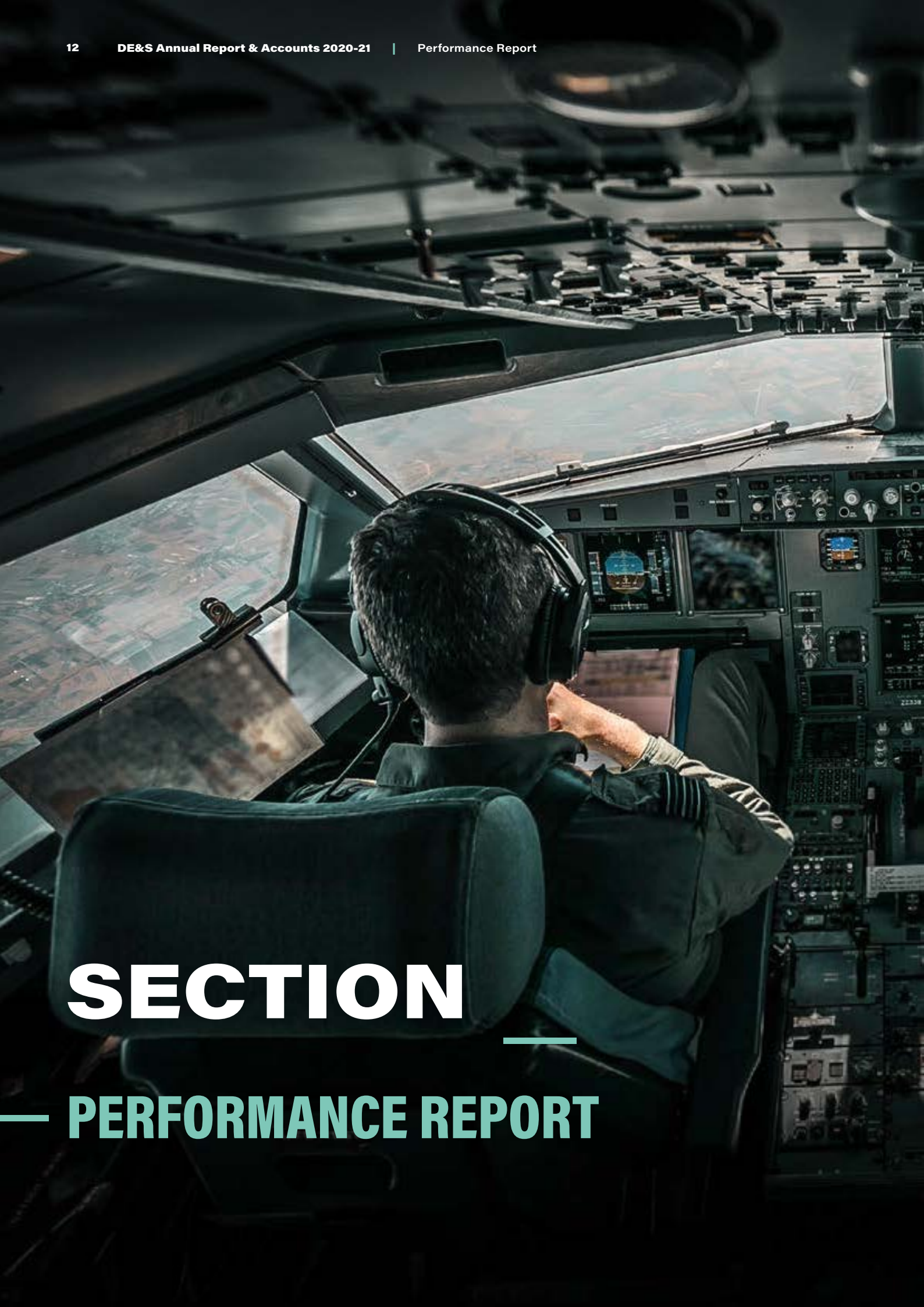
We are in a strong position to respond to the MOD Integrated Review* through the DE&S Strategy 2025*. The UK needs to sustain a strategic advantage through science and technology and our strategy will drive us to become recognised leaders in the delivery of military equipment solutions for the information age, enabling the changing demands of the defence environment to be met, whilst taking advantage of the opportunities ahead. The announcement of a multi-year deal for defence provides a means to modernise and equip the UK's armed forces to face evolving threats and some of our programmes will be impacted or closed, whilst others will emerge in their place. We will continue to be flexible and reconfigure quickly to match these new demands, whilst remaining performance-focussed, at maximum value to the taxpayer.

I would like to express the Board's appreciation for the part played by all DE&S people in delivering our results throughout 2020-21. I look forward to the year ahead and continuing our journey in achieving excellence in all that we do.

" I am really encouraged by our 2020 People Survey results, where we saw an increase in scores across all themes. "

*<https://www.gov.uk/government/collections/the-integrated-review-2021>

*<https://www.gov.uk/government/publications/des-2025-strategy>



SECTION

PERFORMANCE REPORT



Pilots flying an RAF Voyager aircraft

“ We have adapted to new ways of working and embraced new technologies, demonstrating that we are well on our way to building a strong organisational culture of innovation. ”

OVERVIEW

CHIEF EXECUTIVE OFFICER (CEO) STATEMENT



The past year has been extraordinary for DE&S, as for so many other organisations and people around the world, as we faced the challenge of COVID-19. I am extremely proud that despite such unprecedented circumstances, we have continued to deliver for our clients, demonstrating agility, resolve and resilience throughout. Our achievements have been wide-ranging in scale, scope and innovation across our portfolio, delivered by a workforce who remain passionate about supporting the UK's armed forces.

This Annual Report and Accounts reflects the outcome of another extremely busy and challenging year. Alongside our delivery against an annual programme of work equating to over £12 billion³, we have adapted to new ways of working and embraced new technologies, demonstrating that we are well on our way to building a strong organisational culture of innovation. We have pursued and identified £4.6 billion⁴ of financial savings within this Annual Budgeting Cycle, from an Equipment Plan that is typically worth over £100 billion in any ten-year period, a significant contribution to the overall savings delivered since 2016-17 and a direct reflection of the hard work of DE&S staff.

We have also seen the successful conclusion of our two-year Improvement Plan, DE&S@21, centred around the enduring aims of Great Delivery, Great People and a Great Place to Work. Our achievements against this plan provide a sound platform on which we can deliver our DE&S Strategy 2025. This will drive delivery across all areas of our business and enable us to confidently respond to the Integrated Review, the Defence Command Paper* and the Defence and Security Industrial Strategy, which sets out a new strategic approach to the UK's defence and security industrial sectors.

Over the course of the year, we have improved our recruitment processes, launched our Equality, Diversity,

Inclusion and Wellbeing Strategy and have continued to roll out increasing automation programmes. We achieved positive results in the annual DE&S People Survey and while there are still areas for further improvement, such as managing internal change, learning, accelerating digital solutions and investing more in collaborating with our suppliers, I am content with the trajectory we are taking.

Alongside our successes, I recognise that we need to keep improving. The recent reports from the Public Accounts Committee* and the National Audit Office* recognised that defence procurement is inherently challenging and highlighted evidence of cost overruns and schedule delays over a number of years, of which there have been some instances in 2020-21 as described in our Performance Report. We accept the constructive criticism and are working hard with the support of our Board, and wider MOD, to maintain a relentless focus on the most challenging projects and programmes. It is vital that we learn lessons from the past – good and bad – and ensure this learning is embedded across our organisation, whilst continuing to draw best practice from both inside and outside of the defence sector. We are determined to improve performance, whilst remaining focussed on delivering the right capability that is safe to operate and at the best value to the taxpayer.

I have reviewed the 2020-21 report and accounts and am confident in the effectiveness of our internal controls. I am satisfied that this document accurately reflects the financial status and corporate position of DE&S during the 2020-21 reporting period and I am delighted with our achievement of an unqualified audit opinion by the National Audit Office for the fourth consecutive year.

A handwritten signature in black ink, appearing to read 'Simon Bollom', written over a white background.

Sir Simon Bollom - DE&S CEO and Accounting Officer

³ Budget allocations of £11.4 billion (Equipment Plan) and £1.1 billion (Operating Expenditure) for 2020-21.

⁴ Total Equipment Plan benefits delivered so far for the period 2021-22 to 2030-31. Source of £4.6 billion: Programme Cost Review 21 (PCR21) detailing efficiencies delivered so far (realised in forecast). PCR21 is a DE&S-chaired joint review with Front-Line Commands (our clients), in support of the wider Departmental Annual Budgeting Cycle.

*<https://www.gov.uk/government/collections/integrated-review-ministry-of-defence#defence-command-paper>

* <https://publications.parliament.uk/pa/cm5802/cmselect/cmpublic/185/report.html>

* <https://www.nao.org.uk/report/improving-the-performance-of-major-equipment-contracts/>



CHIEF FINANCIAL OFFICER (CFO) STATEMENT

DAVID JOHNSON, FINANCE DIRECTOR

2020-21 is our seventh year of operation as an Arm's Length Body within the MOD, and our fourth consecutive year with unqualified accounts. This has been a year of unprecedented challenges, and in common with other organisations we have had to adapt our ways of working rapidly to the unique constraints imposed by the COVID-19 pandemic. Although COVID-19 has undoubtedly had an impact on outputs and performance, in the circumstances our people and our processes have shown great resilience.

THE EQUIPMENT PLAN

This year we spent £11,179 million on acquiring and supporting equipment for the armed forces, and a further £895 million on inventory items to support that equipment. We delivered 1,422 new assets with a Gross Book Value of £2,761 million to our clients, of which the largest were three P8-A Poseidon aircraft valued at £128 million each.

During the year we remained within our budgets and delivered efficiencies. On equipment acquisition and support, our outturn of £11,179 million was 1.7% under the overall budget of £11,369 million. In some instances, schedule delays resulting from the impact of COVID-19 on industrial activity contributed to the in-year underspend. On inventory, both purchases and consumption outturned at around three-quarters of the budgeted numbers, primarily due to the impact of COVID-19 on defence activity levels including training and exercises⁵. All forecast changes were reviewed in detail with our clients 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 increased by £3,153 million (3%) from £106,861 million to £110,014 million. This increase is driven largely by a net increase in the programme of work at the request of the client, and to a lesser extent by increases in underlying cost estimates which were partially offset by the realisation of over £500 million in efficiencies.

OPERATING EXPENDITURE

We have continued to manage our operating expenditure carefully. DE&S' core operating costs for 2020-21 (excluding communicated costs) totalled £1,062 million against a budget of £1,066 million. In every year since we became an Arm's Length Body we have remained below budget, and this was the fifth consecutive year in which we outturned within 1% of our funding envelope. The outturn figure for 2020-21 is c£20 million higher than 2019-20 which is principally due to planned increases in staff costs. Our Infrastructure Plan outturned at £138 million, £3 million (2%) under the budget of £141 million.

We remain focused on driving efficiencies in our operating costs as well as in the Equipment Plan. In 2020-21 we achieved efficiencies of £116 million, exceeding the target for the year of £74 million and bringing the cumulative total delivered since efficiency targets were set in 2015-16 to £369 million.

■ **We delivered 1,422 new assets with a Gross Book Value of £2,761 million to our clients.** ■

⁵ Inventory purchases outturn of £895 million was £323 million (27%) under the budget of £1,218 million, consumption totalled £808 million, £274 million (25%) under the budget of £1,082 million.

COVID 19, EU EXIT AND INTEGRATED REVIEW

During 2020-21 we have worked closely with our clients and key suppliers to ensure the impact of COVID-19 on the programme of work, in terms of both capability delivery and cost, has been minimised as far as possible. This has included ensuring DE&S sites are COVID-compliant and available for staff to attend for essential Business Continuity activities. We have also supported key defence suppliers in maintaining their cashflow in specific circumstances to secure continuity of supply of critical services in the medium and long term. Our EU Transition Period group has been instrumental in mitigating any delays and cost increases relating to movement of equipment into and out of EU countries since 1 January 2021.

We have also undertaken significant activity in support of the cross-departmental Integrated Review of Security, Defence, Development and Foreign Policy, providing robust cost estimates for over 80 potential scenarios. The Review confirmed additional investments in several defence equipment programmes and a re-shaping of, or dis-investment in, other programmes and activities. We are working with our clients to implement the Review outcomes in 2021-22.

FINANCE FUNCTION – CONTINUOUS IMPROVEMENT

Throughout 2020-21 we have continued to strive to develop the skills and capabilities of our people and have successfully moved to managing our processes and delivering key finance training remotely. We have also maintained our focus on improving financial reporting and were shortlisted at the Government Finance Function awards for our design and development of a new business application, which has transformed our ability to capture and report financial efficiencies.

While the Department's adoption of International Financial Reporting Standards 16 Lease Accounting has been delayed until 1 April 2022, we have maintained our momentum in preparing for the transition. We have now reviewed all of our 3,000 live contracts for lease implications and have embedded the requirement to conduct a lease assessment into both our approval process for new contracts and our ten-year planning cycle to ensure we are in a strong position for 2022-23 and future impacts are understood.



RAF Chinook transporting member of NHS Sta

PROCESS AUTOMATION

As part of DE&S' digital strategy we continue to invest in automation, enhancing our existing capabilities into Intelligent Automation and exploring the possibilities that Artificial Intelligence has to offer. We are currently operating 38 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 650,000 transactions across the business, providing indicative resource savings of over £1.5 million. Our aim is to deliver the equivalent of 150 person-years of saved time back to defence delivery in 2021-22. In particular, we aim to continue exploiting automation opportunities within our Integrated Logistics systems and processes, in order to improve our data quality and consistency, while reducing the manual burden of high volume, low complexity transactional activity throughout the organisation.

GOVERNANCE AND COUNTER-FRAUD ACTIVITY

We have maintained our counter-fraud arrangements under the oversight of the DE&S Fraud Board, while also contributing to the wider Departmental counter-fraud agenda. A particular success in 2020-21 was the development and introduction of a digital mechanism for capturing and assessing employee Declarations of Interest, building a more robust approach to managing potential conflicts of interest. We continue to promote our DE&S Whistleblowing and Raising a Concern Policy, where individuals can anonymously report concerns about anything they think may be criminal activity, fraud or a breach of the Civil Service Code. We have also continued to support Fraud Defence, MOD Police and other agencies in disciplinary and criminal fraud investigations, ensuring that vigorous and prompt investigation takes place and effective sanctions are applied as appropriate.

“ **Our people and our processes have shown great resilience.** ”

OUTLOOK

Our immediate focus for 2021-22 is on continuing to drive improvements to the way we support our clients, including through management of risks to project delivery, and implementing the changes to the programme of work brought about by the Integrated Review outcome, as part of delivering our DE&S Strategy 2025. In addition to this we will:

- Achieve further efficiencies on behalf of our clients and in our operating expenditure whilst building internal capability in efficiency delivery;
- Continue to drive improvements in our financial controls to ensure we achieve best value for the taxpayer and our accounts remain unqualified.



Unmanned ground vehicles at the Army Warfare Experiment

ABOUT DE&S

OUR MISSION

Our mission is to equip and support the UK's armed forces for operations now and into the future. This drives everything we do.

WHO WE ARE

DE&S is part of the MOD, with delegated management freedoms that provide us with greater flexibility to manage our business and workforce, thereby improving the quality delivered to our clients. As a professional defence acquisition organisation, we work closely with the military commands and the global defence industry, as well as MOD Head Office (HO) and Other Government Departments (OGDs), to deliver a large, often complex programme of work that provides equipment and support to the UK's armed forces.

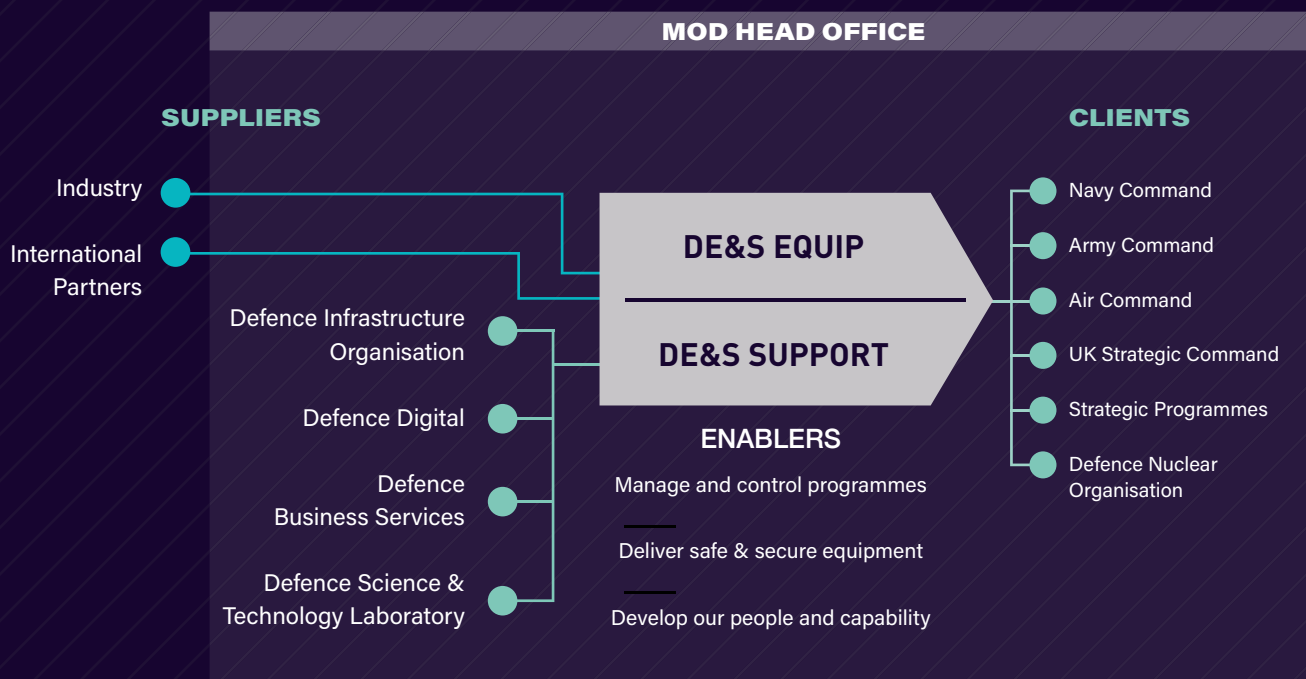
Our headquarters are in Bristol, with numerous locations across the UK and overseas, including in support of military operations.

WHAT WE DO

We safely procure equipment, from autonomous mine hunters, to electronic warfare capabilities. Our support programme enables us to develop and maintain safe, sustainable, reliable and available equipment and when it reaches the end of its life, we undertake equipment decommissioning and disposal. We invest in the research and development of cutting-edge solutions, such as high powered laser and radio frequency weapons. In addition, our range of services include the British Forces Post Office, which delivers mail to defence personnel in the UK and around the world.

Everything we do is safety focussed, working very closely with our clients in the Front Line Commands (FLC), as well as MOD HO and the Submarine Delivery Agency (SDA), which is separate from DE&S.

DE&S OPERATING MODEL

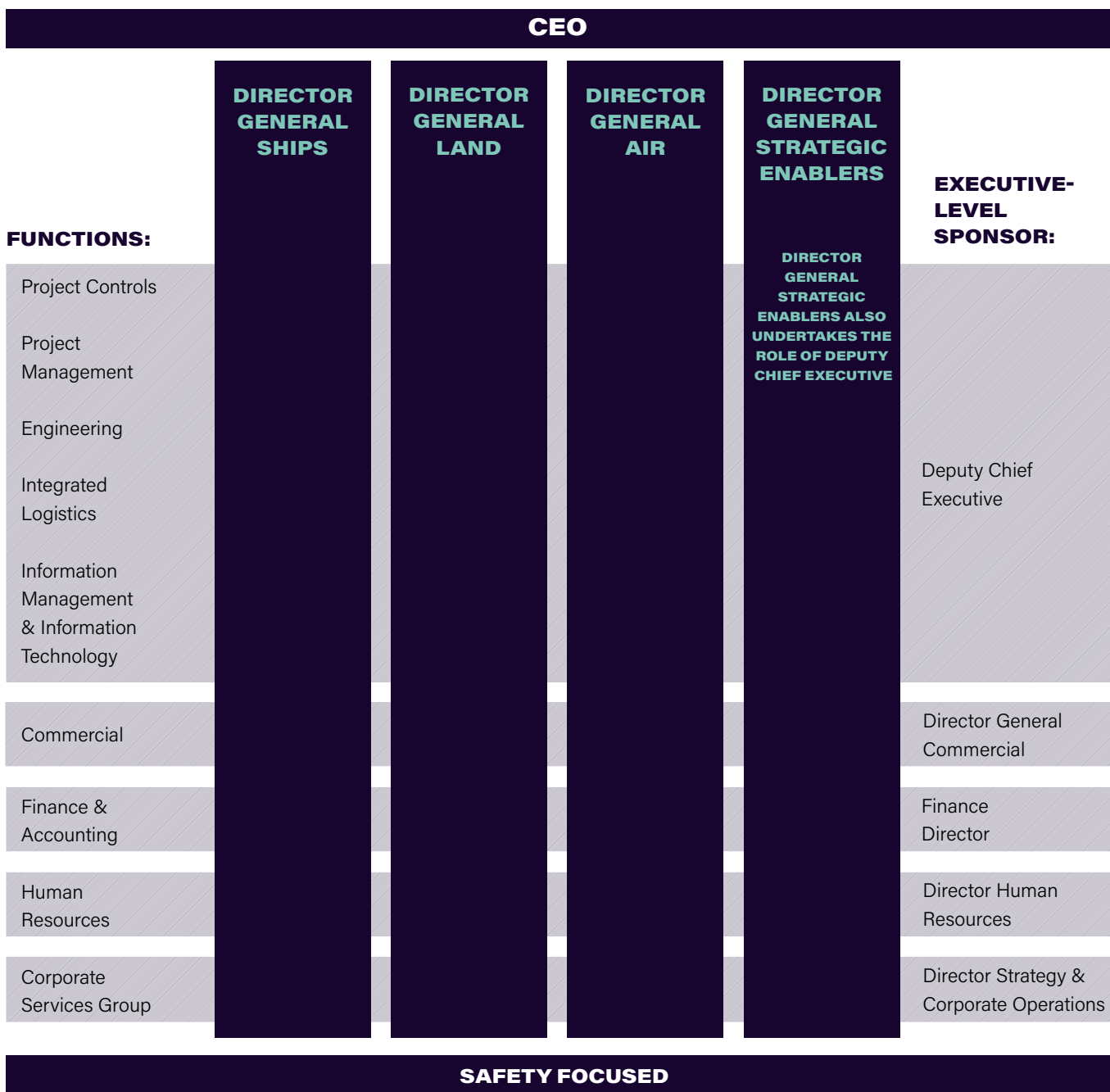


HOW WE ARE ORGANISED

Our organisational structure supports interaction and strong professional relationships with our clients. Under the CEO’s leadership, we have four client and industry facing delivery domains of Ships, Land, Air and Strategic Enablers (SE).

Delivery of our business requires a range of specialist skills and is supported by nine enabling functions. Each function has an executive-level sponsor and supports the balanced matrix within which we operate, which is designed to ensure the right people, are in the right place, with the right skills, at the right time.

DE&S MANAGEMENT STRUCTURE AS AT 31 MARCH 202



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 own the budget for the equipment procurement and equipment support plans, but our responsibility is to deliver against those plans within budget.

The agreed programme of work is set out in the Command Acquisition and Support Plans (CASPs). These are individual formal agreements with our clients that capture the outputs against which our teams will deliver. The agreements set out the equipment, support and services we will acquire on our clients' 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.

We are directly responsible for our own operating expenses, and we carry out our business activities within an operating expenditure budget, which flows from MOD HO. Our operating expenses include staff costs, Private Sector Support (PSS)⁶ costs, Other Programme 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.

The financial statements at Section 3 have been prepared in accordance with the accounting boundary agreed with the MOD, which delineates between the above DE&S operating activities reported in our financial statements 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 Director General (DG) Finance.

OPERATING AS A BESPOKE TRADING ENTITY

DE&S was launched as an Arm's Length Body (ALB) in April 2014, with unique management freedoms delegated by HMT and the Cabinet Office. We have a separate governance structure and we use these freedoms to manage our outputs and workforce within an operating cost budget. Our status has allowed us to strengthen the client-supplier relationship with our military clients 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 clients' requirements.



Merlin coming into land

⁶ 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 95.

THE DE&S@21 VISION

OUR DE&S@21 VISION WAS TO ACHIEVE:



GREAT PEOPLE

A diverse, engaged and motivated workforce with the capability to perform well, and clear sight of how to progress.



GREAT DELIVERY

Our clients always get what they need when they need it, at reduced cost to the taxpayer.



GREAT PLACE TO WORK

Our people feel supported and enabled to be more effective in their roles, in an environment that meets their daily needs.

THE DE&S@21 IMPROVEMENT PLAN

Building on the DE&S Transformation Programme which completed in 2018, we launched the DE&S@21 vision which described the type of organisation we aspire to be in 2021. During 2020-21, the DE&S@21 two-year Improvement Plan was incorporated into the central DE&S Change Portfolio, alongside a robust new approach to the management and governance of change across DE&S. Despite COVID-19 posing some significant delivery challenges, we delivered over 80% of its DE&S@21 milestones to schedule, whilst simultaneously providing a significant contribution to the national effort in response to COVID-19. Some of the activities undertaken this year are described below.



GREAT PEOPLE

We launched our Equality, Diversity, Inclusion (EDI) and Wellbeing Strategy, supported by a detailed and progressive action plan, marking our commitment to providing excellent support to our diverse range of employees. We issued and adopted functional career paths and training prospectuses for our people, to focus learning and development on professional capability, in line with our future strategy. We introduced reverse mentoring, which is an opportunity for junior members of staff, identifying as either women, ethnic minority, lesbian, gay, bisexual and transgender plus (LGBT+) or disabled, to mentor a member of the Senior Leadership Group (SLG). This will help leaders broaden their perspective and develop their thinking and decision making to consider diversity. We also undertook an in-depth review of our approach to unacceptable behaviours, informed by employees and managers and we introduced Active Bystander training to give colleagues the confidence to challenge inappropriate behaviour.



GREAT DELIVERY

Our launch of the Defence Sourcing Portal to improve and streamline the way our delivery teams advertise, undertake tender evaluation and award contracts, represents a strategic step in our journey to modernise the way we interact with industry for new business opportunities. We launched our new corporate Order Book Item (OBI), which is our programme of work, and portfolio dashboards that are designed to support the day to day activity of OBI managers and their supporting teams, aiding analytics, decision making and performance reporting.



GREAT PLACE TO WORK

Alongside an in-depth review of our reward strategy and launch of our 'MyLifestyle' employee benefits portal, we simplified and matured our performance management processes to drive high performance and manage career development at all levels, through increased empowerment and accountability. Our Human Resource (HR) casework capability has also been restructured with a proactive, skilled service delivery team and revised procedures and e-learning for managers. Immediate impact was seen through shorter case duration and improved client satisfaction.

As part of the Net Carbon by 2050 challenge, we developed a robust baseline of our operating cost carbon footprint and we are now set to explore innovative solutions to tackle high carbon consumption areas.

We continued to develop our comprehensive suite of wellbeing support, to help safeguard our people as part of our response to COVID-19.

Building on the work that has taken place over the past few years to embed smart working across the organisation and considering the impact of COVID-19, the DE&S Executive Committee has signed up to a set of smarter working commitments. These commitments were developed with employee feedback in mind and are based on a series of principles to better enable and empower everyone to make the right decisions about where, when and how they do their best work for defence.

DE&S STRATEGY 2025

DE&S Strategy 2025 is our response to the Integrated Review (IR), Defence Command Paper and Defence and Security Industrial Strategy (DSIS). It builds on our DE&S@21 successes and sets the vision for DE&S to be recognised as leaders in the delivery of military equipment solutions for this information age.

We aim to deliver safe, secure and innovative solutions at greater pace, giving our armed forces the operational edge. In the future our armed forces will be more persistently engaged worldwide, requiring full-spectrum and high-tech capabilities. Our role is to meet their needs now and into the future.

We are driven by our commitment to the service personnel who place their trust in the solutions we provide, and we continue to strive to be the best at what we do as global leaders in military acquisition and support. Through this investment, we will continue to have Great People, provide Great Delivery and be a Great Organisation, making DE&S a Great Place to Work.

We have five strategic priorities to deliver our vision, within which we have five measurable actions that show what we are going to be doing differently over the next four years. All of our priorities will be underpinned by our values which are:



These will permeate all we do, and reflect our shared commitment to our employees, clients and partners in delivery.

Our five priorities are provided in more detail overleaf.

DE&S STRATEGY 2025



PACE & AGILITY FOR OUR CLIENTS

ACCELERATING ACQUISITION

Pilot streamlined approvals and assurance processes by 2022, reducing approval time to 1-3 months by 2023

EVOLVING TO FUTURE THREATS

Help our clients counter the threats posed by sub-threshold operations and in new domains by, for example, standing up a Space Delivery Team

IMPROVING DELIVERY

Deliver new tools such as P3M Release 4, Unifier, sub-ledger and MyHR to help us grow as a professional delivery organisation

RESOURCING CLIENT PRIORITIES

Increase our organisational agility and focus resource on our clients' top priorities

INCREASING AVAILABILITY

Launch a Support Improvement Programme in 2021

VALUE TO THE TAXPAYER AND SOCIETY

ACHIEVING NET ZERO OPERATIONS

Reduce overseas travel by 50% and pilot a Net Zero site by 2025

INCREASING SOCIAL VALUE

A minimum of 10% of tender evaluation weighting allocated to Social Value

OPTIMISING OUR OPERATIONS

Launch a programme to improve our operations and deliver DE&S workforce plans for the next four years

DELIVERING NET ZERO EMISSION CAPABILITIES

Reduce the carbon footprint of the equipment solutions we deliver to support our clients in achieving their net zero targets by 2050

DELIVERING EFFICIENCIES IN MILITARY CAPABILITY

Scale up our internal capability for delivering efficiencies and create four domain efficiency hubs, supporting MOD in delivering £3 billion of efficiencies

DELIVERY

VALUING OUR PEOPLE

Deliver a future HR system and reward offering by 2022

INVESTING IN LEADERSHIP

Deliver a leadership capability uplift programme from 2021

FOCUSING ON EQUALITY, DIVERSITY, INCLUSION & WELLBEING

Build a more inclusive workforce by driving our equality, diversity, inclusion and wellbeing strategy

MISSION:



VISION:

OUR VISION FOR 2025 IS TO BE RECOGNISED LEADERS IN THE DELIVERY OF MILITARY EQUIPMENT SOLUTIONS FOR THE INFORMATION AGE

THROUGH PEOPLE

GROWTH THROUGH LEARNING

Launch a new DE&S learning platform by 2023 for our people to access all professional development opportunities in one place

MOBILISING OUR WORKFORCE

Launch a smarter working programme in 2021 covering technology, infrastructure and policy

TO EQUIP AND SUPPORT THE UK'S ARMED FORCES FOR OPERATIONS NOW AND INTO THE FUTURE

ACCELERATED DIGITAL SOLUTIONS

ADOPTING DIGITAL LIFECYCLES

Pilot digital test and evaluation projects to clear capabilities without the need for live trials

ESTABLISHING COMMUNITIES OF INTEREST

Launch new communities of interest in remote automation solutions and AI to share DE&S expertise across our organisation

PULLING THROUGH TECHNOLOGY

Pilot an expeditionary robotic centre of expertise and our Innovation Bridge to be fully operational

LEADING BUSINESS SOLUTIONS

Over 200 process automated, apps and spreadsheets reduced by 20% and 6,000 trusted data sets built

APPLYING AND USING DATA SCIENCE AND AI

Build capability in fast-maturing technologies and work with Defence Digital in creation of an AI centre

DELIVERY THROUGH PARTNERS

DRIVING INNOVATIVE COMMERCIAL ARRANGEMENTS

Adopt a cloud-based e-marketplace for low-complexity acquisition by 2023

DEVELOPING SUPPLY CHAIN RESILIENCE

Pilot digital supply chain mapping with suppliers for five critical capabilities by 2022

MOBILISING THE DEFENCE & SECURITY INDUSTRIAL STRATEGY

Pilot more flexible approaches to our acquisition and support strategies

STRATEGIC PARTNERING

Scale-up supplier relationship management for all strategic and critical suppliers

INTERNATIONAL COLLABORATION

Create an international collaboration centre of expertise



Search and rescue exercise to recover personnel onto HMS Queen Elizabeth

OBJECTIVES GOALS STRATEGIES AND MEASURES (OGSM) 2020-2

The DE&S OGSM framework is designed to help us focus attention on what really matters and sets out in-year targets on what we intend to do, whilst measuring progress against it. The performance parameters were agreed pre-COVID-19 and reflect the defence needs and budgetary constraints at that time.

1

HITTING OUR IN YEAR NUMBERS

We will stay within our in year Equipment Plan (EP) allocation and operating expenditure budget, drive efficiency, manage the balance sheet, and produce timely, accurate year end accounts.

2

PERFORM TO PROCUREMENT PLAN

We will deliver agreed milestones, ensure outputs are safe by design, keep projects within approved performance, time and cost parameters, manage a stable and efficient 10-year equipment procurement plan and manage delivery in accordance with our plan for earned value.

3

SAFE & OPTIMISED SUPPORT

We will deliver agreed milestones, maintain safe, sustainable, reliable and available support outputs, manage a stable and efficient 10-year equipment support plan, develop mature support solutions for new equipment in good time, provide inventory on time and manage our operational support sites to plan.

4

SATISFY OUR STAKEHOLDERS

We will satisfy our clients and wider stakeholders, provide quality and timely support to MOD Department of State business and agree Command Acquisition & Support Plans in a timely manner.

5

CONTINUOUSLY IMPROVING

We will deliver our vision for DE&S@21, advocate and lead change effectively and support the environment as part of HMG's green agenda.

6

STRENGTHEN OUR WORKFORCE CAPABILITY

We will be a diverse, engaged, highly capable and safe workforce. We know that success hinges on the performance of our people.

IMPROVING OUR DELIVERY: OUR NEW WAYS OF WORKING

Throughout 2020-21 we have continued to instil a culture of continuous improvement across the business and have refined, reviewed and embedded our approach to change. We also have a more rigorous Change Portfolio, to ensure an optimum balance between internally driven and externally imposed change.

Project Neptune has continued to evolve. This is a programme of integrated change initiatives that build on DE&S' transformation by future proofing, streamlining, simplifying and standardising how we work to make life easier for our people, while delivering greater efficiencies for defence and increasing our overall effectiveness as an organisation. It will address the challenges and opportunities arising from the Government's IR,

Comprehensive Spending Review and DSIS. It will also help to identify and coordinate improvements to our ways of working and ensure that we are structured effectively to support future requirements, whilst continuing to deliver client outputs.

The business planning process now provides us with a five-year forecast of resource requirements to deliver the programme of work. This complements our evolving strategic workforce plan, to ensure we have the right resources and capabilities to deliver our client requirements. Our Delivery Partners (contractors) also provide us with additional staff resources, tools and techniques that we do not have in DE&S, as and when needed. Improvements in the way we engage with them has enabled us to respond more quickly to changing client requirements.



An Apache helicopter flying over snow covered forests in Norway

COMMERCIAL IMPROVEMENTS

Throughout 2020-21 the Commercial Improvement Programme continued to deliver improved commercial processes and systems and a range of key business changes to strengthen competitive and single source acquisition, negotiations, and delivery management.

Category Management is quickly becoming business as usual in DE&S. It 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. Opportunities to realise benefits in this area are expected to deliver significant savings over the next ten years, including a number of strategies already in train for gas turbines, marine diesel engines, vehicle support and many more. Category Management awareness and practitioner training is being rolled out across the business, with Category Management focussed annual performance targets to be included in our people's objectives from 2021-22.

The MOD-wide Supply Chain Resilience and Strategic Partnering Programmes aim to ensure optimal management of the defence supply chain. We are at the forefront of these activities and throughout 2020-21 has provided consistent frameworks, methodologies and management information to collaboratively drive innovation, mitigate risk and deliver value for money. We played a key role in supporting MOD's response to COVID-19 and EU Exit transition, through development of a supplier impact notification tool and a supplier heatmap dashboard, which aided monitoring of supplier performance and resilience, allowing data-driven decision-making at senior level. For 2020-21, there was no significant impact felt from the EU Exit for DE&S. However we anticipate the potential for unexpected issues and consequences throughout 2021-22.

As we look ahead to the next Financial Year (FY), the future programme of work will underpin our DE&S Strategy 2025 by continuing Category Management, supply chain resilience and supplier management activity, whilst instigating new work to transform our approach to low complexity procurement. We will also develop our commercial analytical capability, to build advanced-analytics models for predicting and optimising commercial outcomes.

DELIVERING FOR OUR CLIENTS: OUR PERFORMANCE, RISKS AND ISSUES

Corporate performance for 2020-21 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 DG, where delivery against the CASP and KPIs are standing agenda items. The CEO uses the Function Performance Committees to hold the Heads of Function 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). We also hold regular CASP performance reviews with each of our clients.

More information on our governance structures and activity for 2020-21, as well as information on our key risks and issues, is set out in the Governance Statement which forms part of the Accountability Report.



PERFORMANCE ANALYSIS

Member of crew aboard HMS Albion

Throughout the year we continually measure and report our delivery against our core purpose - to equip and support our armed forces. Our clients' objectives are set out in the CASPs and we use these as a baseline for our KPIs.

This year we achieved or exceeded the majority (58 out of 70) of the CASP strategic milestones agreed with our clients (KPI 1.1). Of the 12 that missed their planned date, five were directly related to the impact of COVID-19 on industry, such as necessary slowdowns in production and interruptions to our supply chains. For the fifth successive year we achieved all of our Key User Requirements (KURs) (KPI 1.2), demonstrating that the equipment we deliver is expected to meet our clients' requirements when it enters service.

Across the assessment, demonstration and manufacture phases of all equipment procurement projects (KPI 1.3) the overall net position was a reduction in forecast costs (-£1.8 million), however three of the five CASPs reported cost growth. Projects in the demonstration phase achieved their Equipment Delivery Dates (EDD) on average 1.4 months later than planned, when aggregated across the population for the year (KPI 1.4.1).

We achieved our equipment support targets (KPI 1.5) for reliability across all five CASPs. Four CASPs met the targets for sustainability (maintaining the platform, equipment or service in an operational state) and three for availability. Three CASPs missed the safety process administration target, which was, in part, because a number of safety cases had to be revised.

We again achieved our Operating Expenditure target (KPI 2), with expenditure outturning at £1,062 million, £4 million under budget. In addition, the Infrastructure Plan was £3 million under budget at £138 million. The delivery of a year-end outturn within 0.4% of the budget demonstrates our robust and effective financial management.

This year we spent £11,179 million on behalf of our clients to deliver the Equipment Programme. This was 1.7% under budget, just below the in-year forecasting accuracy threshold of -1.5% (KPI 4.1). This is largely attributable to the impact of COVID-19 on suppliers faced with workforce reductions or slowdowns in production. While some of the impacts of the pandemic are immediate, we recognise that the full consequences for our supplier base may emerge more gradually, and may continue to affect our delivery over the coming year, in part because we work with a global supply chain and the rate of recovery from COVID-19 will vary between countries.

We have continued to drive a culture of efficiency delivery across the organisation, realising £143 million of efficiencies that delivered benefit in 2020-21, exceeding our target by £32 million. Additionally, we realised £723 million⁷ of efficiencies in 2020-21 over the ten-year planning period (2020-21 to 2029-30), falling short of our target by £58 million. This shortfall was largely due to reversing previously declared efficiencies on two projects, as a consequence of emergence of cost growth. Following a detailed internal investigation, we have put improved processes in place. The lessons we have learned have been fed into our efficiency planning, alongside a detailed review of future efficiency opportunities.

⁷ Contributes to our overall Equipment Plan savings of £6.8 billion, achieved since 2016-17.

A survey of our clients returned an improved satisfaction score across all of the five Commands, achieving a full 100% score for KPI 5.

Whilst there is no change in the overall Amber assessment of health, safety and environmental protection (KPI 6) compliance this year, we are now compliant in six of the 11 elements measured. This is an increase from the four reported last year. We continue to drive improvements, with the target of reaching 'Substantial Assurance' for safety and environmental protection by March 2022.

We achieved two out of three of our targets relating to our workforce capability (KPI 7). A survey of our people recorded our highest staff engagement score to date of 60% and preventable attrition was also ahead of target. We narrowly missed one of our targets in relation to KPI 7.3, which was to increase the proportion of females joining our organisation. The launch of our ambitious EDI and Wellbeing Strategy this year demonstrates our continued commitment to building an inclusive and diverse workforce.

There were no significant impacts on overall DE&S outputs that were directly attributable to the UK leaving the EU. The DE&S EU Transition Period Small Group monitored and coordinated the mitigation measures across our supply and support chains, while providing the business with early warning and resolution of any emerging issues.

Our KPI scores with supporting explanations are provided on the following pages.



HMS Spey

KPI 1 – CASP DELIVERY PERFORMANCE

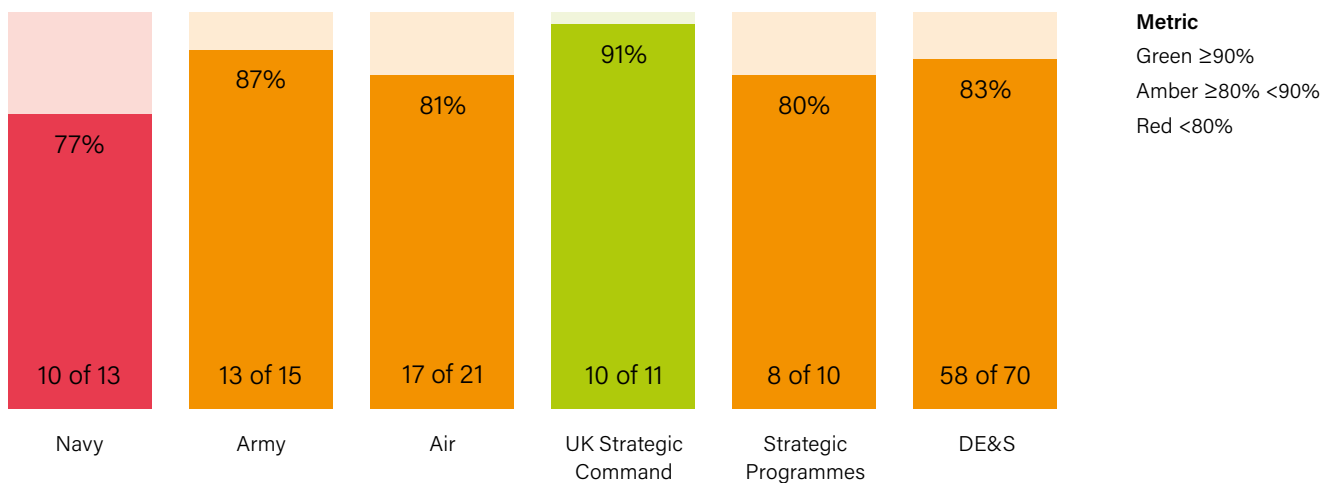
PROCUREMENT PROJECTS

DE&S monitors delivery performance of all procurement projects. Our KPIs measure performance on projects with an expected value of more than £20 million and a selection of lower-value projects that are critical to the delivery of our clients’ Command Plans, as identified 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 metrics and targets against which our performance is measured feed into the corporate KPIs.

Each CASP includes a number of strategic milestones due to be delivered in-year and agreed with our clients as a significant measure of a project’s success (KPI 1.1). We measure whether new equipment is on track to meet our clients’ needs through tracking delivery of KURs (KPI 1.2). These requirements are agreed with our clients when a project is approved, and they stipulate the essential core characteristics the equipment must fulfil when in operational use.

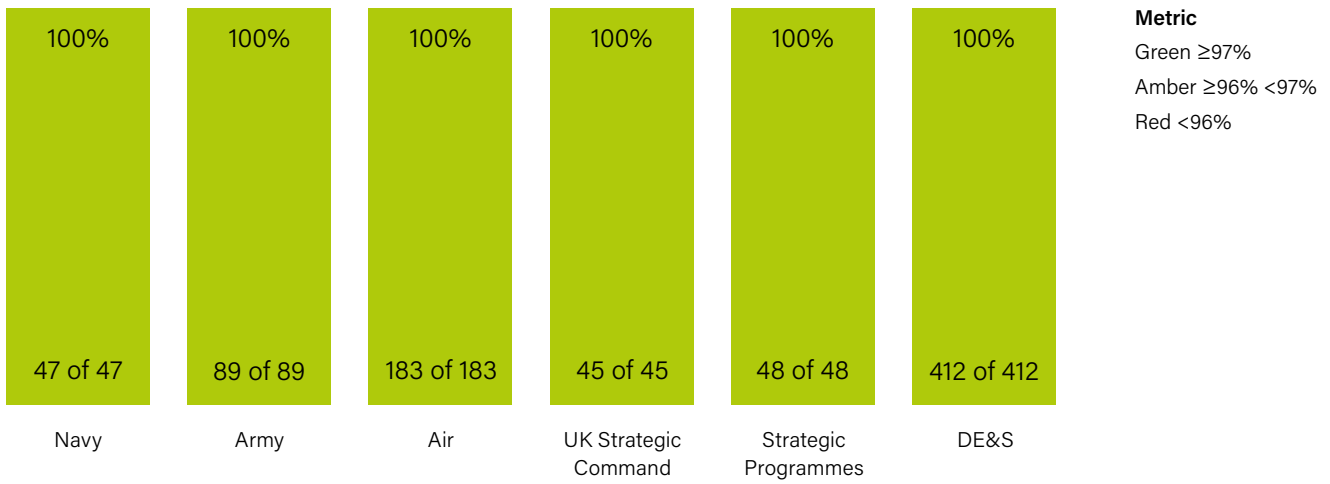
The cost (KPI 1.3) and time (KPI 1.4) taken to deliver projects is monitored through both the assessment phase (the period leading up to an investment decision) and demonstration and manufacture phases (following the main investment approval). Variances to forecast cost or time might arise as a result of technical or supplier challenges, commercial and procurement processes, international collaboration issues, accounting adjustments or dependencies upon associated projects.

.1 ACHIEVEMENT OF CASP MILESTONES



In total DE&S delivered 58 out of 70 milestones either early (27) or on time (31) during the year. Of the remaining 12 milestones, five were missed or late due to the impacts of COVID-19 and three were missed due to delays in the approvals process. Of the remainder, two were delayed due to contractor performance, one due to technical challenges and one was dependent on progress in another project.

.2 KEY USER REQUIREMENTS



We successfully achieved 100% of KURs under all five CASPs in 2020-21, meaning the equipment we provide is expected to meet the user’s needs when it enters operational service.



A Puma helicopter during a training day at RAF Brize Norton

.3 COST**.3.1 DEMONSTRATION AND MANUFACTURE PHASE PROJECTS – AGGREGATE COST VARIANCE**

Metric - Green ≤ 0% Red > 0%

Navy +0.6% (+£44.7M)	Army -0.5% (-£63.7M)	Air -0.6% (-£48.2M)
UK Strategic Command +4.3% (+£13.7M)	Strategic Programmes +1.3% (+£44.4M)	DE&S -0.0% (-£9.1M)

.3.2 ASSESSMENT PHASE PROJECTS – AGGREGATE COST VARIANCE⁸

Metric - Green ≤ 0% Red > 0%

Navy 0.0% (£0.0M)	Army -1.4% (-£2.9M)	Air +4.4% (+£9.2M)
UK Strategic Command 0.9% (+£1.1M)	Strategic Programmes 0.0% (£0.0M)	DE&S +1.1% (+£7.3M)

KPI 1.3.1 tracks cost variances in the demonstration and manufacture phase and shows how much the forecast cost to complete this phase of work changed over the year. Three of the five CASPs reported aggregate forecast cost growth. UK Strategic Command experienced the greatest percentage growth after Her Majesty's Revenue and Customs determined that Value Added Tax (VAT) should be applicable to the Shadow Mk2 project, when the approval had assumed that VAT would not apply in the early years.

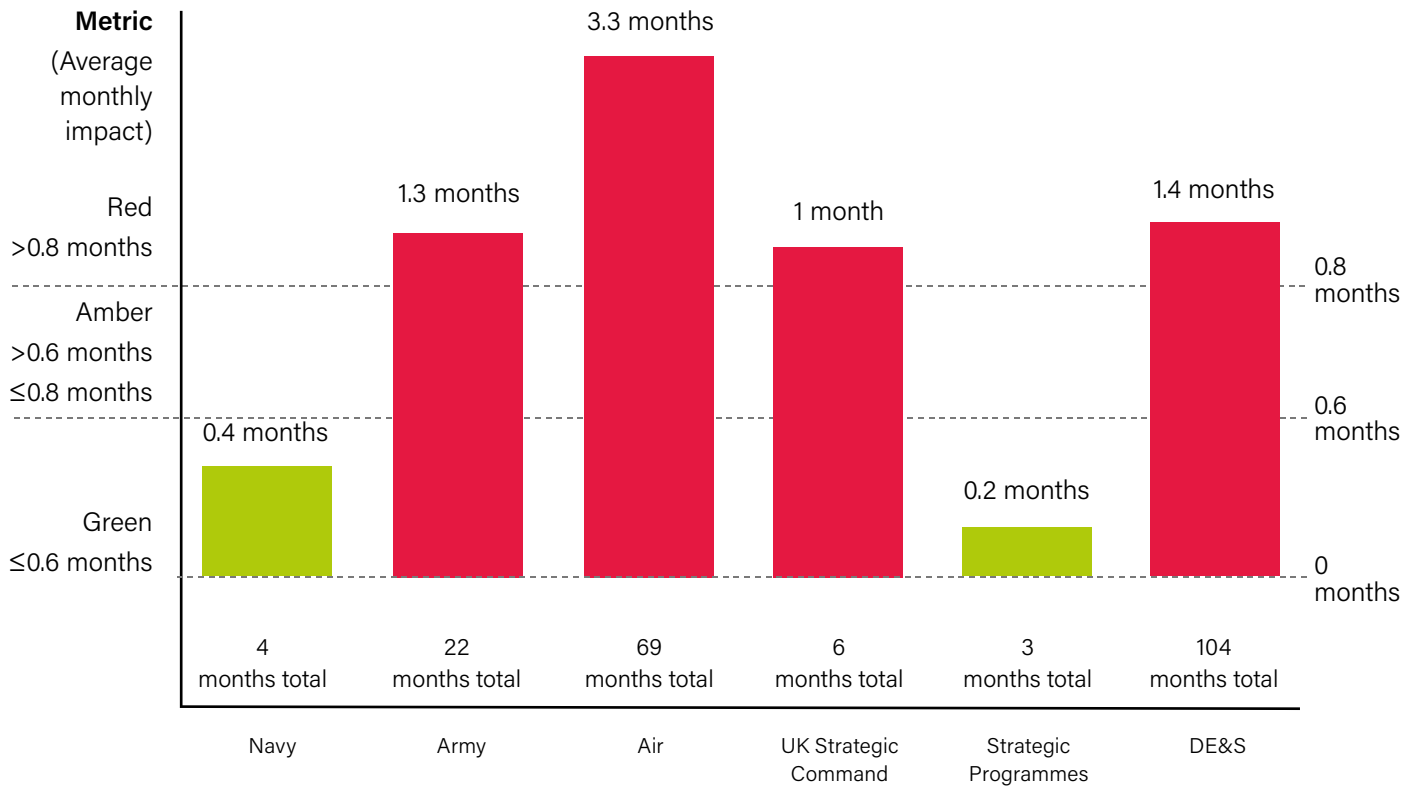
Projects in the assessment phase achieved the aggregate forecast costs metric (KPI 1.3.2) across three of the five CASPs. The cost growth in Air Command was largely attributable to technical challenges encountered on the Shadow Defensive Aids System project.

More generally, we recognise room for improvement in the timely reporting of variations, which are too often reported at the end of the FY when they could have been reported earlier. Enhanced accountability processes have been put in place, further training delivered and lessons widely shared, to reinforce the importance of timely reporting across the business.

⁸ Figures may not sum to the given total due to rounding.

.4 TIME

.4.1 DEMONSTRATION AND MANUFACTURE PHASE PROJECTS – AGGREGATE TIME VARIANCE

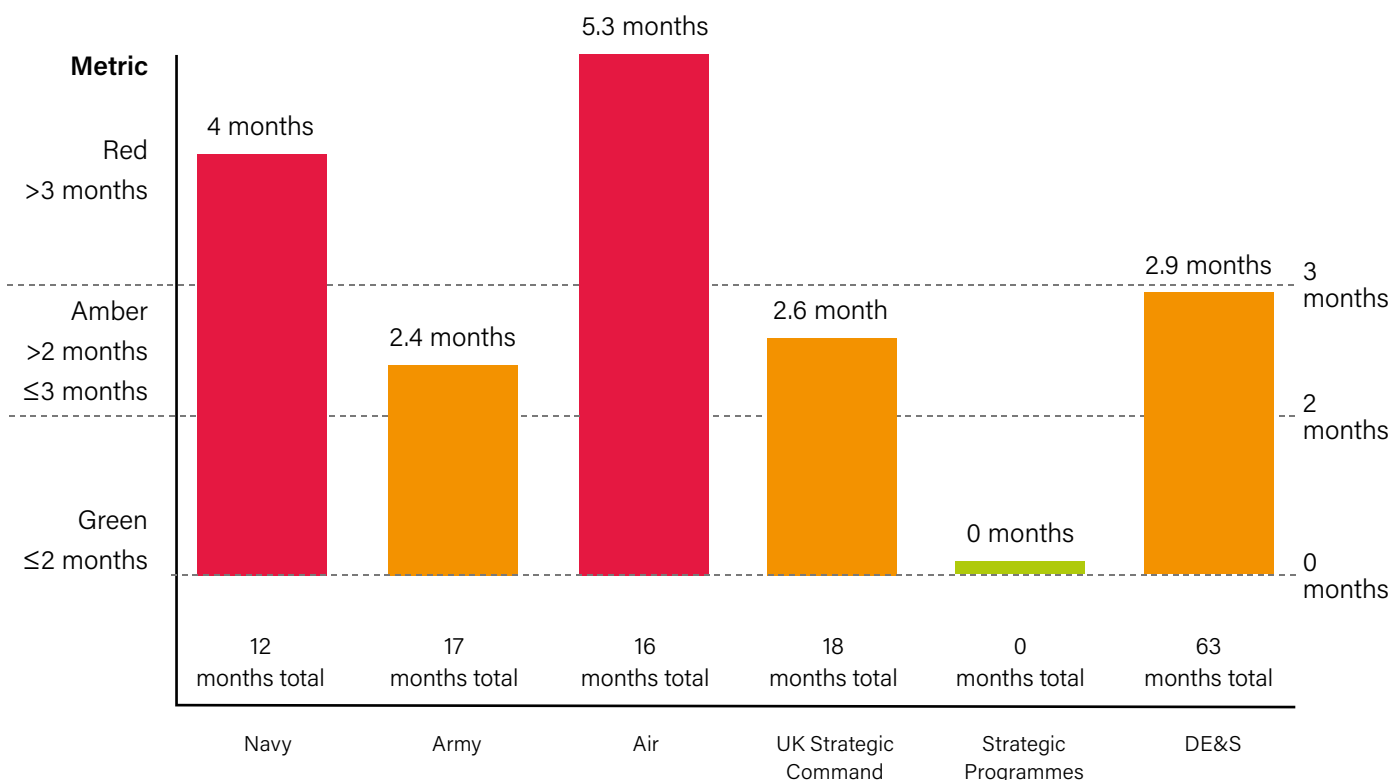


.4.2 DEMONSTRATION AND MANUFACTURE PHASE PROJECTS – TIME VARIANCE PER PROJECT

Metric - Green ≤15% Amber >15% <25% Red ≥25%

<p>Navy</p> <p>10.0% (1 EDD)</p>	<p>Army</p> <p>11.8% (2 EDDs)</p>	<p>Air</p> <p>28.6% (6 EDDs)</p>
<p>UK Strategic Command</p> <p>16.7% (1 EDD)</p>	<p>Strategic Programmes</p> <p>10.0% (2 EDDs)</p>	<p>DE&S</p> <p>16.2% (12 EDDs)</p>

.4.3 ASSESSMENT PHASE PROJECTS - AGGREGATE TIME VARIANCE



The measures relating to time variance in the demonstration and manufacture phase (KPI 1.4.1 and 1.4.2) track performance against a project’s EDD, rather than its In-Service Date, which provides a more representative assessment of DE&S performance.

We met the CASP time targets in two of the five Commands (KPI 1.4.1), while 12 of a total of 45 EDDs exceeded the threshold of two months’ slippage (KPI 1.4.2). The largest variation was in Air Command and related to the Typhoon Smart Dispenser System project (21 months) which was primarily due to our industrial partner revising its technical assumptions.

Projects in the assessment phase met our targets in only one CASP (KPI 1.4.3). The Air CASP reported a 16 month delay due to the technical challenges encountered on the Shadow Defensive Aids System project. The 12 month variance in the Navy CASP was caused by the need to rerun a competition for the Maritime Electronic Warfare System Integrated Capability project after the first Invitation To Negotiate failed to return any compliant bids.

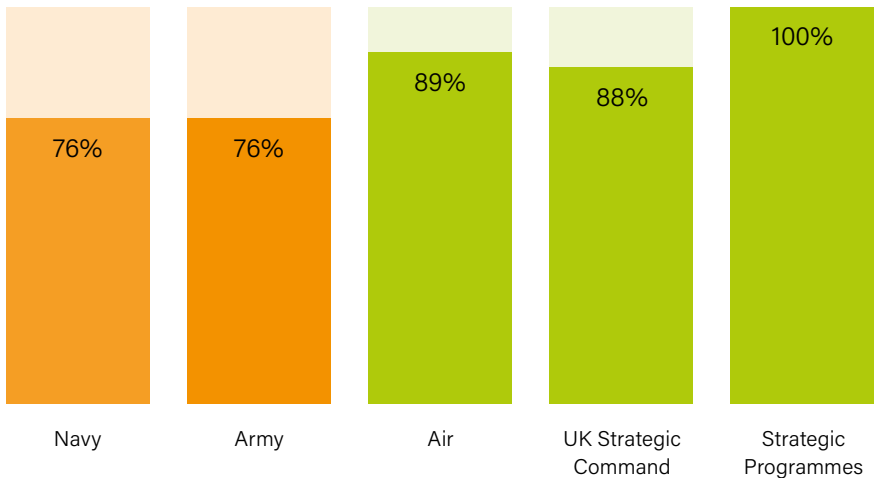
SUPPORT PROJECTS

This KPI measures how well we support equipment currently in-service with the armed forces, 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 work with our military clients 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 our clients deal with very different operating environments, we negotiate each CASP separately with them and set specific performance thresholds accordingly; direct comparison of performance cannot be made between different CASPs therefore, and there is no overall DE&S target.

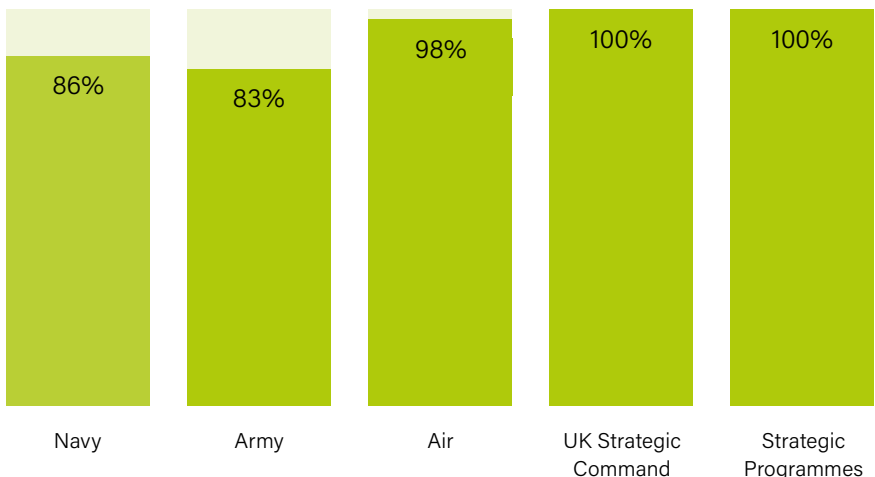
.5 EQUIPMENT SUPPORT PERFORMANCE

.5.1 AVAILABILITY



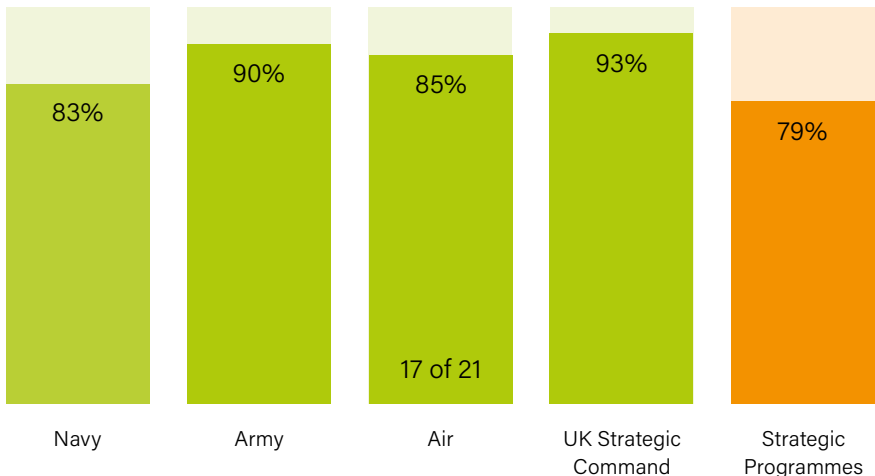
Metric
 Green ≥80%
 Amber ≥70% <80%
 Red <70%

.5.2 RELIABILITY



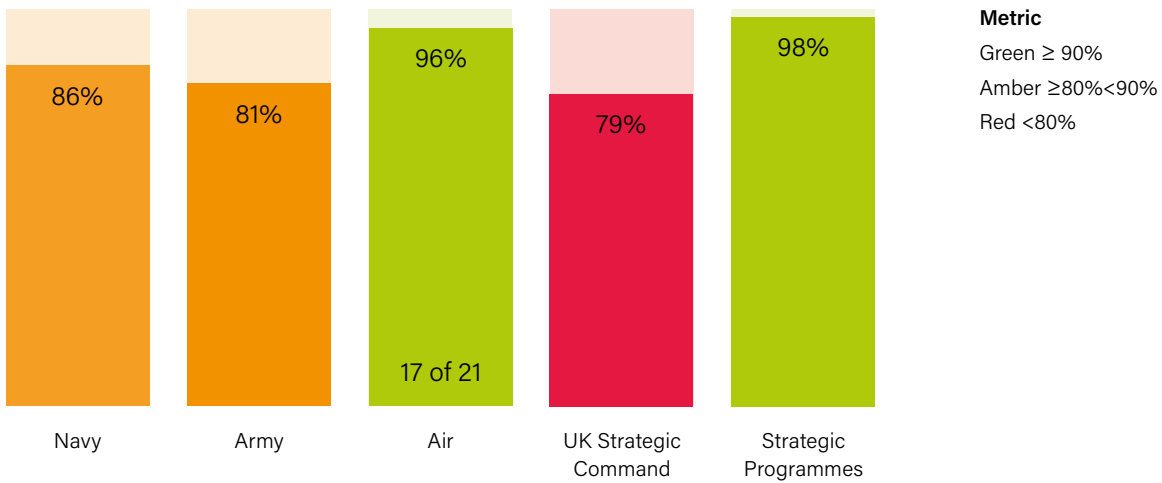
Metric
 Green ≥80%
 Amber ≥70% <80%
 Red <70%

.5.3 SUSTAINABILITY



Metric
 Green ≥80%
 Amber ≥70% <80%
 Red <70%

.5.4 SAFETY PROCESS ADMIN



We achieved our support targets for reliability across all Commands. Four of the five for sustainability and three of five for availability. Safety process administration fell short of our targets in three Commands due, mainly, to a number of outstanding safety cases which are being addressed as a priority. This had no operational impact and equipment remained demonstrably safe.

KPI 2: OPERATING EXPENDITURE EFFICIENCY

KPI 2 seeks to reduce the total DE&S operating expenditure. For 2020-21, we achieved this, with expenditure outturning at £1,062 million, £4 million under budget.

KPI 3: INVENTORY MANAGEMENT

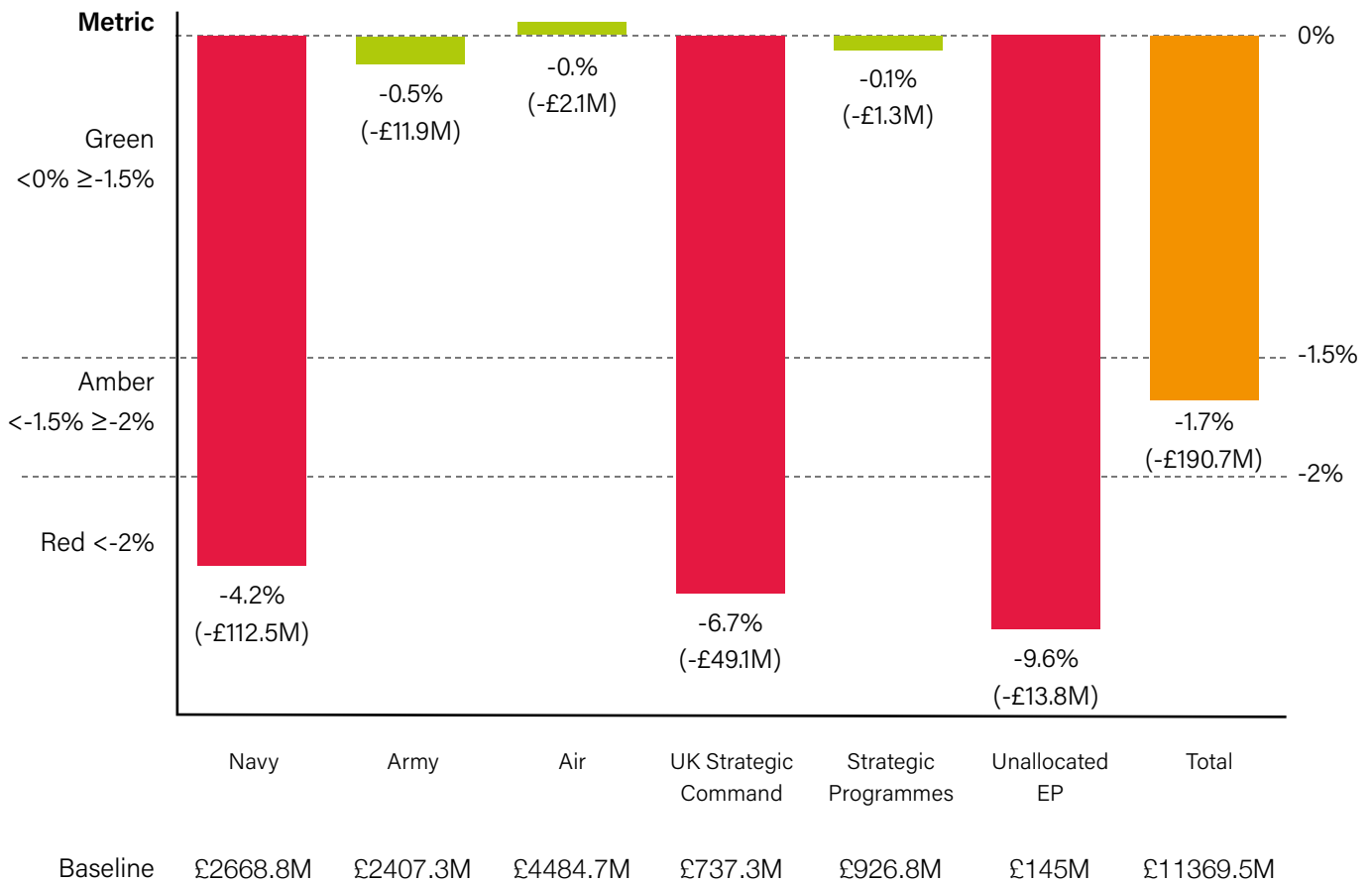
Further to the agreement to move inventory budgets to FLCs at the start of 2019-20, there was no formal KPI for Inventory Management throughout 2020-21. KPI 3, Inventory on Time, has been developed for 2021-22 and will be reported on within the next FY.



A400M Atlas

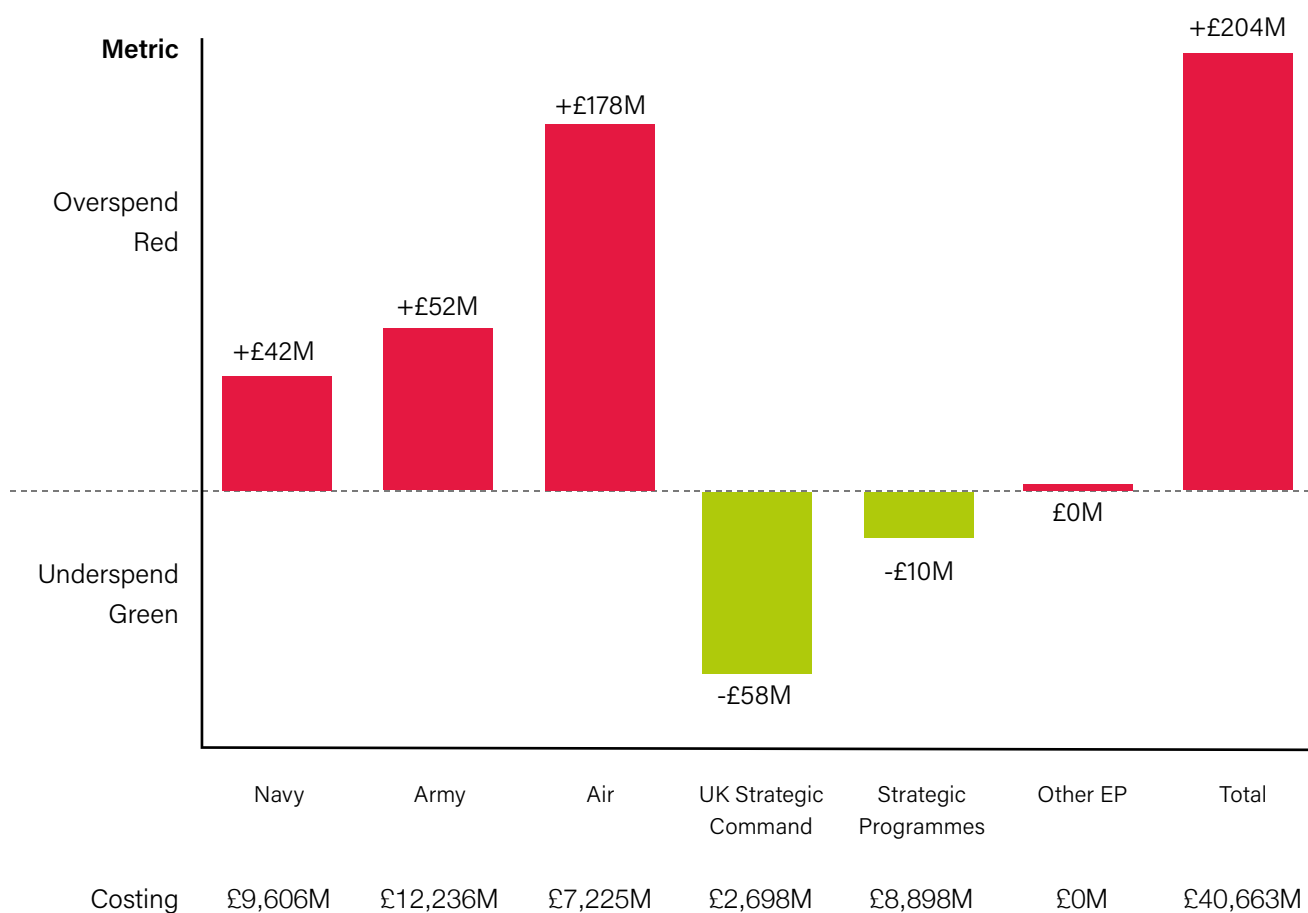
KPI 4: FORECAST ACCURACY AND STABILITY

4.1 FORECAST ACCURACY (IN YEAR) – OUTTURN BELOW BASELINE



The equipment programme outturn was £11,179 million against a budget of £11,369 million, which includes adjustments for foreign exchange movement and change of scope attributed to FLC changes to programme boundaries. DE&S achieved the forecast outturn target (within -1.5% of the budget) in three of the five Commands. The significant underspend in Navy was due largely to the Type 26 and Type 23 upkeep programmes which were impacted by COVID-19 legislation. For both programmes the implementation of lock down periods, testing, isolation rules and enhanced safety protocols temporarily impacted upon labour resource availability and efficiency. This also resulted in delays to payments to the supply chain as performance milestones were not met. The UK Strategic Command underspend was also largely attributed to the impact of COVID-19 restrictions, as detailed above.

4.2 FORECAST STABILITY - 10-YEAR EQUIPMENT PROCUREMENT PLAN - VARIANCE TO COSTING



The 2020-21 forecast of DE&S' ten-year Equipment Procurement Plan (EPP) saw an increase to underlying costs impacting the KPI of £204 million, with underlying cost growth across the Navy, Army and Air Plans. The most material element of cost growth experienced within the Air EPP was primarily driven by changes to our incorrect assumptions about the future contributions of partner nations to the Eurofighter/Eurojet international collaboration programme.

4.3 FORECAST STABILITY - 10-YEAR EQUIPMENT SUPPORT PLAN - VARIANCE TO COSTING



The 2020-21 forecast of DE&S' ten-year Equipment Support Plan saw an increase to underlying costs impacting the KPI of £336 million. Underlying cost reductions were achieved in three of the five Commands. The most significant increase was in the Navy CASP, where the reversal of previously forecast efficiencies in the Maritime Systems Support Partner programme was a significant contributing factor. The increase in Strategic Programmes was mainly related to updating cost estimates for complex weapons activity. Significant cost reductions were achieved in the Army CASP, however, including the realisation of efficiencies through better stock optimisation on the Next Generation Munitions Solutions and Abel (General Munitions Procurement and Support Strategies) contracts.

4.4 IN YEAR EFFICIENCY TARGETS

Navy -£1.0M (Target £171M)	Army £24.5M (Target £10.8M)	Air £110.6M (Target £76.8M)
UK Strategic Command £7.4M (Target £6.0M)	Strategic Programmes £1.6M (Target £0.0M)	DE&S £143.1M (Target £110.7M)

4.5 TEN YEAR EFFICIENCY TARGETS

Navy -£68.8M (Target £168.1M)	Army £364.4M (Target £224.3M)	Air £322.2M (Target £224.8M)
UK Strategic Command £69.1M (Target £59.2M)	Strategic Programmes £36.2M (Target £105.0M)	DE&S £723.1M (Target £781.4M)

Following the emergence of cost growth, we had to reverse previously declared efficiencies on two projects in 2020-21. Nonetheless, we exceeded the in-year target by £32 million and realised £723 million of efficiencies over the ten-year planning period, although this fell short of the target by 7%.

KPI 5 CLIENT SATISFACTION

The DE&S Client Satisfaction Survey is conducted annually and enables us to become a truly client focused organisation that listens and responds to its clients' needs and issues. The process and approach for the 2020-21 survey was improved following changes to address three key issues - better Management Information (MI), greater granularity for better quality feedback and client focused action plans. This provided greater opportunity for high quality feedback and for the first time enabled us to attribute issues accurately for onward action. This year the number of clients invited increased from 124 to 141, with 83% responses received. Examples of key findings and analysis include:

- Overall client satisfaction improved with the Client Confidence Index (CCI) increasing to 7.1 from 6.5. 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.
- Each Command has increased their score from last year and the KPI has been met.
- On the Theme Group Score, all except one of the ten themes' total scores increased - with MI remaining the same.
- The issues we will continue to focus on include MI, resources and flexibility.

CLIENT CONFIDENCE SCORE

7.1 2021 total Score

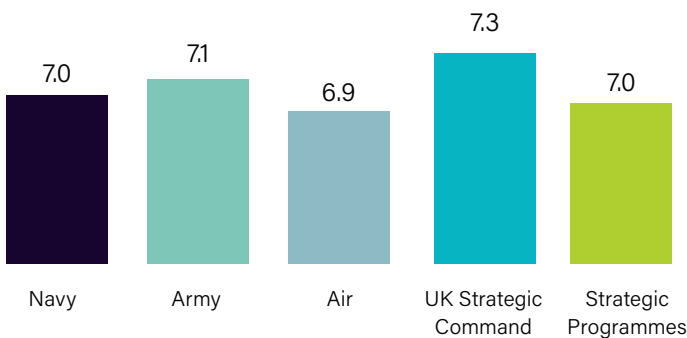
6.5 2020 total Score

0.59 ↑ variance

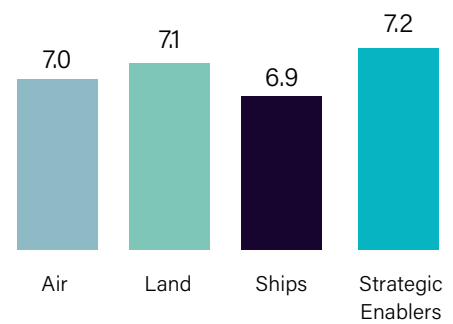
THEME GROUP SCORE

Communication	7.5
Expertise	7.2
Challenge	7.2
Consultation	7.1
Collaboration	7.2
Value	7.0
Programme Mgmt	6.9
Satisfaction	6.9
Flexibility	6.7
Management Information	6.2

CLIENT CONFIDENCE INDEX BY COMMAND



CLIENT CONFIDENCE INDEX BY DOMAIN

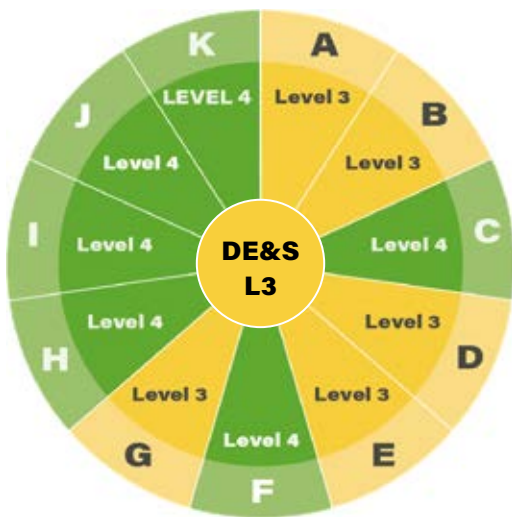


The findings will now be used to inform operational action plans to address the issues identified as well as shape senior level engagement, including through annual strategic engagement meetings between clients and DE&S. Feedback from this year will also evolve the process for 2021-22.

KPI 6 HEALTH, SAFETY & ENVIRONMENTAL PROTECTION

KPI 6 is scored using a Red/Amber/Green assessment process and achieved 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.

Efforts continue across the business to improve safety and environmental management, and DE&S is now assessed as compliant in six out of the 11 elements, with elements H and K improving from the 2019-20 position.

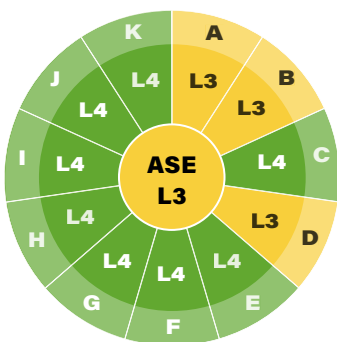


- A Applicable Legislation, Defence Regs, Policy and Guidance
- B Information Management
- C Org Leadership, Culture, Capability & Change Management
- D Personnel Competence and Training
- E Risk Assessments & Safety Cases
- F Equipment/Material & Infrastructure Design and Manufacture
- G Equipment/Material & Infrastructure Maintenance
- H Supervision & Control of Activities
- I Incident Management & Learning from Experience
- J Emergency Arrangements
- K Self-Assurance

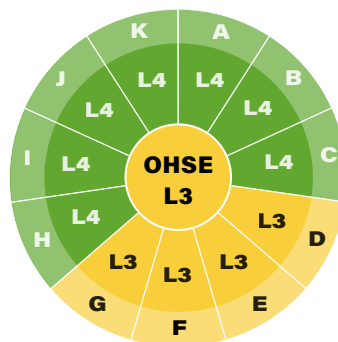
KEY: DEFENCE MATURITY MODEL	LEVEL 1 (1.0 TO 1.7)	LEVEL 2 (1.8 TO 2.7)	LEVEL 3 (2.8 TO 3.7)	LEVEL 4 (3.8 TO 4.7)	LEVEL 5 (4.8 TO 5.7)	LEVEL 6 (5.8 TO 7.0)
	Serious weakness(es)	Significant weakness(es)	Minor weakness(es)	Compliant	Developed	Excelling

The scores are based on the quarterly Occupational Health, Safety and Environmental (OHSE) and Acquisition Safety and Environmental (ASE) reports provided by each DE&S Operating Centre (OC). Each OC undertakes a self-assessment of performance against each element, which is then averaged across our organisation to provide the corporate level KPI 6 report.

The following diagrams show compliant scores (level 4) in eight ASE and seven OHSE elements at the DE&S level. While the KPI remains at Amber overall in both areas, this represents an improving position and is above the target of five ASE and four OHSE elements compliant, as set in our OGSM for 2020-21. It is also a significant improvement on the 2019-20 end of year position, when five ASE and four OHSE elements were reported as compliant.



DE&S ASE



DE&S OHSE

Efforts to review and improve arrangements have seen scores increase in many areas, however for ASE, legislation and policy compliance remains a concern, particularly around management of hazardous materials. During the year, we enhanced the guidance and training available in this area and in 2021-22 we will collaborate with the Defence Safety Authority to further develop its legislation database. This will help our teams to better understand requirements and track compliance.

Element B also remains a challenge for acquisition safety due to the lack of a consistent and rigorous records management system. We are starting to see this situation improve, with the creation of a common file plan for safety and environmental records. Work is also underway to address the accessibility of legacy documentation.

Element D is the lowest scoring element, with the sudden introduction of smarter working highlighting several areas for improvement. This opportunity, however, has provided us with a renewed focus on the competence of our Safety Responsible (SR) people and specialists, as skills and training gaps have been highlighted and are now being addressed. Although this led to lower scores in some areas, it is a positive development. Improvements have also been made to our recruitment and retention of Acquisition Safety and Environmental Protection (ASEP) specialists, including the 'ASEP Uplift' development scheme that trained promising junior engineers to enable them to enter ASEP roles.

For 2020-21, we saw more areas reporting against the OHSE KPI. The assessment against all of the OHSE elements either improved or remained static during the year, with the strongest performers being Elements A, J and K, with C and I following closely behind. Element G remains one of our weaker areas due to the ageing infrastructure across our estate.

ASE and OHSE	ASE				OHSE			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A Applicable Legislation, Defence Regs, Policy and Guidance	3.3	3.4	3.8	3.5	3.8	3.9	3.9	3.9
B Information Management	2.7	2.7	2.6	2.8	3.5	3.5	3.6	3.8
C Org Leadership, Culture, Capability & Change Management	3.8	3.8	3.9	3.9	3.6	3.8	3.9	3.9
D Personnel Competence and Training	3.1	3.1	3.1	3.1	3.3	3.2	3.1	3.2
E Risk Assessments & Safety Cases	3.2	3.3	3.5	3.8	3.6	3.6	3.7	3.7
F Equipment/Material & Infrastructure Design and Manufacture	4.0	4.0	4.1	4.1	3.9	3.8	3.6	3.6
G Equipment/Material & Infrastructure Maintenance	3.8	3.8	3.8	3.8	3.6	3.5	3.4	3.4
H Supervision & Control of Activities	3.6	3.7	4.0	4.0	3.6	3.7	3.8	3.8
I Incident Management & Learning from Experience	4.0	4.0	4.1	4.1	3.7	3.8	3.9	3.9
J Emergency Arrangements	3.9	4.0	4.1	4.1	3.8	3.8	3.9	3.9
K Self-Assurance	3.7	3.7	3.9	3.9	3.4	3.8	3.9	3.9
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.	3.6	3.6	3.7	3.7	3.6	3.7	3.7	3.7

As part of a wider MOD requirement, DE&S has been challenged to achieve 'Substantial Assurance' by March 2022 and we are developing a management action plan to help us move towards this goal and beyond. Our route to substantial assurance focuses on four main areas that address the weaker elements highlighted by the scores above.

At the corporate level, a more robust OHSE auditing regime, with targeted deep dives, has been put in place. This will seek to provide evidence to support the self-assessments and to identify the areas that are falling short so we are able to continually improve.

Some of the activities that have driven the improvements and demonstrate our pursuit of full assurance, are detailed in safety and sustainability starting on page 48.

KPI 7 PEOPLE

KPI 7 comprises three of the people metrics that are listed within OGSM 6 (Strengthen our Workforce Capability). These metrics cover engagement (based on the overall engagement score from the 2020 People Survey), capacity (through measuring preventable attrition, which is the loss of staff through resignation or through transfers to OGD or wider MOD), and diversity (specifically representation of new joiners).

KPI 7.1 - ENGAGEMENT

The headline score reflects the five questions that are listed within the People Survey relating to pride, advocacy, attachment, motivation and inspiration. DE&S scored its highest engagement value since the Survey began in 2009, with an outcome of 60%, up from 53% in 2019. This exceeded our KPI target of 55%.

KPI 7.2 - CAPACITY

This reflects the intent to reduce preventable attrition, which is the loss of staff through resignation or transfers to OGD or wider MOD and is based on permanent DE&S staff only. It does not take into account retirement, ill-health retirement, staff leaving due to re-organisations, or dismissals. KPI 7.2 is measured against a target of preventable attrition of less than 6.9%, and as at 31 March 2021 was 4.7%. We recognise that the extraordinary circumstances of COVID-19, and the resulting impact on the employment market, have contributed to the reduced number of leavers. Therefore we continue to conduct exit surveys with leavers to maintain our understanding of reasons for departure. The actions being taken based on recent people surveys such as the leadership capability uplift, functional learning, the reward review, and the focus on inclusion and wellbeing, are all aimed at retaining our skilled staff.

KPI 7.3 - DIVERSITY

This reflects the strategic intent to improve the organisation's diversity through, in part, monitoring the diversity of new joiners, specifically female and ethnic minorities. This year we have seen a slight decrease in the proportion of females joining DE&S (34.4% compared with just over 38% for 2019-20). For ethnic minority starters we have seen a slight improvement at 9.7% compared with 9% for 2019-20. 2020-21 saw a 48% reduction in starters compared with the previous year due to reduced business demand and the temporary pause in recruitment throughout the spring and summer of 2020. As part of our continuous improvement programme for talent acquisition, there have been a number of interventions which include addressing the inclusivity of language used in our job adverts and the training of over 1,500 interviewers to ensure a consistent and fair assessment approach.



Member of DE&S sta



**SAFETY,
SUSTAINABILITY
AND SECURITY**

SAFETY AND ENVIRONMENTAL PROTECTION

DE&S is committed to providing safe equipment to the armed forces and protecting the environment in which our equipment operates. We are also committed to reduce the risk of harm to people so far as is reasonably practicable, minimise the impact on the environment from our business activities, and provide 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. This oversight helps drive our continuous improvement in these areas. Delivering a range of events throughout the year to promote a strong safety culture, will also help encourage the behaviours that will drive us to achieve Substantial Assurance in 2022.

We regularly assess safety culture through an annual survey. The 2020 survey showed an increase in our organisational maturity compared to previous years, which now sits just below the 'proactive' level on the Patrick Hudson scale⁹. Interventions to improve our safety culture include:



Following the success of the OHSE and ASE awards this year, with a range of categories celebrating individual successes, DE&S will continue to recognise and reward talent and endeavour in this area.

ACQUISITION SAFETY, ENVIRONMENTAL PROTECTION AND SUSTAINABLE PROCUREMENT

The Acquisition Safety Project (ASP), which declared Full Operating Capability in March 2020, aimed to deliver "a measurably capable organisation with a strong safety culture; clarity on governance and roles, and a demonstrably competent workforce." Through the ASP, we have ensured that a structure of knowledgeable, competent SR and Senior Safety Responsible (SSR) decision-makers is in place for all our projects, with clarity on their roles provided through updated success profiles and assignment specifications.

The Engineering Function has established Heads of Engineering Assurance in each of the key DE&S regulated environments (Land, Ships, Air and Weapons). These individuals are the single leads for independent engineering and safety regulatory assurance, as well as providing second party assurance at investment decisions and throughout the life of a project. They work with the Principal Engineers and Lead Engineers in their areas of responsibility to determine how to efficiently undertake the required assurance programme.

Our delivery teams are mandated to follow the process in our Acquisition Safety and Environmental Management System (ASEMS). ASEMS sets out our management policies and provides guidance on a risk-based approach to safety management, through construction of safety cases that justify why we believe the products, services and systems we supply, and support, are safe. Our focus for development includes improving our interfaces for communicating safety risk to our clients and making it easier to apply the systems proportionately for projects of lower risk or complexity. An Information Systems workstream has also been established to improve management and retrieval of safety-related records, aligned with wider DE&S records management policy.

Training provision has been affected by the cessation of face-to-face workshops due to COVID-19, however we have worked with our suppliers to redevelop these courses to enable virtual delivery. While most of our acquisition safety and environmental training portfolio is now available again, work remains in hand to reinstate our system safety executive training module. This will address any SSR competence gaps and system safety practitioner examinations required for some of our safety specialists. Improvements have also been made elsewhere in the portfolio, with new online workshops rolled out to address shortfalls identified through assurance activity. These include topics such as environmental awareness, asbestos management, hazardous materials dossiers, and provision of movement and transport safety data.

In 2020-21 we published our first Environmental Strategy, which is the foundation to our environmental business plans being developed to meet green objectives and which supports MOD commitments on Net Zero. The Strategy aims to ensure that environmental and sustainability factors are considered as part of the defence equipment programme, our estate and business activities. The Strategy also underpins measures taken to strengthen the way that environmental and sustainability policy is promoted and implemented. These include development of the Safety and Environmental culture programme, and work to baseline carbon emissions to help us to build a more accurate picture of emissions across the organisation. Refinement of the Project Orientated Environmental Management System will also enable delivery teams to identify and manage environmental risks more effectively.



Aerial view of RFA Tideforce in the Atlantic Ocean

We are leading the development of a MOD Defence Standard 00-051, Environmental Management Requirements for Defence Systems, which is being refreshed to strengthen assurance that environmental issues are considered in contracting for defence capabilities. We have also continued to engage with industry partners on carbon Net Zero and wider sustainability risks affecting the defence supply chain, through the Defence Suppliers Forum and at working level through the MOD-Industry Sustainable Procurement Working Group. All of this work directly supports the MODs Climate Change and Sustainability Strategic Approach*.

An important area of work has been to ensure we have robust arrangements in place for the management of hazardous materials. This includes both longstanding concerns such as asbestos, and other harmful materials which are crucial to the defence acquisition programme and have become subject to changing legislative requirements. Steps have also been taken to facilitate a more agile and innovative approach to technology development. This will help us adopt low-carbon approaches from industry more rapidly.

*<https://www.gov.uk/government/publications/ministry-of-defence-climate-change-and-sustainability-strategic-approach>

OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENT

DE&S' Chief Environmental and Safety Officer, supported by OHSE specialists across the business, has continued to provide independent advice on OHSE aspects to help the business meet its compliance responsibilities. This year has seen a significant shift in working practices due to COVID-19 and OHSE personnel have been at the forefront of day-to-day and recovery activities, to help the business in continuing to meet its operational requirements.

Our second annual World Environment Day event in June 2020 and our sixth Safety Day held in September 2020 (both held virtually due to COVID-19) helped reinforce our OHSE vision and commitment. DE&S people were actively encouraged to engage and to recognise their responsibilities and the part they play in helping the organisation improve its performance. We have also further embedded our Mental Health First Aid approach and delivered a highly successful winter wellbeing campaign in support of all DE&S personnel.

The Incident Notification Cell continues to provide an accident and incident reporting system that satisfies both statutory and MOD policy requirements. This has been supplemented by the introduction of 'Near Miss Lite' which provides a more direct way of encouraging the reporting of near misses. All incident reports are monitored for trends, with statistics reported monthly to the DE&S Executive Committee to inform them of organisational performance and any emerging issues requiring attention. The reports also highlight areas needing targeted assurance activity, which is undertaken to determine the suitability of arrangements and highlight areas for improvement.

The OHSE Management System has undergone a significant update to make it more relevant to our people and to provide them with better guidance on how to comply. Both the OHSE Safety Culture and KPI 6 assessments have demonstrated in-year improvements and we are committed to building on this in future years.



Member of staff at Defence Munitions Crombie



A member of the Royal Marines logistics and support unit, the Commando Logistic Regiment, during Exercise Green Dragon

SECURITY

DE&S' focus remains the delivery of uncompromised equipment and support to the armed forces. We do this in the face of many threats including espionage, interference, coercion, sabotage, disinformation, cyber operations and intellectual property theft. The sophisticated and growing threat from hostile actors can involve the use of a range of overt or obscured methods to acquire or undermine defence technologies, the broader industrial base and their supply chains. Our attention therefore has been on building a robust security culture in our own people, the supply chain and our clients, alongside the processes to support an improved understanding of the threats we face, the mitigations we already have in place and the improvements required.

At our corporate and domain levels we have improved responsibility, accountability and transparency with regard to security risk. This is supported by the continued development and professionalisation of the security specialism, which places security professionals across the business to deliver appropriate assurance to our risk owners. We also continue to actively support the development of the Government Security Profession, launched in early 2020, by sharing our knowledge and expertise.

We have delivered improved through-life project and programme security and resilience processes as part of a significant programme of work established by the Principal Security Advisor (PSyA), with support from the Chief Digital Information Officer and the Director of Engineering & Safety. This makes it easier for projects to ensure all risks are managed against their clients' security and resilience risk appetite, which is the amount and type of risk we're willing to take in order to sustain outputs. This also allows us to deliver appropriate independent assurance of the risks carried across our acquisition and support projects. The PSyA will continue to engage with stakeholders across DE&S and the wider MOD and Government to ensure all new processes and practices are aligned.

A comprehensive review of the Cyber Strategic Risk was undertaken to refine the scope, ownership and response plans. Three elements have been defined which cover corporate IT, equipment, and logistics systems and provide greater focus on delivering outcomes. The implementation of the Security Case, which sets out the through-life security risks and mitigations, enabling the capability owner to understand the residual risk, brings additional rigour across our equipment projects and supports FLCs in cyber decision-making. A 'Cyber Training Pathway' has been defined to help address resource shortages and increase organisational capability.

Following a successful maintenance audit against our framework of control standards across DE&S, we retained our certification of the ISO 27001 information security standard. These improvements to our organisational governance further enhance management of risk and protection of information assets. We strengthened our plans to protect our most critical, sensitive and vulnerable assets from sabotage. Security improvements also continued to be delivered against the challenge of aged infrastructure and constraints in resourcing.

Despite COVID-19 travel constraints significantly disrupting some elements of the assurance programme, assurance was maintained in a more limited form, except for highest priority areas where visits continued. COVID-19 also prompted an increased focus on BC planning across DE&S through the review, updating and testing of BC planning arrangements. This resulted in the set-up of an enduring Crisis Operations Management Team which supported the resilient operation of DE&S throughout the year.

In recognition of the importance of the security behaviours of all people involved in delivering equipment and support at every level, we have worked with colleagues across defence and the Cabinet Office to design a new Industry Personnel Security Assurance capability. This checks companies who are sponsoring national security vetting clearances for their staff, to ensure they have effective processes in place and to the right standards and will be delivered for defence by DE&S PSyA in 2021. This will significantly enhance the maturity of personnel security delivery in industry, helping to protect against insider threats beyond the security vetting regime.

The annual mandated security training and corporate induction programme for all new staff into DE&S continues to ensure a common baseline of understanding, whilst awareness campaigns are delivered in alignment with national campaigns. Our weekly security blog, which represents a new approach to our security messaging, has garnered considerable interest from non-security professionals and has proved effective in establishing security and resilience thinking at the forefront of DE&S' delivery of uncompromised equipment and support to the armed forces.



COVID 19 guidance in place on DE&S site



LOOKING FORWARD

Looking to 2021-22, we will continue to monitor the challenge and impacts of COVID-19 on DE&S and wider defence, whilst delivering against our Command Acquisition and Support Plans. We will consistently drive improvement in our behaviours and culture to achieve the goals of the Equality, Diversity, Inclusion and Wellbeing Strategy. This supports our Objectives, Goals, Strategies and Measures across our organisation to 2025. A range of tactical interventions will also be implemented to improve attraction, recruitment and retention of minority groups, so we can progressively improve the diversity of our workforce.

This year has been unprecedented in its challenges and, within the ever-changing landscape, it is more important than ever for us to have a clear set of objectives and priorities for the year ahead. We will align our Key Performance Indicators and Objectives, Goals, Strategies and Measures more closely, making our corporate performance reporting simpler and easier to understand. We will also align the delivery areas across our organisation to better reflect our strategic relationships with the Front-Line Commands. Continued improvement of our delivery to cost, time and performance is a main priority and we will be looking particularly hard at the causes of schedule variances alongside our key suppliers, with a view to systemic improvement.

COVID-19 has impacted our ways of working and we will continue to adjust our response to how we work. The Executive Committee and I are committed to our Smarter Working model, which enables staff to blend working from their usual duty station and working remotely from home and/or other locations. We have created a number of collaboration zones on some of our sites to build an environment more conducive to 'smart working' and will continue to experiment and adjust to meet the needs of our people. The wellbeing of our staff is paramount, and we will continue to ensure that all of our sites remain COVID-19 safe and that we react quickly to any future Government-wide changes.

Support is at the heart of everything we do, and I will continue to build our capability to understand our supply chain better to enable more proactive management. The creation of the Logistics and Support Operating Centre will improve our ability to deliver pan-DE&S efficiency in logistics and support and will closely align us with the Chief of Defence and Logistics Support. This, coupled

with the improvements in our technology, will ensure that our supply chain remains resilient and that we are at the forefront of any emerging issues.

Following this year's conclusion of the DE&S@21 Improvement Plan, our DE&S Strategy 2025 sets out the strategic outlook and key priorities and is very much our focus for 2021-22 and beyond. The Strategy also directly supports our response to the Integrated Review, the Defence Command Paper and the Defence and Security Industrial Strategy. These important changes reflect the commitment to modernise defence, invest in shipbuilding and accelerate research and development. I am certain that we will see changes to our programme of work that will require us to reallocate resource, to accommodate the evolving defence landscape. Our flexible deployment and functional development models will enable us to do this efficiently and are critical to rebalancing the workforce. I am confident in our ability and as the pandemic has demonstrated, these tools work and our people can adapt effectively to change.

As part of the Integrated Review, the Prime Minister announced plans to set up UK Space Command, enabling the UK to develop suitable capabilities to counter threats within this rapidly evolving operational domain. Space Command will lead on UK space operations, workforce generation and space capability development and delivery. It will be staffed from all three services (RAF, RN and Army), the Civil Service and the commercial sector. In order for us to play our part as a key delivery agent to Space Command, we have established a dedicated Space Delivery Team. They will provide a single interface for the delivery of new capabilities and will continue to evolve throughout 2021-22 and beyond.

We will continue to deliver a complex and varied programme of work to our military clients, procuring new capabilities and supporting those in-service, to ensure the armed forces have what they need, when they need it and at value for money to the taxpayer. Our understanding of their needs will deepen, whilst continuing to work with industry and wider MOD to deliver innovative solutions that enable us to react to the evolving threats to our nation.



Sir Simon Bollom - Accounting Officer

11 January 2022



SECTION

ACCOUNTABILITY REPORT



Merlin Mk2 Helicopter aboard HMS Northumberland



CORPORATE GOVERNANCE REPORT

Lance Corporal Electronics Technician in the Royal Electrical and Mechanical Engineers helping in the construction of a mobile laboratory

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

- Directors' Report (in this instance the Directors refer to the DE&S Board)
- Statement of Accounting Officer's Responsibilities
- Governance Statement

DIRECTORS' REPORT

The Directors' Report includes several disclosures about those who have authority or responsibility for directing or controlling DE&S.

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 OTHER OUTSIDE INTERESTS

We have an automated process in place to identify and manage potential conflicts of interest. As a minimum, all individuals are required annually to complete the digital Declaration of Outside Interests Form, which must be completed even when a nil return is appropriate. An assessment of the risk from any conflict is then made and action taken as necessary to mitigate or avoid it. A copy of the completed form is automatically sent to Defence Business Services. For military personnel, records are saved centrally and made available to the DE&S Commanding Officer. DE&S Non-Executive Directors (NEDs) must also declare any outside business and financial interests and other private, charitable and commercial activities they have, that may conflict with their official duties.

No conflicts have arisen (or have been perceived to arise) between any senior officials or NEDs official duties and their outside interests and no matters of concern have arisen requiring any of these individuals to withdraw from any DE&S Board or Committee discussions. A list of DE&S Board members' outside interests can be found on page 63.

PERSONAL DATA RELATED INCIDENTS

There were no incidents concerning DE&S processed personal data that required reporting to the Information Commissioner's Office this year.

Continuous improvement has been pursued throughout the reporting period, despite the impact of COVID-19. This includes improvement to the Data Protection Impact Assessment process, the standing up of Local Data Protection Advisors as part of a dedicated Data Protection Advice and Support Team and ensuring these experts are on hand to build in data protection to our processes and thinking from the start. This has enabled greater awareness of data protection matters and supports greater consistency and enhanced compliance across DE&S business.



Training exercise at sea with Royal Marines

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 23 December 2020. 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. Their 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.



Soldiers boarding a Puma helicopter for fast roping serials

GOVERNANCE STATEMENT

I, Sir Simon Bollom, as 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. The assurances I have from my teams enable me to conclude that we have complied with the principles of the HMT Code of Good Practice on Corporate Governance in Central Government Departments. The system of internal control in DE&S is designed to conform with these principles and is driven by our Framework Document* which highlights the drive for compliance. 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. The DE&S Board, along with its associated sub-committees, exist to provide assurance that DE&S is fulfilling its responsibilities to stakeholders, and is being managed in accordance with the framework, procedures and plans that have been set.

PERFORMANCE AND RISK REVIEW

The P&RR is a forum where the MOD can gain assurance that DE&S strategy, performance, risk management and operations are on track to deliver the agreed objectives, whilst providing DE&S with support and challenge on key strategic issues. The P&RR aims to meet four times a year and members are listed below, with other attendees invited as required. The MOD Permanent Secretary also has a standing invitation to attend and Chair the meeting, if they desire.

MEMBERSHIP

- Vice Chief of the Defence Staff (Chair)
- MOD Chief Operating Officer (Chair)
- Deputy Chief of the Defence Staff (DCDS) Military Capability
- Director UK Government Investments (UKGI) (Defence) - Corporate Sponsor Representative
- DE&S Chair
- DE&S CEO
- DE&S Finance Director



*https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/954659/20200118_DES_Framework_Document_-_APPROVED_.pdf

DE&S BOARD

The DE&S Board provides the strategic leadership of DE&S in delivering its objectives and promotes DE&S' long-term sustainable success. The Board provides a forum for independent, non-executive support, advice and constructive challenge to the CEO and other DE&S executives.

To strike the right balance of skills, experience and objectivity, the Chair agrees the size and composition of the Board with the CEO. This includes a commitment to improve diversity and takes account of guidance and best practice on Boards in the public and private sectors, subject to approval from the Corporate Sponsor

Representative, the MOD Principal Accounting Officer and Minister for Defence Procurement.

At its meetings, the Board takes regular written reports from the 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.

DE&S BOARD MEMBERS AS AT 31 MARCH 2021

ON 1 APRIL 2021, three new NEDs joined the DE&S Board: **Angela Williams, Claire Hawkings and Tony Meggs.** **James Dorrian's** tenure ended in July 2021.



DE&S BOARD ACTIVITY

The DE&S Board met nine times during 2020-21.

This included an Away Day in June 2020 and a Strategy event in October 2020.

Name	Number of meetings attended ¹⁰
Mark Russell	9(9)
Air Marshal Richard Knighton CB	4(9)
Henry Lloyd	8(9)
Sir Simon Bollom	9(9)
David Johnson	9(9)
James Dorrian	9(9)
Dr Ros Rivaz	9(9)
Iain Lanaghan	9(9)
Andy Lord	9(9)

DE&S BOARD DECLARATION OF INTERESTS AS AT 31 MARCH 202

Name	Declaration
Mark Russell	UK Government Investments (Vice-Chair) DP World (Director) Angel Trains (Chair)
Sir Simon Bollom	Submarine Delivery Agency (NED) Royal Academy of Engineers (Trustee) Owlstone Medical (daughter's employer)
Air Marshal Richard Knighton CB	Mills and Reeve (wife is employed as a family lawyer) RAF Charitable Trust (Vice President) RAF Association (Ambassador)
David Johnson	Acorn Education Trust (NED) Army Audit and Risk Committee (Committee Member) Cundall Engineering (son's employer)
James Dorrian	Nil
Iain Lanaghan	Scottish Water (NED) Iain M Lanaghan (Consultancy) KPMG (son's employer) Oil and Gas Authority (NED) Scottish Water Horizons Holdings Limited - subsidiary of Scottish Water Scottish Water Business Stream Holdings Limited - subsidiary of Scottish Water
Dr Ros Rivaz	Computacenter (Senior Independent Director, Remuneration Committee Chair) Victrex plc (Senior Independent Director) Aperam SA (Lead Independent Director) Nuclear Decommissioning Authority (Chair)
Andy Lord	Transport for London Engineering (Managing Director) London Underground Limited (Managing Director) Crossrail Limited (Director) Transport Trading Limited (Director) Tube Lines Limited (Director) Rail for London (Infrastructure) Limited (Director) LUL Nominee BCV Limited (Director) LUL Nominee SSL Limited (Director)
Henry Lloyd	Mercers Livery Company (Board Member and Chair of Investment Committee)

¹⁰ The figures represent the number of meetings attended by each individual, with the total number of meetings available to attend in brackets.

Since 31 March 2021 the following has been declared:

Name	Declaration
Sir Simon Bollom	Altus Advisory (Director) Fellow RAEng Fellow Royal Aerospace Society Member Institute of Mechanical Engineers
Air Marshal Richard Knighton CB	Fellow Royal Academy of Engineers Fellow Institute of Mechanical Engineers
David Johnson	Member Chartered Institute of Public Finance and Accountancy
Iain Lanaghan	Oil and Gas Authority (Audit Committee Chair) Scottish Water (NED and Audit Committee Chair)
Andy Lord	Fellow Royal Aeronautical Society Member Institute of Directors Associate member Institute of Mechanical engineers
Dr Ros Rivaz	Logikal (son's employer)
Henry Lloyd	AWE plc (NED)
New NEDs:	
Angela Williams	Post Office (Group Chief People Officer - interim) Angela Williams Consulting, Advisory and Interim Services Limited (Consultancy) AND.digital (NED) Curo Compensation Limited (Angela Williams left her position as a NED at Curo Compensation Limited on 31 August 2021, due to the company being sold and all board members required to resign) Sovereign Housing Limited (NED) Northcoders plc (Chair)
Claire Hawkings	Ibstock plc (NED) Freelance Consultant (Business Strategy and Sustainability) (Consultancy) James Fisher and Sons plc (NED)
Tony Meggs	Marakon – Management Consulting Subsidiary of Charles Rivers Associates (Advisor) Sellafield Limited (Chair)

BOARD PERFORMANCE BY MARK RUSSELL, DE&S CHAIR

Despite the challenges of COVID-19 and most meetings being held remotely, the DE&S Board continued to function effectively during the year, underpinned by a strong governance framework. The autumn 2020 Board Effectiveness Review built on the analysis undertaken to refresh the DE&S Framework Document and the Board Charter. Its results confirm that overall Board effectiveness has improved, with key relationships better defined and a greater clarity on issues presented to the Board for endorsement, discussion or information. The decision to re-establish the Programme Review Committee (PRC)¹¹ is key to supporting Board members' engagement on the programme of work going forward and is a positive development. The PRC will focus

on areas that have proven to be reasons for project failures in the past and will monitor, track progress, and assist with current improvement initiatives designed to address these known areas of weakness. It will monitor and review all Government Major Projects Portfolio programmes against these areas and provide direction and guidance on how to conduct further assurance reviews where it's deemed appropriate to do so. Our NEDs are confident in their roles and continue to provide excellent support and challenge to the CEO. Three new NEDs joined the Board on 1 April 2021 which enhances the Board's existing skills and experience and underpins the drive for continuous improvement. In summary, I am content that the Board is operating efficiently and effectively, within a robust governance framework designed to support DE&S in achieving its objectives.

¹¹ The original forum was disestablished when the DE&S Domain Performance Committees stood up. While the latter provides a robust forum for executive oversight of the programme of work, re-establishing the Board level committee ensures more regularised Board level engagement, support and guidance.

KEY BUSINESS DISCUSSED AT THE DE&S BOARD DURING 2020-2

Subject	Discussion
Strategy	<ul style="list-style-type: none"> Strategy day in June 2020 to discuss strategic issues relating to our clients and wider stakeholders and our status in the wider-MOD and external environment A second strategy day was held in October 2020, to review the strategic context and detailed workstreams in development as part of the DE&S Strategy 2025
Risk	<ul style="list-style-type: none"> DE&S strategic risks scrutinised and discussed throughout the year Strategic risk workshop on 15 October 2020, involving Executive Committee members and Board NEDs, to review the risks' scope and nature, ensuring they continue to be robustly managed and mitigated
Corporate documents	<ul style="list-style-type: none"> Tracked progress of the Annual Report and Accounts 2019-20 (published December 2020), the Framework Document (published January 2021) and the DE&S Strategy 2025 (published May 2021)
Updates from Board sub committees and Executive Committee members	<ul style="list-style-type: none"> Reviewed progress on work undertaken by the Board sub-committees, including the Terms of Reference for the re-established Programme Review Committee Executive Committee members provided updates on key DE&S business, including supplier management, Corporate KPIs, OGSM, DE&S' projects and programmes and the impact of COVID-19
Wider MOD updates	<ul style="list-style-type: none"> Regularly received military operational updates Gained a broader understanding of cross Government and wider MOD issues, with regular updates on the IR and DSIS
EDI and Wellbeing	<ul style="list-style-type: none"> Reviewed the new DE&S EDI and Wellbeing Strategy in October 2020, formally endorsing the launch of the strategy and associated plan of actions


DE&S BOARD SUB COMMITTEES


The DE&S NEDs attended the following sub-committees¹².


Name	Audit & Risk Assurance Committee	Remuneration Committee	Nomination Committee	Programme Review Committee
Mark Russell	3(4)	5(7)	3(3)	1(2)
James Dorrian	N/A	7(7)	3(3)	N/A
Dr Ros Rivaz	N/A	7(7)	2(3)	N/A
Iain Lanaghan	4(4)	N/A	N/A	1(2)
Dr Ilona Blue	4(4)	N/A	N/A	N/A
Henry Lloyd	3(4)	7(7)	3(3)	1(2)
Andy Lord	N/A	N/A	N/A	2(2)
Air Marshal Richard Knighton CB	N/A	N/A	2(3)	0(2)


Mark Russell is not a member of the Audit and Risk Assurance Committee, the Remuneration Committee and the Programme Review Committee. He joined these meetings as an attendee. Dr Ilona Blue is a Department of Transport employee, appointed as a NED to the Audit and Risk Assurance Committee.


¹² The numbers in brackets represents the number of meetings held within 2020-21.

 AUDIT AND RISK ASSURANCE COMMITTEE	
Purpose	To monitor DE&S' corporate governance and the financial statements. Review the comprehensiveness, reliability and integrity of our risk and assurance framework.
Frequency	At least four times per year.
Membership	A NED Chair, at least one other NED, and the MOD Corporate Sponsor Representative. The CEO, Finance Director, Director Strategy and Corporate Operations, Head of Financial Accounting and representatives from the National Audit Office (NAO) and Defence Internal Audit (DIA) also have the right to attend, with subject matter experts called on when appropriate.
Summary of discussions	Primary focus on DE&S' Annual Report and Accounts, monitoring progress of implementing recommendations raised in the NAO management letters and deep dives of strategic risks. The Committee also reviewed the DIA outputs and findings of its core DE&S and MOD functional cross-cutting audits, whilst monitoring progress against Agreed Management Actions (AMAs) and the Annual Assurance Report (AAR). An annual effectiveness review, held in autumn 2020, concluded that the Committee was performing effectively, with a few continuous improvement recommendations being taken forward as required. Other topics discussed included whistleblowing and implementation of the internal controls assurance framework. Met four times during 2020-21.

 FRAUD BOARD	
Purpose	A sub-committee of the Audit and Risk Assurance Committee established to protect DE&S' business reputation, assets and finances from fraud, corruption, theft and misappropriation.
Frequency	At least four times per year.
Membership	Finance Director (Chair), Director Strategy and Corporate Operations, Director Commercial Capability, Director Engineering and Safety, Director Support, MOD Director Assurance and MOD Head of Fraud Defence. Also normally in attendance are DE&S Head of Fraud Prevention and Corporate Assurance, a fraud focal point, Head of HR Operations, the DIA and MOD Police Crime Command.
Summary of discussions	Primary focus 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. International Fraud Awareness Week (November 2020) communications on our collective responsibility to prevent and detect fraud and how the organisation is tackling fraud. Met four times during 2020-21.

 REMUNERATION COMMITTEE	
Purpose	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. 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.
Frequency	
Membership	At least three NED members, one of whom is Chair. One will also be a MOD NED on the DE&S Board. The Chair of the DE&S Board has a standing invitation to attend. Additional personnel may attend as required, as long as there are no conflicts of interest.
Summary of discussions	Discussion included people strategy issues, including pay and performance policy and the reward framework review, senior executive performance assessment and outcomes. The Committee Terms of Reference were reviewed and updated. Met seven times during 2020-21 and also held one joint Executive and Remuneration Committee reward workshop.

 NOMINATION COMMITTEE	
Purpose	The Nomination Committee meets as necessary to advise the DE&S Board and the CEO on appointments to the DE&S Board and on senior leadership roles in the Executive. Appointment of the DE&S Chair is not discussed here, which is the responsibility of the Minister for Defence Procurement.
Frequency	As required, with at least one meeting per year.
Membership	A minimum of three NEDs, including the DE&S Chair who also chairs this meeting. Other individuals may attend as required.
Summary of discussions	Issues covered include senior level succession planning, NED and Executive recruitment, diversity in senior leadership recruitment and longer-term workforce planning. The Committee Terms of Reference were reviewed and updated. Met three times during 2020-21.

 PROGRAMME REVIEW COMMITTEE	
Purpose	Re-established in January 2021, it reviews the status, progress and management of critical programmes relating to effective delivery of the Equipment Programme. Provides early strategic advice to new programmes and advice on programme delivery improvement activities. Reviews the processes to undertake and embed learning from experience.
Frequency	
Membership	At least three NEDs, one of whom will Chair, the CEO and Finance Director. The DE&S Chair and MOD DCDS Military Capability also have a standing invitation to attend. Standing attendees include Deputy Chief Executive, Director Programmes and Change and Director Commercial Operations. DGs and programme leads attend as required.
Summary of discussions	Discussions focussed primarily on the first operational deployment of the Carrier Strike Group 21 and its readiness for deployment, and challenges relating to ships readiness for deployment to sea. The Committee also discussed the Mechanised Infantry Vehicle, supplier performance and wider implications in managing DE&S' complex programmes of work and associated risks. Met twice during 2020-21.

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 Committee’s structure is designed to support the balanced matrix and an integrated approach to business planning. Its primary focus 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 necessary action 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.

A number of changes since the last report include:

- June 2020 – appointment of Krishna Dhanak as Director Strategy and Corporate Operations, following Barry Burton’s retirement at the end of the last reporting year
- June 2020 – appointment of Morag Stuart as DG Commercial (interim), replacing Nick Elliott
- June 2020 - Adrian Baguley, DG (SE), took on the Deputy Chief Executive role following the departure of Nick Elliott
- June 2020 – Chief of Materiel 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
- September 2020 – appointment of Vice Admiral (VAdm) Rick Thompson as DG Air, replacing Air Marshal Sir Julian Young
- 15 January 2021 – DG Resources post re-graded to better align DE&S’ finance structure with other ALBs, resulting in a post title change to Finance Director.

DE&S EXECUTIVE COMMITTEE AS AT 31 MARCH 2021



During 2020-21 the Executive Committee discussed / provided direction on the following key topics:

Subject	Discussion
Strategy	<ul style="list-style-type: none"> Performance against the DE&S@21 Improvement Plan DE&S Strategy 2025
Safety & Security	<ul style="list-style-type: none"> Review of the safety dashboards on OHSE and equipment & acquisition safety Review of software management capability to ensure DE&S has sufficiently competent personnel in this area of expertise Progress against the Annual Safety Assurance Report Infrastructure compliance and protective security
People	<ul style="list-style-type: none"> Reviewed DE&S people 2025 strategic risk Smarter working and revised approach to measuring productivity People Survey 2020 and associated action plan Reward review findings prior to engaging with the Remuneration Committee and DE&S Board Held informal session to discuss Diversity and Inclusion (D&I), including the implications for DE&S of Black Lives Matter COVID-19 impact, including protection of clinically vulnerable staff and those caring for elderly / unwell family members, and personnel with childcare responsibilities
Performance	<ul style="list-style-type: none"> Progress against KPIs, CASPs and financial forecasts Annual strategic risks stocktake and a rolling programme to assess selected strategic risk mitigation activities at each meeting Continuous improvement and monitoring of risk management practices Review of the AAR and outstanding AMAs Evolution of the CFO monthly performance report to ensure performance reporting needs are met
Equipment support	<ul style="list-style-type: none"> Focused effort on professionalising the Support workforce, continuing into 2021-22

EXECUTIVE COMMITTEE SUB COMMITTEES

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





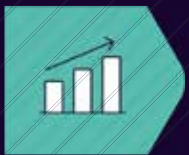
CHANGE COMMITTEE

The CEO chaired Change Committee drives the DE&S change portfolio (inclusive of the DE&S@21 Improvement Plan) and agrees its content and relative priority of change initiatives, ensuring it delivers the agreed outcomes and benefits.



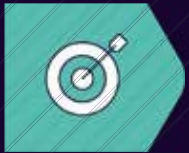
PEOPLE COMMITTEE

The CEO chaired People Committee considers and makes recommendations on the development and sustainment of a highly professional and motivated workforce. This includes the approach to performance management and reward, D&I, leadership development, and learning.



DOMAIN PERFORMANCE COMMITTEE

The CEO chaired Domain Performance Committee 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 KPI and CASP metrics and any risks and contingency plans.



FUNCTION PERFORMANCE COMMITTEE

The CEO chaired Function Performance Committee reviews the performance of each function management team in delivering the right capability and capacity to the balanced matrix and assuring function performance and process adherence in support of delivery.



ENDORSEMENT COMMITTEE

The CEO chaired Endorsement Committee provides strategic direction and delivery endorsement for the development of DE&S' high risk/value/political interest investment proposals, before they are considered by the Investment Approvals Committee or HO and Command delegated Approving Authorities.



SAFETY HEALTH & ENVIRONMENTAL COMMITTEE

Safety throughout the organisation, including environmental aspects, is governed by our Safety Health & Environmental Committee. It is chaired by the CEO and Director Engineering and Safety alternately and has oversight of organisational key safety risks and directs work to develop and deliver improvements across the business.



SECURITY COMMITTEE

The quarterly Security Committee, chaired by Director of Strategy and Corporate Operations, oversees security and resilience in DE&S, including policing and guarding, physical, personnel, information, equipment and cyber security. It also provides security assurance of DE&S sites and wider defence industry.

A number of other meetings to support this formal governance structure also take place. In addition, the CEO holds regular one to one meetings with his Executive Committee members and regularly meets with the DE&S SLG who are the highest grades in our structure, inclusive of civil servants and military equivalents. All these engagements provide a robust forum for discussion and feedback.

DE&S RISK AND CONTROL FRAMEWORK

RISK MANAGEMENT

DE&S manages risk through proactive identification, assessment, mitigation, monitoring and control. Risk management takes place at all levels in the organisation. It enables us to make informed decisions and respond to uncertainty in an agile manner, thus enabling through-life management of our projects and programmes.

The DE&S Board and the Executive Committee focus on strategic and sub-strategic risk, determining the governance and controls in place to manage risk and address opportunities, while lower level project risk management is organised and undertaken by risk professionals in the project controls function and our project managers.

The DE&S Board pays particular attention to those risks which might have a negative impact on the achievement of our targets and which could expose the organisation to cost, reputation, output and capability, safety and environmental implications. Management of strategic risks is delegated to the Executive Committee, which regularly reviews, supports and challenges risk owners to manage and reduce the risks as far as is reasonably practicable. Scrutiny is applied to the effectiveness and measurable results of controls and mitigating actions, 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 Risk and Assurance Committee and ultimately, the Defence Board.

Following the successful Active Risk Manager™ (DE&S' mandated risk management tool) software upgrade reported last year, we are now focussed on improving the quality of data held and developing specific data quality metrics which will be introduced across the organisation during 2021-22. The project controls function has continued to mature risk management across the delivery teams, with process improvements, training and development taking place across DE&S to embed continuous improvement. This has been supported and enabled by risk managers undertaking the Association for Project Management Project Risk Management Single Subject Certificate Level 1 and Level 2. Our first cadre of high performing risk managers successfully completed the Institute of Risk Management's International Certificate in Enterprise Risk Management.

In 2020-21, we held our sixth annual strategic risk identification workshop. This was facilitated by the MOD Director of Assurance and attended by DE&S Executives and some of our NEDs. The session enabled the identification of one new risk (to be reported on from FY 2021-22) and confirmed the ongoing equal importance of the other strategic risks facing the organisation.



Members of aircrew inside an 820 Naval Air Squadron Merlin

PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2020-2

Strategic Risk	Potential impact	Progress
<p>Provision of safe to operate equipment</p>	<p>A serious accident or incident involving products, systems or services we provide to the Front-Line</p>	<ul style="list-style-type: none"> Active management of risk through a portfolio of work, grouped under key areas: competent personnel, safety management, safety culture, and self-assurance Recruitment processes refined and improved levels of suitably qualified and experienced personnel Suitably Qualified and Experienced Personnel (SQEP), including: <ul style="list-style-type: none"> Adapted safety training for COVID-19 secure delivery Hazardous materials management training developed to fill shortfalls identified by the assurance process Improved policy and systems for management of safety-related records and information, with a consistent DE&S-wide file plan for safety artefacts defined and being rolled out
<p>DE&S people 2025 – defining, meeting and sustaining DE&S evolving SQEP requirements</p>	<p>Failure to effectively and efficiently deliver equipment programme and support services to defence</p>	<ul style="list-style-type: none"> Embedded links between our business planning process and strategic workforce plan, enabling DE&S to react to a changing strategic environment and resource requirements Piloting the use of regional hubs to recruit where talent is prevalent in the market Development of learning plans that reflect SQEP needs, through assessment of DE&S staff competences against Success Profiles, which describe all roles within DE&S based on technical competences and core behaviours and skills Planning and design work for the implementation of MyHR in 2021-22. This HR system will support the delivery of an integrated approach to SQEP gap analysis, function learning plans and individual development Improved training opportunities in leadership and management across a range of levels Launch of DE&S EDI and Wellbeing Strategy to ensure we attract and retain the very best talent
<p>Continuity of supply</p>	<p>SC interruption, capability loss, increased costs, delay to equipment delivery and damage to the DE&S reputation</p>	<ul style="list-style-type: none"> Improved controls and mitigation actions, focussed on the fragility of strategic and critical suppliers¹³ Improved identification and management of risk through initiation of the MOD SC Resilience Programme, in collaboration with MOD Commercial <ul style="list-style-type: none"> Provides a foundation for procurement activity and the best mechanism to assure SC resilience is intelligently managed Engagement with over 600 critical suppliers to assess SC resilience against the End of Transition Period (EU Exit) and COVID-19 impact, resulting in an increased understanding of SC requirements

Table continued on next page.

¹³ Strategic suppliers, of which there are 19, are those companies where MOD (including DE&S) spend the most money. Critical suppliers are the only provider of goods or services that are important to the delivery of defence outputs, and could not easily be replaced by another supplier.

PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2020-21 CONT.

Strategic Risk	Potential impact	Progress
Cyber security	Loss of confidentiality, integrity and/or availability across our defence infrastructure, services and applications leads to reduced resilience, reduced safety, ineffective mission capability, loss of business services, financial impact and reputation	<ul style="list-style-type: none"> Security Case introduced and being used in support of information technology accreditation Cyber masterclasses delivered Risk deep dive review, including assessment against ISO27001¹⁴. Response plan developed to include further mitigation activities ISO27001 certification maintained, with first steps taken with MOD on the National Institute of Standards and Technology cyber assurance, enabling a better understanding of this risk Successful recruitment to fill critical security posts in data protection, IT security and Information Asset Owner Network Coherence maintained with wider Government departments and industry on the development of the Product Cyber Resilience Defence Standard 05-139, which will improve the cyber resilience of the products that defence procures, and associated trials
Clients	Clients will look elsewhere for provision of equipment, support and services, leading to reputational damage and potential disruption to the programme of work	<ul style="list-style-type: none"> Annual Board/Executive Committee level engagement with our FLCs to increase trust and understanding Formal CASP reviews at senior level Senior programme cost reviews conducted with each client separately, resulting in targeted actions DE&S organisational changes to better align with client structures Improved approach to the client annual survey (KPI 5) to improve management information, increased granularity of feedback and client-focused action plans Client risk being re-framed for 2021-22 to focus more broadly on reputational damage, encompassing DE&S' relationship with our clients

UPDATE ON PRINCIPAL STRATEGIC RISKS EXTANT IN 20 9

The previous table outlines the principal risks in the 2020-21 DE&S Strategic Register, which are the same as those reported against in 2019-20¹⁵.

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, which sets out how our staff should act and behave within the workplace. Ultimately, everyone shares accountability for managing their time, protecting public money and delivering their

objectives. To enable this we delegate effectively, we ensure that the appropriate people have authority to commit resources with accountability for outcomes and that leaders and managers drive progress. Objectives are agreed between individuals, their delivery managers and their function development officers, with progress and achievements reported through our annual performance management process. Equal weighting is 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 and where elements need strengthening, they are reviewed and the appropriate changes are implemented.

¹⁴ ISO27001 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 organisations information risk management processes.

¹⁵ In 2019-20, the DE&S People risk was named 'Workforce insufficiently skilled/lacks capacity and capability to deliver planned outputs' and the Clients risk was named 'Customers lack of trust in, and understanding of, DE&S'.

FINANCIAL

The DE&S Board 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.

The freedoms granted to us as an ALB include the ability to manage all aspects of the workforce as necessary to meet business needs and we regularly review the appropriateness of letters of delegation as part of routine business. The freedoms granted to us also mean that in 2020-21 we were exempt from certain Cabinet Office controls, which were advertising, marketing and communications, external recruitment, redundancy and compensation, learning and development, commercial control and dispute disclosure and consultancy. Information about Cabinet Office controls can be found [here*](#).

Our accounting is subject to detailed audit by DIA and the NAO to test our compliance with departmental and HMT policies. No material departures from Government accounting principles were identified during the year and we have a well-established set of internal controls underpinning the accounts which are reviewed regularly and updated as required.

ASSURED DELIVERY AND SUPPORT

DE&S is committed to providing effective equipment and services to our armed forces safely and to the agreed standards of performance, cost and time. A key enabler to achieving this and to ensuring we operate in a consistent and acceptable manner is our adoption of robust Quality Management (QM) principles and continuous improvement of our Business Management System and QM capability. Our Quality policy, consistent with MOD policy, sets out intentions and direction with regards to the management of quality. It is also aligned to the DE&S Strategy 2025 and provides a framework for our objectives, as well as guidance to assure the right controls are in place to manage quality.

Our approach to integrated and consistent processes remains a key improvement driver. This has led to DE&S

achieving certification to ISO 9001 in December 2021 by a UK Accreditation Service third party certification body. This was carried out on a sample audit programme over 21 days across multiple locations and we will be subject to further annual surveillance audits over a three-year period. ISO 9001 certification is an important milestone achievement that demonstrates the progress we are making on continuous improvement and business performance management. In the Executive Summary the auditor recorded "DE&S commenced the ISO 9001:2015 journey circa five years ago and has experienced vast change, improvement and importantly, progression."

Following failings on some recent programmes, the DE&S Executive Committee has endorsed the need for an increased focus on the importance of quality in the management of all in-scope defence contracts. The Defence Functional Authority for Technical, Quality and Standardisation has been tasked to address how MOD focusses supplier attention on to quality planning and assurance, to maximise the benefit of contracting with suppliers that have in place effective arrangements for the management of quality. Several DE&S led initiatives are underway to improve quality assurance of the supply chain, including:

- Working with commercial to introduce stage payments for the submission of quality plans and assurance reports
- Supplier senior executives responsible for reporting on red and amber quality reports raised by the Defence Quality Assurance Field Force (DQAFF) who conduct surveillance activities as laid out in MOD Policy
- A review of the lay-down of both QM and Quality Assurance SQEP resource across DE&S to provide a more consistent approach across all programmes
- A review of internal policies for the use and deployment of DQAFF services
- A review of DE&S Engineering processes and information products for managing acceptance, requirements, and their interfaces with Engineering QA and DQAFF

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

COMMERCIAL CAPABILITY

Investment in the recruitment, retention, development and support of our commercial people has continued, to ensure we deliver the best for our clients. Alongside the deployment of our skilled people to support the COVID-19 effort across wider Government, we developed new, innovative and accessible routes to training and guidance to support the continuous development of our people. One of these initiatives is the development of a new commercial training library that will provide a comprehensive single-point ease-of-access portal for all commercial policy, training and guidance, with a particular focus on virtual training to support smarter, future working. Developing our people also enables us to progress against the pan-MOD professional development target for the commercial function.

Throughout 2020-21, over 2,100 of our staff gained a foundation level accreditation through the Contract Management Capability Programme. This accreditation is designed to improve contract outcomes and value for money through more informed and timelier contract management and decision making. We have contributed more than 40% of the accredited individuals in the MOD, and over 20% from across OGD's. This has contributed to MOD achieving the highest number of accredited staff of any Government Department.

COMMERCIAL OPERATIONS

In 2020-21 DE&S raised 679 new contracts, with a combined total value of around £6 billion and managed approximately 3000 contracts worth around £131 billion. We continue to fully comply with the Single Source Contract Regulations and drive for greater innovation and more agile contracting, while a number of projects continue to support export opportunities. These include the sale of Typhoon and associated services to Qatar, and the Combat Air Strategy which is helping to build international partnerships that will support major programmes such as this.

INFORMATION MANAGEMENT

The DE&S Digital team has established Records & Knowledge Management and Information Management Centres of Expertise, primarily focused on addressing the legacy records and information challenge and audit

requirements across the business. They will provide improved Knowledge and Information Management (KIM) services, better enabling records and information management across the business.

The increased focus on improving this area has resulted in the raising of a KIM strategic risk which will be monitored and reported against from 2021-22. The resulting action plan is underpinned by Physical and Digital Records Management Improvement (DRMI) programmes. The Physical Records Management System programme is focused on reducing DE&S' physical / paper records holding by 80% (over the next 3+ years). The DRMI will see a rebuild of all SharePoint sites (which DE&S use to store records) to a common standard, the development of critical information lists, improved organisational history and revised records management policy. A KIM action plan will also deliver a knowledge management strategy and help identify an enterprise search capability, which will allow personnel to find information more easily.

QUALITY ASSURANCE OF ANALYTICAL MODELS

DE&S continues to implement Macpherson report¹⁶ recommendations and drive the actions needed to further strengthen our approach to quality assurance. The project controls function conducted a quality assurance review of the Business-Critical Models (BCM) listed for 2020-21. Of the 43 BCMs declared, all were found to have conducted appropriate quality assurance, or have appropriate quality assurance planned. The review did, however, identify seven instances of minor deviations from the prescribed processes, mainly relating to Senior Responsible Owner completion of training and objectives and a weakness in configuration control of documentation. These minor deviations are being addressed. The overall conclusion confirmed substantial quality assurance exists in BCMS, satisfying HMT requirements and the Macpherson report recommendations. This maintains the level of assurance given by DE&S project controls for the 2019-20 annual review.

ANNUAL ASSESSMENT OF GOVERNANCE

Our governance, risk management, internal control and assurance arrangements have been comprehensively

¹⁶ Report by Sir Nicholas Macpherson into the quality assurance of analytical models that inform government policy, published in March 2013: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/206946/review_of_qa_of_govt_analytical_models_final_report_040313.pdf

reviewed in conjunction with the DE&S Audit, Risk & Assurance Committee. We have also continued to develop our Assurance and Control Framework, which provides an increasingly robust structure for reviewing mitigation activities and delivering the levels of assurance required to provide confidence and oversight.

Risks assessed as having strategic importance are regularly reviewed by the Executive Committee and monitored by the DE&S Board. Our strategic risk stocktake, conducted in October 2020, endorsed the existing set of strategic risks, with some refinements to ensure focus and to drive robust mitigation activity. As a result of this review, a new strategic risk on KIM has been agreed and added to the strategic risk register.

Overall, the opinion provided by the Head of Internal Audit is one of substantial assurance. The key points arising from the 2020-21 internal audit assignments were as follows:

- DIA's review of some of DE&S' core business processes and strategic risks areas identified some control issues, however overall indicated a continued improvement in governance and control environments.
- DE&S' controls for evaluating organisational performance against OGSM found a clearly defined, robust and well embedded framework in place. Significant progress was also identified in the definition of security roles and responsibilities, security risk management processes and established governance structures, as well as alignment to departmental security risk management frameworks.
- DE&S' Acquisition Safety Culture was found to have a significant body of work to implement and drive an effective acquisition safety culture in DE&S, although opportunities were identified to better cohere and strategically direct activity to improve safety culture going forward.
- Some issues exist in DE&S' internal management of Government Furnished Equipment relating to financial controls for ensuring effective management and reporting of DE&S owned assets by contractors, with a number of recommendations made for improvement.

While all of these findings reflect continuing improvement, not least in the management of AMAs, we acknowledge the need for further development. We will continue to develop our Assurance Plan to better reflect the work on improving our Assurance Framework and other initiatives. Our primary focus going forward will be to provide greater transparency of the relationship between strategic risk, controls, assurance activity, external audit and DE&S Strategy 2025 objectives.



HMS Forth sailing into Portsmouth

CHAIR'S ASSESSMENT

MARK RUSSELL



I am confident that DE&S is operating within a robust governance framework, designed to support the organisation in delivering its objectives. Over the course of the year, work has continued on the development of DE&S' governance and assurance processes, as reflected in the CEO's assessment. The Board has discussed and reviewed strategic risks and I support the work to link risk management to the broader assurance framework as part of the drive for continuous improvement.

I am satisfied with the 'substantial assurance' opinion, which reflects the enduring effort to improve internal controls. It is noteworthy that across all levels, focus has been maintained on ensuring the effective management of AMAs, underpinned by greater ownership from senior leaders and robust monitoring by the Corporate Governance Team.

DIA continues to provide welcome support and challenge and relationships are working well. The three-year audit programme is agreed in good order and monitored in a collegiate manner, under the auspices of the DE&S Audit and Risk Assurance Committee.

I am confident that our corporate governance structure is robust, effective and able to respond to the needs of the organisation. Overall, I am satisfied that DE&S can deliver its objectives while complying with agreed standards, within its delegated budgetary responsibility and accountability.



RAF P 8A Poseidon



— REMUNERATION AND STAFF REPORT

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 2020-21, seven¹⁷ members of the DE&S Executive Committee were members of the SCS, one was on secondment from Network Rail, and three¹⁸ were senior officers of the armed forces.

As set out in the DE&S Framework Document we have been granted the freedom to manage our workforce as necessary to meet our 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, we 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, as reported in the MOD Annual Report and Accounts. Appointments at SCS Pay Band level 3 are made in conjunction with the MOD Permanent Secretary.

We have continued to use our pay freedoms to manage our 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, 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, which includes all elements of salary, fees, allowances and performance award including the maximum payable, rather than actual sum received.

As at 31 March 2021 there were 18 staff in this category. Of these, based on individual and DE&S performance, only 10 actually earned more than £150,000. The Remuneration Committee Chair has confirmed they are content that DE&S pay freedoms are applied effectively and appropriately to meet business needs.



Petty Officer (Marine Engineering) on board HMS Trent

¹⁷ Sir Simon Bollom, David Johnson, Chris Bushell, Adrian Baguley, Morag Stuart (succeeded Nick Elliott, Seconded), Daniel Griffiths, Krishna Dhanak.

¹⁸ VAdm Sir Chris Gardner, AM Sir Julian Young, succeeded by VAdm Rick Thompson.

PERFORMANCE AND REWARD

The 2020-21 Statement of Comprehensive Net Expenditure (SoCNE) reflects payments made or due to Directors during the FY. All salary and reward for Executive Committee members was considered by the DE&S Remuneration Committee.

In 2017, we launched a new market informed, performance driven, reward framework and a new grading structure. The new framework enabled us to implement a single, consistent approach to performance and reward across all levels of the organisation. From 1 April 2017 all members of our SCS were aligned to the newly formed SLG, including all members of the Executive Committee and all members of the SLG retained their shadow SCS pay band.

Following suspension for staff below SLG in 2019-20 due to COVID-19, this year we reverted to our standard practice of completing an end-of-year performance management process for all staff, including a narrative statement on achievement of objectives, competence against a defined role, and behaviours. A performance rating was also given based on clear guidance reflecting the need for empowered managers to consider potential bias due to protected characteristics or working pattern, the impact of COVID-19, especially for those with caring responsibilities, and individual performance and behaviours in the context of wider team outputs.

Given the Government-wide pay pause announced in November 2020 and confirmed in the Civil Service Pay Remit Guidance, the 2020 pay award was limited to meeting the statutory national living wage increase, implemented on 1 April 2021, and the increase of £250 for all those earning below £24,000 with tapered increases for those earning between £24,000 and £24,249 to avoid leapfrogging. For all staff, excluding those who held Executive positions in this year, a performance award was implemented based on individual and corporate performance outcomes. For industrial and shop-floor staff, their performance award was, for the second year following last year's pilot, based on the achievement of site KPIs. Following negotiation with Trade Unions (TU), the below SLG pay award was implemented in the July 2021 payroll, the SLG award in the October 2021 payroll and the award for those who held Executive positions in the December 2021 payroll.

All senior (2* and above) military officers' pay is dependent on their performance, time in rank and position on the pay scale. Further detail is available in the MOD Annual Report and Accounts.

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 by the DE&S Chair. The aim of the informal reviews are to consider the impact of the individual on the performance of the Board and its sub-committees, to recognise the contribution of the NED and identify ways their contribution could be improved, and to provide feedback.



Viking vehicles conducting snow and ice driver training

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

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.

Morag Stuart returned to DE&S from a loan period as acting MOD Transformation Director to assume the role of Interim DG Commercial, replacing Nick Elliott (previously seconded from Network Rail) on 1 June 2020. In accordance with DE&S policy, Morag Stuart receives an allowance for temporary assignment at a higher level.

Nick Elliott moved in June 2020 from the DG Commercial role on secondment to the Department for Business, Energy and Industrial Strategy as DG Vaccines Task Force. Nick Elliott's original secondment agreement concluded in December 2020 and he is no longer part of DE&S.

On 15 January 2021, the role of DG Resources was re-graded, with the approval of the Nomination Committee, from SCS payband 3 equivalent to SCS payband 2 equivalent, reflecting an adjusted Success Profile for the assignment. The role retains membership of the DE&S Board and Executive Committee. David Johnson was retained in the new Finance Director assignment.

Krishna Dhanak was appointed as Director Strategy and Corporate Operations on 1 June 2020, having moved on promotion from Army Headquarters, where she was Head of Cyber and Security.

Daniel Griffiths, Director HR, left DE&S on resignation in April 2021 and was replaced by an interim Director HR (Katie Sloggett), who assumed the role on 26 April 2021. Dr Jill Hatcher was appointed permanent HR Director on 9 August 2021.

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. Some of the disclosures are indicative and only cover the periods that individuals were members of the Board and Executive Committee.

*<http://www.civilservicecommission.org.uk>

DE&S EXECUTIVE COMMITTEE SENIOR EXECUTIVE SALARIES, TAXABLE BENEFITS IN KIND AND PENSION BENEFITS (SUBJECT TO AUDIT)

	2020-21					2019-20				
	Salary' £000	Annual ² Performance Award £000	Benefits in Kind to Nearest £100	Pension ⁴ 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	- ³	-	-	275-280	275-280	25-30	-	-	305-310
David Johnson	155-160	40-45	-	123	315-320	145-150	10-15	-	113	270-275
Nick Elliott (to 31 May 2020)⁵	45-50 [265-270]	10-15	-	-	55-60	265-270	25-30	-	-	290-295
Daniel Griffiths	165-170	-	-	64	225-230	160-165	15-20	-	62	240-245
Air Marshal Sir Julian Young (to - 1 September 2020)⁶	65-70 [165-170]	-	-	30	95-100	155-160	-	-	120	275-280
Adrian Baguley	155-160	30-35	-	79	265-270	150-155	15-20	-	151	320-325
Barry Burton⁷	-	-	-	-	-	135-140	10-15	-	21	170-175
Chris Bushell⁸	225-230	- ³	-	34	260-265	70-75 [220-225]	5-10	-	10	85-90
Vice Admiral Sir Christopher Gardner	145-150	-	-	133	280-285	140-145	-	-	206	345-350
Morag Stuart (from 1 June 2020)⁹	155-160 [180-185]	25-30	-	71	255-260	-	-	-	-	-
Krishna Dhanak (from 1 June 2020)¹⁰	75-80 [90-95]	10-15	-	127	215-220	-	-	-	-	-
Vice Admiral Richard Thompson (from 1 September 2020)¹¹	80-85 [135-140]	-	-	104	185-190	-	-	-	-	-

¹ Salary includes gross salary, overtime, reserved rights to London Weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation. Figures in brackets reflect the annual equivalent salary for members who have joined or left the Executive Committee during the year.

² Performance awards are based on performance levels attained and are made as part of the appraisals process. The performance awards reported in 2020-21 relate to performance in 2020-21 and the comparative figures reported for 2019-20 relate to that performance year. Military terms and conditions do not include provision for performance award. Performance awards for Nick Elliott, Morag Stuart and Krishna Dhanak are pro-rated to reflect time served on the Executive Committee during the year.

³ Sir Simon Bollom was approved for a 2020-21 performance award in the range of £75,000-80,000 and Chris Bushell was approved for a 2020-21 performance award in the range of £30,000-35,000. Both have waived all rights to a performance award for 2020-21.

⁴ 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.

⁵ Nick Elliott left the role of DG Commercial and Deputy Chief Executive on 31 May 2020. His salary and pension costs reflect the actual contribution made by DE&S to his Network Rail remuneration package. The figures in brackets reflect the annual equivalent salary.

⁶ Air Marshal Sir Julian Young left the role of DG Air on 1 September 2020. His salary and pension costs reflect the actual remuneration received during this appointment. The figures in brackets reflect the annual equivalent salary.

⁷ Barry Burton retired on 31 March 2020 and therefore did not receive any remuneration in 2020-21.

⁸ Pension costs for Chris Bushell reflect contributions made to his Partnership pension account.

⁹ Morag Stuart assumed the role of Interim DG Commercial on 1 June 2020. Her salary and pension costs reflect the actual remuneration received during this appointment. The figures in brackets reflect the annual equivalent salary.

¹⁰ Krishna Dhanak assumed the role of Director Strategy and Corporate Operations on 1 June 2020. Her salary and pension costs reflect the actual remuneration received during this appointment. The figures in brackets reflect the annual equivalent salary.

¹¹ Vice Admiral Richard Thompson assumed the role of DG Air on 1 September 2020. His salary and pension costs reflect the actual remuneration received during this appointment. The figures in brackets reflect the annual equivalent salary.

DE&S NON EXECUTIVE DIRECTOR SALARIES (SUBJECT TO AUDIT)

DE&S Non-Executive Directors ¹	2020-21 ² £000	2019-20 Restated £000
Air Marshal Richard Knighton CB³	-	-
James Dorrian	25-30	25-30
Dr Ros Rivaz	25-30	25-30
Iain Lanaghan	25-30	25-30
Dr Ilona Blue⁴	-	-
Andy Lord	25-30	25-30
Mark Russell	145-150	60-65 [145-150]
Henry Lloyd⁵	-	-
Stephen Lovegrove⁶	-	-
David Goldstone⁷	-	-
Gerard Connell⁸	-	25-30

1 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.

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

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

4 Dr Blue receives no remuneration for her role on the Audit and Risk Assurance Committee as she is a Department for Transport employee.

5 Henry Lloyd received no remuneration for DE&S Board membership as he is a UKGI employee.

6 Stephen Lovegrove received no remuneration for DE&S Board membership during his tenure, as he is a MOD employee. He also resigned from his position on the DE&S Board on 31 January 2020.

7 David Goldstone received no remuneration for DE&S Board membership during his tenure, as he is a MOD employee. He also resigned from his position on the DE&S Board on 31 March 2020.

8 Gerard Connell resigned from his position on the DE&S Board on 31 March 2020.

DE&S EXECUTIVE COMMITTEE SENIOR EXECUTIVE PENSION BENEFITS (SUBJECT TO AUDIT)

DE&S Executive Directors ¹	Total accrued pension at pension age [and related lump sum] as at 31 March 2021 [£000]	Real increase in pension [and related lump sum] in 2020-21 [£000]	Cash Equivalent Transfer Value (CETV) ^{2&3} as at 31 March 2021 or cessation of employment if earlier [£000]	CETV as at 31 March 2020 or last date if later [£000]	Real Increase in CETV ⁴ [£000]
David Johnson	65-70 [145-150]	5-7.5 [7.5-10]	1,316	1,174	93
Daniel Griffiths	5-10	2.5-5	168	99	52
Air Marshal Sir Julian Young	90-95 [275-280]	0-2.5 [2.5-5]	2,326	2,257	97
Adrian Baguley	65-70 [160-165]	2.5-5 [0-2.5]	1,392	1,287	55
VAdm Sir Christopher Gardner	65-70 [205-210]	5-7.5 [15-17.5]	1,959	1,813	115
Morag Stuart (from 1 June 2020)	10-15	2.5-5	160	109	32
Krishna Dhanak (from 1 June 2020)	30-35 [60-65]	5-7.5 [12.5-15]	476	372	87
VAdm Richard Thompson (from 1 September 2020)	50-55 [165-170]	2.5-5 [12.5-15]	1,450	1,329	98

¹ Sir Simon Bolloom is not a member of any DE&S pension scheme and no pension contributions have been made by DE&S. Chris Bushell is not a member of the Principal Civil Service Pension Scheme (PCSPS). DE&S contributed to his Partnership Pension Accounts as part of the overall remuneration package. Krishna Dhanak's pension contributions reflect her time as Director of Strategy and Corporate Operations from 1 June 2020. Morag Stuart's pension contributions reflect her time as DG Commercial from 1 June 2020. Daniel Griffiths pension contributions reflect his time as D Human Resources from 3 September 2018.

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

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



Training exercise at sea with Royal Marines



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 2020-21 was 2.83 times the median remuneration of the military workforce. The median remuneration of the military workforce has increased in 2020-21 due to the general pay uplift awarded in 2020-21.

The banded remuneration of the highest paid civilian director in DE&S in 2020-21 was 7.86 times the median remuneration of the civilian workforce, resulting in a decrease from 2019-20. This is driven by the highest paid civilian director waiving his right to a performance award, which has been partially offset by an increase to the median remuneration of the workforce due to the general pay uplift awarded in 2020-21.

In 2020-21, zero (2019-20, zero) employees received remuneration in excess of the highest-paid director.

Military remuneration ranged from £20,400 to £147,500 (2019-20 £24,508 - £157,500). Civilian remuneration ranged from £16,777 to £277,500 (2019-20 £15,796 - £307,500).

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.

	2020-21	2019-20
Mid-Point of the £5,000 band for the annual equivalent remuneration of the highest earning military board member	147,500	157,500
Median total remuneration of armed forces personnel	52,113	50,282
Military pay ratio	2.83	3.13
Mid-Point of the £5,000 band for the annual equivalent remuneration of the highest earning civilian board member	277,500	307,500
Median total remuneration of civilian staff	35,323	34,085
Civilian pay ratio	7.86	9.02

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	2020-21	2019-20
Band 1	86	93
Band 2	18	16
Band 3 and above	3	3
Total	107	112

The SCS head count has decreased for 2020-21 through a regular review of posts required at that level at the monthly CEO-chaired SLG Management Board.

The average numbers of full-time equivalent persons employed are as follows. A more detailed breakdown can be found in Note 3.2 on page 118.

	2020-21	2019-20
Permanent Staff	11,437	11,454
Contingent Labour¹⁹	699	643
Total	12,136	12,097

The 2019-20 figures in the above table include the 259 Defence Support Chain Operations and Movements (DSCOM) staff who transferred out of DE&S on 1 April 2020. When excluding these, average DE&S permanent staff numbers have increased by 242²⁰, which is consistent with an overall increase in staff costs. The average number of contingent labour staff also increased by 56 in accordance with the demand requirements of DE&S' programme of work. DE&S uses a mix of workforce options, including PSS for specific tasks where it would not be economical 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, agility and better value for money overall, rather than trying to build a permanent workforce with the spare capacity to cover every potential addition to the programme of work.



Member of DE&S staff

¹⁹ 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 95.
²⁰ 11,454 permanent staff per the average FTE table, less the 259 DSCOM staff transferred out on 1 April 2020 gives a revised 2019-20 figure of 11,195. This has increased in 2020-21 by 242 to 11,437.

STAFF COSTS (SUBJECT TO AUDIT) (SEE ALSO NOTE 3 TO THE FINANCIAL STATEMENTS)

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

	2020-21			2019-20		
	Permanently employed staff £000	Contingent labour £000	Total £000	Permanently employed staff £000	Contingent labour £000	Total £000
Staff costs comprise:						
Salaries and wages	474,984	99,650	574,634	467,954	76,394	544,348
Social security costs	48,575	-	48,575	47,625	-	47,625
Other pension costs	141,488	-	141,488	141,531	-	141,531
Total	665,047	99,650	764,697	657,110	76,394	733,504

2020-21 costs include DSCOM staff costs of £14.3 million. Permanent staff costs, including social security and pension costs, have increased in accordance with the increase in staff numbers during the year and as a result of the 2020 pay award. Contingent labour costs have also increased in line with the increased numbers of workforce substitutes.

For the year ended 31 March 2021, of the total pension contributions for DE&S in the table above, £100.7 million (2019-20, £97.2million) were payable in respect of the various schemes in which civilian staff were members.

For the year ended 31 March 2021, of the total pension contributions for DE&S in the table above, £40.8 million (2019-20, £44.3 million) were payable in respect of the AFPS in which military staff were members.

Where employees opened a Partnership pension account with an employer contribution, DE&S made contributions of £1.3 million (2019-20, £1.3 million) to the relevant pension providers. This is included within the £100.7 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 2020-21 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 2020-21 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 2020-21 period was aligned to those from 2019-20 and incorporate additional costs associated with the 2015 Remedy Programme, also known as the McCloud Judgement*.

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 2020-21, the employer's contribution rates remained unchanged from 2019-20 at 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 2020-21 the average number of days for sickness absence was 3.7 days per employee, compared with 6.1 days per employee in 2019-20. There was an overall fall of nearly 50% in absence days across all sickness types compared with 2019-20. This is likely attributable to a variety of factors, including much reduced human contact due to lockdowns. The largest cause of sickness absence as recorded by employees was anxiety, depression or stress. In 2020-21 this was 28% of all recorded sickness absence, the same as 2019-20. There were 5266 absence days recorded for confirmed or suspected COVID-19, 13% of all sickness absence. Whilst all non-COVID-19 absence types reduced, we did see increases in the proportion of absence relating to cancers, headaches and kidney conditions. DE&S' average sickness absence rate compares favourably with the MOD average of 5.9 days.

As part of our continuous improvement programme, a fully revised 'supporting health and attendance' policy and toolkit was launched in November 2020, accompanied by a new virtual learning module for managers. From August 2020, we began formally monitoring manager completion of return-to-work interviews with staff who had any periods of sickness absence. This is an important process both in relation to employee health but also, in times of remote working, for general wellbeing and engagement. Throughout the year we have regularly signposted staff to the Employee Assistance Programme, a confidential service to help staff deal with personal and professional problems that could be affecting their home or work life health and general wellbeing, as well as a range of other mental and physical health resources.

In common with wider defence, we are implementing smoke-free sites by the end of 2021, with the cessation of vaping on sites by December 2022. Staff communication started in October 2020 to explain the rationale, with links to resources to assist staff in stopping smoking. Messaging will continue throughout 2021 and we will learn from a number of pilot smoke-free sites being implemented from May 2021, before rollout across our estate.

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

OUR PEOPLE

Investing in Talent

In early 2020 we introduced Success Profiles (around 230 across Levels 1 - 5) to describe technical competence and behavioural requirements for all assignments. This year, we have conducted a process of self-assessment of competence against an individual's profile, validated by function development officers, to inform both personal development plans and, once collated, overarching function or sub-function learning plans.

Following a leadership review, we have now implemented a wide-ranging leadership capability uplift programme. Starting with the SLG, a successful pilot of "Everyday Excellence" leadership development was completed in December 2020 and is now being rolled out across all SLG, including new joiners and those newly promoted. Pilots of a new modular course for leadership development for Levels 4 - 5 commenced in March 2020. This approach replaces the courses previously available for the staff with the greatest potential for promotion. A series of workshops named "Managing and Delivering through People", which was aimed at Level 3 staff, was delivered virtually throughout 2020-21 and was well received with over 2,500 attendees.

We continue to recruit and support graduate and apprentice schemes in five functional areas which are Finance, Project Professional covering Programme Management and Project Controls, Engineering, Integrated Logistics and Corporate Services Group, with future programmes planned in information management/technology. Our central focus is on entry talent, using social media and outreach to schools and universities with a diverse population to ensure we are attracting high potential individuals into the organisation. We currently have almost 700 graduates and apprentices and they are highly sought after as a resource within the organisation. 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. We also support existing staff to undertake workplace apprenticeships managed through the MOD's Apprentice Management Organisation, with functions providing support and mentors as well as delivery managers, enabling up to 20% learning time.



Member of DE&S sta

ENGAGEMENT

In October 2020 we conducted our annual staff engagement, the People Survey, which is part of the Civil Service-wide staff engagement exercise. This enabled our civilian and military staff to highlight what they think we are doing well and where we need to improve. 85% of staff (9,691) completed the survey, compared with 83% in 2019.

This year saw increases across all nine drivers of engagement which are my work, organisational objectives and purpose, my manager, my team, learning and development, inclusion and fair treatment, resources and workload, pay and benefits and leadership and managing change. Six themes had their highest score since 2009 and our overall engagement score was 60%, an increase of 7% from the previous year's survey. This was the best result for many years, reflecting the efforts across the business to make DE&S a great place to work. As well as exceeding the KPI 71 target for employee engagement (55%), we also saw positive reductions in employees reporting incidences of bullying and harassment or discrimination.

The context of the survey was largely dominated by COVID-19, as many of our staff were working from home. It is believed the results reflected the considerable efforts we made to maintain communication, provide IT and office equipment to support homeworking (with priority for those needing reasonable adjustments), a widely welcomed approach to pay 2020, and the provision of wide-ranging online welfare resources. It also is likely to have been a positive response to the continued implementation of changes to our ways of working.

In January 2020, the Executive reviewed the detailed results and have communicated their priorities for 2021 to staff, based on four key topics of pay and benefits, learning, development and growth, EDI and wellbeing and smarter working.

One specific focus for the Executive Committee has been the development of an industrial people strategy. Launched in November 2020 the strategy reflected that, whilst transformation had enabled us to move to a simplified structure for managing civilian staff, some of our HR policies and supporting mechanisms did not suit the unique nature of our industrial component. This was especially the case for on-site recruitment, performance awards, supervisory allowances, support from HR advisors and personal development.

2020 PEOPLE SURVEY COMPLETION SCORE



EXECUTIVE PRIORITIES FOR 1 TO STAFF:

- PAY AND BENEFITS**
- LEARNING, DEVELOPMENT AND GROWTH**
- EDI AND WELLBEING**
- SMARTER WORKING**

DIVERSITY AND INCLUSION

At DE&S we believe that a diverse and talented workforce brings greater creativity, innovative thinking and productivity, enabling us to deliver against our targets in an efficient and cost-effective way. Harnessing the diverse talent that our workforce brings, regardless of their background or identity, supports DE&S in becoming the employer of choice. Recruiting on merit through fair and open competition, DE&S is a Disability Confident Employer, and we ensure that we consider reasonable adjustments under the Equality Act.

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. Throughout COVID-19, we ensured that the vast majority of staff were able to work remotely through the provision of reasonable adjustments, and workplace adaptations, in accordance with both our reasonable adjustment policy, our supporting health and attendance policy and the MOD Disability Policy. 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 organisation-wide activities and engagement. Highlights included:

- Launching our new EDI and Wellbeing Strategy 2020-2025 and supporting action plan for 2021-22, which supports our strategic objectives and underpins our legal responsibilities under the Public Sector Equality Duty Act 2010. The Strategy set out clear ambitions of who we want to be and what we must address to meet our objectives, which are to: attract, recruit and retain a talented and diverse workforce, to create an inclusive working environment, to tackle complex challenges using diverse perspectives and to build a culture where employee wellbeing is integrated into day-to-day practices. The formation of a refreshed D&I Committee, chaired by an Executive Committee member and reporting to the People Committee, will help ensure effective measurement of progress against this strategy.
- Introducing a series of People Matters sessions to consider the lived experiences of different employee groups covering race, disability, LGBT+ and women. In addition, key celebratory and awareness events in the diversity calendar were held, to act as a catalyst for open conversations. The unattributed evidence gathered from these sessions will continue to inform how we address inclusion at DE&S.
- Reviewed our Fairness and Equality Advisers, which has shaped proposals for a more robust and effective support mechanism for employees, alongside our Employee Assistance Programme. We have sponsored further internal research into workplace "banter" that will contribute to our approach to tackling inappropriate workplace behaviours.
- Developing a Diverse Assessors programme which is continuing to be piloted in two functions. The aim is to ensure that there is diversity of thought and reduced likelihood of bias in our recruitment and selection processes.
- A campaign to increase employee confidence in declaring protected characteristics via the HR management system. Being more transparent with workforce data has reduced the level of unknown records and increased declaration rates around disability, ethnicity and sexual orientation. These activities have contributed to DE&S making more effective use of workforce demographic data, to inform appropriate initiatives that tackle D&I.

Over this reporting year the level of engagement across the business has increased, however we acknowledge that there is more to do and we are committed to keep this momentum going. We believe that our action plan for the forthcoming year, which includes a commitment to publish our first report showing due regard for the Equality Duty, will continue to deliver against our objectives, whilst simultaneously improving our reported achievements towards our diversity targets.

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

STAFF BREAKDOWN

	31 March 2021	31 March 2020
Civilian total headcount	10,701	10,858
Gender		
Female	3652	3,708
Ethnicity		
Black, Asian and Minority Ethnic	734	685
Disability		
Declared a disability	1089	1,078
Sexual orientation		
Lesbian, gay, bisexual	277	283
Religion or belief		
Non Christian religion	429	409
Secular	3,980	3,835
Christian	4,071	4,092

Civilian total headcount in the previous table includes all industrial and non-industrial civilian personnel of DE&S and excludes all Royal Fleet Auxiliary, for whom declaration data is currently unavailable. Also, numbers shown for ethnicity, disability, sexual orientation and religious belief are based on declarations made, compared with total civilian workforce. There is no requirement to make a declaration and so they are likely to under-represent actual numbers of each characteristic. The statistics for sexual orientation represent those staff who declared their sexual orientation as either "gay", "bisexual" or "other", in the HR management system.

GENDER BREAKDOWN AT DE&S BOARD AND EXECUTIVE COMMITTEE LEVEL

	31 March 2021	31 March 2020
Total DE&S Board and Executive Committee	16	17
Female	3	1
Male	13	16

Three new NEDs were appointed on 1 April 2021, two of whom are female. These new NEDs are not reflected in the above table.

During the reporting year, we appointed two female Executive members, Krishna Dhanak (Director Strategy and Corporate Operations) and Morag Stuart (Interim DG Commercial), both replacing male predecessors. The interim Director HR, who assumed the Executive level appointment in April 2021, is also female.

The Nomination Committee have paid close interest in diversity at senior levels with a review at the October 2020 meeting. This was followed by specific briefing to the Executive Committee by our executive search partner, with whom we continue to work hard to attract female and ethnic minority new joiners to improve our representation at the most senior levels.

GENDER BREAKDOWN AT SCS LEVEL

	31 March 2021	31 March 2020
Total DE&S SLG (SCS)	107	112
Female	26	25
Male	81	87

TRADE UNION RELATIONSHIPS

In accordance with the 2015 Employee Relations Framework Agreement and under the freedom to agree their own approach to TU engagement detailed in respective Framework Documents, the HR team in DE&S leads on TU consultation for both DE&S and SDA (since its formation in 2018) and until the SDA establishes its own Employee Relations Framework Agreement. Consultation with the TUs²¹ 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 2020-21 are shared between DE&S and SDA and which is reflected in the annual facility time data return as a combined expenditure. This is shown below for the period 1 April 2020 to 31 March 2021:

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%	10
1-50%	15
51-99%	0
100%	0

PERCENTAGE OF PAY BILL SPENT ON FACILITY TIME

Total cost of facility time	£23,291.12
Total annual civilian pay bill	£664,742,962.15
Percentage of total civilian pay bill spent on facility time	0.01%

The total annual civilian pay bill as defined by the Cabinet Office is: 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.

PAID TRADE UNION ACTIVITIES

Time spent on paid trade union activities as a percentage of total paid facility time	0.00% ²²
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TU activities means time taken off under section 170 (1) (b) of the 1992 TULR(C)A. These might include attendance at branch, regional or national TU meetings or conferences, meeting with full time officers regarding issues related to the workplace, voting in TU elections. The above information is also published by the Cabinet Office online*.

²¹ 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).

²² DE&S do not approve payment for TU officials to undertake TU activities. More information can be found here: <https://www.gov.uk/government/news/trade-union-facility-time-publication-service-2017-2018-data-published>

*<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)

The figures in the next table summarise redundancy and other departure costs paid in accordance with the Civil Service Compensation Scheme. Where DE&S has agreed early retirements, the associated costs are met by DE&S and not by the Civil Service Pension Scheme. 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.

There were no civilian redundancies in 2020-21.

All armed forces redundancies are compulsory as 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.

There were no armed forces redundancies in 2020-21.



Member of DE&S staff

CIVIL SERVICE AND OTHER COMPENSATION SCHEMES EXIT PACKAGES (SUBJECT TO AUDIT)

Numbers in brackets are 2019-20 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	-	(2)	(2)
£25,000-£50,000	-	-	-
£50,000-£100,000	-	(1)	(1)
£100,000-£150,000	-	-	-
£150,000-£200,000	-	-	-
Total Number of Exit Packages	-	(3)	(3)
Total resource cost (£000)	-	(121)	(121)

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 and addressing resource and skills gaps, principally in project and logistics management capability. PSS within DE&S includes consultancy assistance and other external support provided through a number of arrangements, including the Delivery Partner arrangement and the Crown Commercial Services framework. A breakdown and prior year comparator is shown at Note 4 to the accounts.



Member of DE&S staff

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 specific 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 substantially compared to 2019-20 when we reported 393 existing engagements of six months or more as at 31 March 2020 and 483 new engagements, or engagements reaching six months in duration, that lasted for more than six months. This year's increase is due in large part to a change in reporting requirement; all engagements regardless of duration are now being reported, whereas previously only those lasting six months or more were disclosed.

The majority of our off-payroll workers are engaged via 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, agility 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.

Table 1: Off-Payroll Engagements Earning More than £245 Per Day as at 31 March 2021:

Defence Equipment & Support Bespoke Trading Entity	Total
1. No. of existing engagements as of 31 Mar 21	631
of which:	
2. No. that have existed for less than one year at time of reporting.	534
3. No. that have existed for between one and two years at time of reporting.	84
4. No. that have existed for between two and three years at time of reporting.	13
5. No. that have existed for between three and four years at time of reporting.	0
6. No. that have existed for four or more years at time of reporting.	0

Off-payroll workers that provide their services through their own limited company or another type of intermediary will be subject to off-payroll legislation and DE&S must undertake an assessment to determine whether that worker is in-scope of Intermediaries legislation (IR35) or out-of-scope for tax purposes.

Table 2 provides an analysis of all Off-Payroll workers engaged at any point during the year ended 31 March 2021, paid more than £245 Per Day:

Defence Equipment & Support Bespoke Trading Entity	Total
1. No. of temporary off-payroll workers engaged during the year ended 31 Mar 21	770
of which:	
2. Not subject to off-payroll legislation.	709
3. Subject to off-payroll legislation and determined as in-scope of IR35.	61
4. Subject to off-payroll legislation and determined as out-of-scope of IR35.	0
5. No. of engagements reassessed for compliance or assurance purposes during the year.	54
6. Of which: No. of engagements that saw a change to IR35 status following review.	0
7. No. of engagements where the status was disputed under provisions in the off-payroll legislation.	1
8. Of which: No. of engagements that saw a change to IR35 status following review.	1

There were no off-payroll engagements of Board members or senior executives with significant financial responsibility between 1 April 2020 and 31 March 2021.



HMS Queen Elizabeth visiting Western Scotland for the first time



PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

PARLIAMENTARY ACCOUNTABILITY

In 2020-21 we responded to 215 written Parliamentary questions and 422 pieces of Ministerial and Treat Official correspondence from Members of Parliament, Peers and the public, exceeding our departmental targets for on-time delivery. Particular areas of interest included the Fleet Solid Support, E-7 Wedgetail, P-8A Poseidon, F-35 Lightning and Armoured Fighting Vehicle (AFV) programmes. We also supported a range of Parliamentary Committee business including oral evidence sessions with the House of Commons Defence Committee on AFVs and the MOD Annual Report and Accounts 2019-20, and with the Public Accounts Committee on the MOD Equipment Plan 2019 and 2020, and Carrier Strike. We also supported House of Commons debates on the future of RAF Valley, defence procurement and supply chains, and defence manufacturing and procurement in Shropshire.

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, answering 417 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 contracts activity, surplus vehicles and DE&S pay and promotion.

In line with Cabinet Office guidelines on transparency, we proactively publish a range of information online, including senior officials' business expenses, hospitality and meetings, and expenditure over £25,000 (above £500 on Government Procurement Card). Our data is published 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, OGDs 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 2020-21 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 £279,000, which represents a reduction of £254,000 from 2019-20. The main driver of losses in 2020-21 was interest charges from Her Majesty's Revenue and Customs (HMRC) for late payment of VAT. While the volume of interest charges has reduced from 2019-20, we are continuing to work to drive them down further through increased and targeted training.

Of the total losses reported in 2020-21, 86 payments totalling £23,000 were reported as being due to the impact of COVID-19.

LOSSES STATEMENT

Total Cases	2020-21	2019-20
Fruitless Payments (volume of cases)	261	580
Fruitless Payments (value £000)	278	435
Cash Losses (volume of cases)	-	-
Cash Losses (value £000)	-	-
Minor Equipment Losses (volume of cases)	4	3
Minor Equipment Losses (value £000)	1	98
Claims Waived or Abandoned (volume of cases)	-	-
Claims waived or abandoned (value £000)	-	-
Total Losses (volume of cases)	265	583
Total Losses (value £000)	279	533
Details of closed cases over £300,000	-	-
Volume of cases	-	-
Value £000	-	-

No advance notifications required separate disclosure in 2020-21 or 2019-20.

Details of Advanced Notifications over £300,000	2020-21	2019-20
Volume of cases	-	-
Value £000s	-	-

SPECIAL PAYMENTS

Special payments made in 2020-21 principally related to severance payments; details of these cases are confidential and so no further information can be provided.

Special Payments	2020-21	2019-20
Total Number of Special Payments	6	-
Total Value of Special Payments (£000)	173	-

LONG TERM EXPENDITURE TREND BY CATEGORY

Total Departmental Expenditure Limit DE&S Bespoke Trading Entity (BTE) (£M)	
Estimate 2025-26	988
Estimate 2024-25	981
Estimate 2023-24	1,036
Estimate 2022-23	1,119
Estimate 2021-22	1,184
Outturn 2020-21	1,062
Outturn 2019-20	1,043



Sir Simon Bollom - Accounting Officer
11 January 2022

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 2021 under the Government Resources and Accounts Act 2000. The financial statements comprise: 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting.

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 2021 and of Defence Equipment and Support's net expenditure for the year then ended; and
- 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 FOR OPINIONS

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of Defence Equipment

and Support in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that Defence Equipment and Support's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Defence Equipment and Support's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for Defence Equipment and Support is adopted in consideration of the requirements set out in the Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

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 certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine

whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit:

- 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; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH I REPORT BY EXCEPTION

In the light of the knowledge and understanding of Defence Equipment and Support and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability report. 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
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made; 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.

RESPONSIBILITIES OF THE ACCOUNTING OFFICER FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;

- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing Defence Equipment and Support's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by Defence Equipment and Support will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, Defence Equipment and Support's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Defence Equipment and Support's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and

- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including Defence Equipment and Support's controls relating to Government Resources and Accounts Act 2000 and Managing Public Money.
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: posting of unusual journals, bias in management's estimates and significant or unusual transactions;
- obtaining an understanding of Defence Equipment and Support's framework of authority as well as other legal and regulatory frameworks that Defence Equipment and Support operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Defence Equipment and Support. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Supply and Appropriation (Main Estimates) Act 2020, Managing Public Money, Employment Law, Health and Safety Legislation and Tax Legislation;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- reviewing internal audit reports.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Audit & Risk Assurance Committee concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

- attendance at Audit & Risk Assurance Committee meetings and regular communication with management and internal audit to identify any instances of fraud, non-compliance with laws and regulations and irregular transactions.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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

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.

REPORT

Timeliness of reporting

We reported to the Agency Audit & Risk Committee on the 20 July 2021 that our audit was complete. The delay since then in publishing this Annual Report & Accounts relates to clearance of the document within the Agency and sponsor Department, particularly in respect of the Performance Report, including obtaining Ministerial endorsement. Timeliness of reporting is an important part of Parliamentary and public accountability and the Agency should ensure it publishes its Annual Report and Account as soon as possible once the audit is complete.

Gareth Davies
Comptroller and Auditor General **21 January 2022**

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

SECTION 3

— THE FINANCIAL STATEMENTS



The operations room of HMS Dragon

ACCOUNTING INFORMATION

STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 202

	Note	2020-21 £000	2019-20 £000
Expenditure – Direct Programme Costs			
Direct Staff Costs	3	764,697	733,504
Private Sector Support Costs	4	230,753	207,364
Other Programme Costs	5	73,469	114,433
Total Direct Programme Costs		1,068,919	1,055,301
Income – Direct Programme	6	(13,279)	(17,999)
Net Direct Programme Expenditure		1,055,640	1,037,302
Expenditure – Non-Cash Items			
Communicated Costs from other MOD Organisations	7	97,828	106,950
Auditors Remuneration	8	160	160
Asset write off, disposals and impairment	9&10	-	190
Depreciation	9&10	5,070	7,697
Movement on provision	13	825	223
		103,883	115,220
Total Net Operating Expenditure		1,159,523	1,152,522
Non-operating gain on transfer by absorption ²³	2	(663)	(1,824)
Total Net Expenditure for the year		1,158,860	1,150,698
Other Comprehensive Net Expenditure			
Net (gain)/loss on revaluation of property, plant and equipment	9	(68)	(7)
Net (gain)/loss on revaluation of intangible assets	10	(317)	2
Total Comprehensive Net Expenditure		1,158,475	1,150,693

The Notes on pages 110-125 form part of these accounts. The 2019-20 comparatives include the DSCOM function costs.

²³ See note 2 to the accounts. Gain on transfer by absorption in 2020-21 reflects benefit to DE&S from having transferred out liabilities totalling £0.7 million to UK Strategic Command as part of DSCOM Transfer of Function. Equivalent figures in 2019-20 represent transfer out of liabilities to MOD as part of Cost Assurance & Analysis Service Transfer of Function.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 202

	Note	2020-21 £000	2019-20 £000
Non-current assets			
Property, plant & equipment	9	6,011	5,532
Intangible assets	10	12,256	11,286
Total non-current assets		18,267	16,818
Current assets			
Trade and other receivables	11	3,654	6,984
Total current assets		3,654	6,984
Total assets		21,921	23,802
Current liabilities			
Trade and other payables	12	(123,203)	(124,496)
Provisions	13	(2,089)	(1,317)
Total current liabilities		(125,292)	(125,813)
Total assets less total liabilities		(103,371)	(102,011)
Taxpayers equity and other reserves			
Revaluation Reserve	Statement of Changes in Taxpayers Equity (SOCiTE)	1,427	1,042
General Fund	SOCiTE	(104,798)	(103,053)
Total Reserves		(103,371)	(102,011)

The Notes on pages 110-125 form part of these accounts. The 2019-20 comparatives include the DSCOM function costs.

ACCOUNTING OFFICER SIGNATURE



Sir Simon Bollom - Accounting Officer
11 January 2022

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 202

	Note	2020-21 £000	2019-20 £000
Cash flows from operating activities			
Total net operating expenditure		(1,159,523)	(1,152,522)
Adjustments for non- cash transactions			
Communicated costs	7	97,828	106,950
Auditors remuneration	8	160	160
Amortisation/depreciation, impairment, write off/on and disposal	9&10	5,070	7,887
Movement in provision	13	825	223
(Increase) / Decrease in trade and other receivables	11	3,330	765
Increase / (Decrease) in trade and other payables	12	(1,293)	(6,425)
Adjustment for movements in payables relating to items not passing through operating costs		(960)	1,740
Gain on transfer by absorption		663	1,824
Use of provisions	13	(53)	(53)
Net cashflow outflow from operating activities		(1,053,953)	(1,039,451)
Cash flows from investing activities			
Purchase of property, plant and equipment ¹	9	(1,214)	(3,525)
Purchase of intangible assets ²	10	(3,960)	(3,650)
Net cash outflow from investing activities		(5,174)	(7,175)
Cash flows from financing activities			
Net Parliamentary Funding – drawn down		1,059,127	1,046,626
Net Increase/(Decrease) in cash and cash equivalents in the period		-	-

1 Investing cashflow figure for purchase of property, plant and equipment is calculated as £1,357K capital additions (as per Note 9) plus cash payments to discharge opening liabilities of £550K less closing liabilities of £692K.

2 Investing cashflow figure for purchase of intangible assets is calculated as £4,778K capital additions (as per Note 10), plus cash payments to discharge opening liabilities of £1,220K, less closing liabilities of £2,038K.

The Notes on pages 110-125 form part of these accounts. The 2019-20 comparatives include the DSCOM function costs.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 202

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2019		(106,098)	1,044	(105,054)
Gain on transfer of function		1,824	-	1,824
Total net operating expenditure		(1,152,522)	-	(1,152,522)
Net Parliamentary Funding – drawn down		1,046,626	-	1,046,626
Non-cash charges – Auditors Remuneration		160	-	160
Non-cash charges – Communicated Costs		106,950	-	106,950
Net (loss)/gain on revaluation of property, plant & equipment		-	7	7
Net (loss)/gain on revaluation of intangible assets		-	(2)	(2)
Transfer between reserves		7	(7)	-
Balance at 31 March 2020		(103,053)	1,042	(102,011)
Gain on transfer of function	SoCNE	663	-	663
Total net operating expenditure	SoCNE	(1,159,523)	-	(1,159,523)
Net Parliamentary Funding – drawn down	Statement of Cash Flows	1,059,127	-	1,059,127
Non-cash charges – Auditors Remuneration	8	160	-	160
Non-cash charges – Communicated Costs	7	97,828	-	97,828
Net (loss)/gain on revaluation of property, plant & equipment	9	-	68	68
Net (loss)/gain on revaluation of intangible assets	10	-	317	317
Transfer between reserves	SoCNE	-	-	-
Balance at 31 March 2021		(104,798)	1,427	(103,371)

The Notes on pages 110-125 form part of these accounts. The 2019-20 comparatives include the DSCOM function costs.

NOTES TO THE ACCOUNTS

. STATEMENT OF ACCOUNTING POLICIES

The financial statements contained within the Annual Report and Accounts relate to the FY 1 April 2020 to 31 March 2021 (2020-21) with comparative analysis for the prior year 2019-20. 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 International Financial Reporting Standards (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 2020-21 financial statements are the seventh 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 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.

. 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 (AP). 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 the accounts. 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 2020-21, a guideline materiality threshold of £10,000 (2019-20 £10,000) has been applied in the recognition of payables and receivables.

Consideration of the Impact of COVID-19 - The World Health Organisation declared COVID-19 as a pandemic on 11 March 2020. The impact on the Accounts has been minimal and is 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 2020 the DSCOM team, previously managed and accounted for by DE&S, was transferred to UK Strategic Command, (which is another Top Level Budget of the MOD). The net liabilities of £0.7 million relating to DSCOM 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 DSCOM function on the 2019-20 comparators.

NEW ACCOUNTING STANDARDS

2020-21

There are no new accounting standards or significant changes to the 2020-21 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 2022.

CHANGES IMPACTING THE PREPARATION OF FUTURE ANNUAL ACCOUNTS

2022-23

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 AP commencing on or after 1 January 2019. DE&S will adopt IFRS 16 in the FY commencing 1 April 2022, 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 2022, 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 (SOPF).

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 £1.8 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 AP 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 SOPF 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.

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 (i.e. clients) following the IFRS 15 Five Step Model. DE&S has two main sources of revenue:

- i. As agreed with HMT, DE&S can recover funds from suppliers relating to profits made in excess of those expected at the time of contract let. In these circumstances DE&S conduct an audit and enter into negotiations with the supplier to determine the value of monies owed. This is known as post costing income and 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 client 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. 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

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 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 re-visit this policy annually to ensure that we are not omitting any material assets from our Non-Current Asset Register.

.1 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 (AUC) are not subject to indexation where the contract payments capitalised during the period of construction are deemed to reflect fair value.

.1 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 AUC 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.

.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
Plant & Machinery	Equipment	5-25
	Plant & Machinery	5-25
IT & Comms	Office Machinery	3-10
	Communications Equipment	3-10
Intangible Assets	Software Licences	3-16

AUC 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 UEL of assets have changed.

.14 IMPAIRMENT

Impairment charges reduce the carrying amount of intangible and property, plant and equipment assets to their recoverable amount. Reviews are undertaken each year 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 2021 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.

.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.

.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.

.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 31 March 2021, the main trade and other receivables recorded on the DE&S BTE SOFP related to income from Defence Munitions who undertake munitions processing on behalf of defence contractors. 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.

.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 2020-21 value of employee performance awards reflected within the SoCNE reflects those earned for performance in 2020-21.

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

.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.

. 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).

.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 guidance, DE&S has inflated cashflows using the combined rates (based Office for Budget Responsibility Consumer Price Index forecasts for inflation and nominal rates for discounting).

Impact of COVID-19: There is no indication that DE&S' liabilities have been impacted by COVID-19. DE&S' provision was valued using appropriate mechanisms and discount rates at 31 March 2021. There have been no support mechanisms put in place for DE&S suppliers which would give rise to additional provisions or contingent liabilities.

. 2 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

The transfer of the DSCOM function on 1 April 2020 involved the transfer of 259 full-time equivalent staff (including 107 armed forces staff) from DE&S to UK Strategic Command. In addition, liabilities of £0.7 million were transferred. DSCOM did not hold any current or non-current assets. The associated revenue and expenditure for DSCOM is reflected in the BTE SoCNE up to the transfer on 1 April 2020, and thereafter treated as revenue and expenditure in MOD and not DE&S accounts. The 2019-20 related expenditure was £14.8 million, of which £14.3 million related to staff costs, £0.2 million PSS and £0.3 million other programme costs.

3. STAFF NUMBERS AND RELATED COSTS

3.1 STAFF COSTS COMPRISE:

	2020-21			2019-20		
	Permanently Employed Staff £000	Contingent Labour £000	Total £000	Permanently Employed Staff £000	Contingent Labour £000	Total £000
Salaries and Wages	474,984	99,650	574,634	467,954	76,394	544,348
Social Security Costs	48,575	-	48,575	47,625	-	47,625
Other Pension Costs	141,488	-	141,488	141,531	-	141,531
Total	665,047	99,650	764,697	657,110	76,394	733,504
Paid to:						
Armed Forces	119,129	-	119,129	127,944	-	127,944
Civilian	545,918	-	545,918	529,166	-	529,166
Contingent Labour	-	99,650	99,650	-	76,394	76,394

2019-20 costs include DSCOM staff costs of £14.3 million. Once adjusted, total DE&S staff costs have increased by £22.2 million.

After taking this into account, costs for permanently employed staff, including salary, social security and pension costs, have increased in 2020-21 in line with the corresponding increase in staff numbers during the year and the 2020 pay award.

Contingent labour costs have increased by £23.3 million in 2020-21. The number of workforce substitutes in the business ramped up towards the end of 2019-20 and many have been retained throughout 2020-21 to supplement internal resource following slower than expected recruitment and to support the increased programme of work. This includes a number of new projects within the Remotely Piloted Aircraft Systems environment, increased support to various Army programmes (including AJAX, Heavy Armour Automotive Improvement and procurement of new synthetic training systems), and the implementation of various DE&S change improvement programmes. Contingent labour support has reduced in the last quarter of 2020-21.

3.2 AVERAGE NUMBER OF FULL TIME EQUIVALENT STAFF EMPLOYED:

	2020-21			2019-20		
	Permanently Employed Staff	Contingent Labour	Total £000	Permanently Employed Staff	Contingent Labour	Total
Employed by DE&S	11,437	699	12,136	11,454	643	12,097
Of which:						
Armed Forces	1,089	-	1,089	1,191	-	1,191
Civilian Personnel	10,348	-	10,348	10,263	-	10,263
Contingent Labour	-	699	699	-	643	643

The 2019-20 average figures in the above table include the 259 DSCOM staff who transferred out of DE&S on 1 April 2020. When excluding these, DE&S permanent staff numbers have a real increase of 242²⁴ (2.1%), which has contributed to the overall increase in staff costs. Whilst the average number of contingent labour staff also increased by 56 over the year, support has reduced in the final quarter. 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

	2020-21 £000	2019-20 £000
PSS Contractor Support - Transformation	-	-
PSS Contractor Support - Other	138,296	114,162
PSS for programmes in concept and assessment phases	5,621	7,228
PSS for programmes in demonstration and manufacture phases	31,623	28,203
PSS for programmes in in-service support and disposal phase	47,961	49,619
Consultancy Support (Project management, organisation design, finance & legal)	7,252	8,152
Total	230,753	207,364

2019-20 comparators include £0.2 million of PSS relating to DSCOM. Once adjusted, DE&S PSS has increased by £23.6 million.

This is driven principally by increased engineering and technical support to various capabilities including in-service combat aircraft (£4.1 million), Type 26 global combat ship and Type 31 frigate programmes (£3 million), Future Maritime Support programme (£3 million), Hawk future in-service support (£2.6 million), A400M (£2.3 million) and Apache Capability Sustainment Programme (CSP) (£1.2 million), as they approach key milestones.

5. OTHER PROGRAMME COSTS (OPC)

	2020-21 £000	2019-20 £000
Staff travel and subsistence costs	3,461	21,209
IT and telecommunications	28,145	36,155
Other infrastructure expenditure	6,729	10,100
Staff training costs	5,738	7,741
Rentals	1,407	6,203
Regulatory safety costs	1,359	1,694
OPC Defence Science & Technologies Laboratories	18,775	21,218
Other costs	7,855	10,113
Total	73,469	114,433

2019-20 comparators include £0.3 million of OPC relating to DSCOM. Once adjusted, DE&S OPC has decreased by £40.7 million.

The biggest reduction is to staff travel and subsistence costs (£17.7 million), which has been driven by COVID-19 travel restrictions; vehicle rental costs have decreased (£4.8 million) for the same reason. IT and telecommunications costs have reduced in 2020-21 (£8.0 million) as expenditure incurred in 2019-20 by the DE&S Chief Digital Information Officer business area specifically to meet DE&S@21 strategy objectives and increase resilience of our IT systems, was not repeated in 2020-21.

6. PROGRAMME INCOME

	2020-21 £000	2019-20 £000
Defence Munitions commercial revenue	8,177	10,832
Logistics Commodities Services Revenue (Including British Forces Postal Office)	1,151	1,563
DE&S BTE corporate receipts	2,021	4,864
Other Programme Income	1,930	740
Total	13,279	17,999

Almost all DE&S income falls within scope of IFRS 15 – *Revenue from contracts with customers*.

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 2020-21 (£2.7 million) as a result of a change in contracting strategy following the expiry of a major contract in 2019-20.

There has also been a reduction in income generated by post-costing activities undertaken by DE&S during the year (£2.8 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	2020-21 £000	2019-20 £000
UK Strategic Command	Defence Digital Information systems and communication services	Number of DE&S users relative to MOD users	49,034	60,266
Defence Infrastructure Organisation	Infrastructure and facilities management costs	Cost per employee at DE&S headquarters extrapolated to DE&S total head count	18,120	14,610
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	5,098	7,252
Defence Infrastructure Organisation	MOD Guard Service	Costs of main DE&S geographical locations extrapolated across total DE&S headcount	13,489	13,444
Defence Business Services	Personnel and Payroll Services	Number of DE&S employees relative to total MOD employees	11,239	10,318
HO and Corporate Services	Various	Based on actuals	848	1,060
Total			97,828	106,950

Overall, communicated costs have decreased by £9.1 million. The largest driver for the variance is a reduction in charges from Defence Digital, which have returned to expected levels following a one-off increase in 2019-20 when Defence Digital incurred one-off additional depreciation charges. This was to correct the net book value of various Information Systems assets and an element of these charges were apportioned to DE&S.

There has also been a reduction in Defence Academy costs due to COVID-19 restrictions (£2.1 million). This has been offset by Defence Infrastructure Organisation activity. Communicated costs from Defence Infrastructure Organisation in relation to infrastructure and facilities management have increased by £3.5 million. This is primarily due to COVID-19 related site costs and business rates rebate received in 2019-20.

8. AUDITOR'S REMUNERATION

DE&S is audited by the Comptroller and Auditor General. The £160,000 charge reflects the costs incurred by the auditor in respect of the audit of the DE&S 2020-21 Annual Report and Accounts. This is a notional, non-cash charge and is reflected in the SoCNE.

9. PROPERTY, PLANT AND EQUIPMENT

	IT & Comms £000	Plant Machinery and Vehicles £000	AUC £000	Total
Cost or Valuation				
As at 31 March 2019	1,785	1,285	1,389	4,459
Additions	184	109	2,192	2,485
Disposals	(98)	(88)	-	(186)
Impairments & Adjustments	-	-	-	-
Revaluations	(3)	11	-	8
Reclassifications	253	1,569	(1,822)	-
At 31 March 2020	2,121	2,886	1,759	6,766
Additions	43	119	1,194	1,356
Disposals	-	-	-	-
Impairments & Adjustments	-	-	-	-
Revaluations	77	22	-	99
Reclassifications	-	609	(609)	-
Balance as at 31 March 2021	2,241	3,636	2,344	8,221
Depreciation				
Balance at 31 March 2019	(398)	(97)	-	(495)
Charged In Year	(398)	(383)	-	(781)
Disposals	5	38	-	43
Impairments	-	-	-	-
Revaluations	-	(1)	-	(1)
Reclassifications	-	-	-	-
At 31 March 2020	(791)	(443)	-	(1,234)
Charged In Year	(334)	(611)	-	(945)
Disposals	-	-	-	-
Impairments	-	-	-	-
Revaluations	(34)	3	-	(31)
Reclassifications	-	-	-	-
At 31 March 2021	(1,159)	(1,051)	-	(2,210)
Net Book Value				
Balance at 31 March 2019	1,387	1,188	1,389	3,964
Balance at 31 March 2020	1,330	2,443	1,759	5,532
Balance at 31 March 2021	1,082	2,585	2,344	6,011

DE&S holds PPE assets including server hardware to support DE&S owned IT applications, and Defence Ordnance Safety Group (DOSG) test equipment to enable DE&S to fulfil safety obligations. In-year additions include manufacture of the Resonant Acoustic Mixer which is to be used for generating evidence necessary for safety qualification and certification of munitions (£0.6 million) and other bespoke test equipment. The reclassification of AUC to the Plant and Machinery categories reflects DOSG equipment delivered into service during 2020-21.

10. INTANGIBLE NON CURRENT ASSETS

	Software £000	AUC (Development Costs) £000	Total £000
Cost or Valuation			
Balance at 31 March 2019	24,940	-	24,940
Additions	83	2,867	2,950
Disposals	(360)	-	(360)
Impairments/Adjustments	-	-	-
Revaluations	(2)	-	(2)
Reclassifications	-	-	-
At 31 March 2020	24,661	2,867	27,528
Additions	1,117	3,661	4,778
Disposals	(7,144)	-	(7,144)
Impairments/Adjustments	-	-	-
Revaluations	801	-	801
Reclassifications	-	-	-
At 31 March 2021	19,435	6,528	25,963
Amortisation			
Balance at 31 March 2019	(9,639)	-	(9,639)
Charged In Year	(6,916)	-	(6,916)
Disposals	313	-	313
Impairments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
At 31 March 2020	(16,242)	-	(16,242)
Charged In Year	(4,125)	-	(4,125)
Disposals	7,144	-	7,144
Impairments	-	-	-
Revaluations	(484)	-	(484)
Reclassifications	-	-	-
At 31 March 2021	(13,707)	-	(13,707)
Net Book Value			
Balance at 31 March 2019	15,301	-	15,301
Balance at 31 March 2020	8,419	2,867	11,286
Balance at 31 March 2021	5,728	6,528	12,256

Software values include licenses for Active Risk Manager™, Project, Programme and Portfolio Management (P3M) suite of Oracle tools and a DOSG ricochet assessment software tool, as reported in prior FYs. In-year additions primarily relate to the development costs for the future HR system (£3.7 million) and renewal of the P3M licence (£1.0 million).

In addition, DE&S has entered into undertakings for future capital expenditure for further development of the future HR system of £0.3 million, which is not yet accounted for in the financial statements. This will be recorded once the liability is incurred.

Disposals relate to licences which have been retired as they have reached the end of their useful life, or which have been superseded by an alternative software capability and are no longer in use.

1. TRADE AND OTHER RECEIVABLES

	2020-21 £000	2019-20 £000
Amounts falling due within one year		
Accrued Income	1,129	1,765
Other Receivables	566	3,600
Trade Receivables	-	-
Prepayments	1,364	1,554
Staff Loans and advances	595	65
Total Current Receivables	3,654	6,984
Amounts falling due after more than one year	-	-

Receivables are not impacted by the transfer of DSCOM as none of the 2019-20 balances related to DSCOM. The decrease in other receivables is mainly driven by a reduction in post costing activities and Defence Munitions commercial revenue. This is consistent with the decreased income in 2020-21.

2. TRADE AND OTHER PAYABLES

	2020-21 £000	2019-20 £000 (Restated)
Amounts falling due within one year		
PSS accruals	(45,938)	(45,230)
Direct staff accruals	(65,982)	(65,281)
Other liabilities	(11,283)	(13,985)
Total Current Liabilities	(123,203)	(124,496)
Amounts falling due after more than one year	-	-

In 2019-20, liabilities were categorised as PSS, direct staff, trade and sundry payables. This has been simplified for 2020-21 to PSS, direct staff and other liabilities. Other liabilities are made up of liabilities related to other programme costs and asset additions. The 2019-20 comparative figures have been restated to reflect the updated categories but the total current liabilities figure for 2019-20 is unchanged.

Liabilities for 2020-21 are broadly consistent with 2019-20. 2019-20 comparators include £0.7 million of liabilities relating to DSCOM. Once adjusted, there has been a reduction in liabilities of £0.6 million.

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.

	2020-21 £000	2019-20 £000	Analysis of expected timing of discounted cash flows:		
	2020-21 £000	2019-20 £000	2020-21 £000	2019-20 £000	
At 1 April	1,317	1,147	Due within one year	1,474	1,103
Increase in Provision	843	236	Due over one year and less than five years	615	214
Provisions used	(53)	(53)	Due over five years	-	-
Unwinding Discount	(18)	(13)	Balance at 31 March	2,089	1,317
Balance at 31 March	2,089	1,317			

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 2020 £000	Increase/ Decrease In Year £000	Liabilities Crystallised In Year £000	Obligation Expired In Year £000	31 March 2021 £000
Legal Claims (personal)	200	55	-1	-39	215
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	2020-21 £000	2019-20 £000
Less than 1 Year	535	548
1-5 Years	1,181	1,423
Greater than 5 Years	126	182

During 2020-21, DE&S incurred £0.6 million in relation to operating lease payments for this lease. These are reflected in the SoCNE under OPC – 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.

Defence Science & Technology Laboratories (DSTL) is a related party and DE&S incurred costs of £18.8 million during 2020-21 undertaking business activities with DSTL (2019-20, £21.2 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 2020-21 this was £6.4 million (2019-20, £5.9 million).

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

No Board Members/senior employees or their related parties have undertaken any material business transactions with DE&S in the period to 31 March 2021.

David Johnson, Finance Director, is a member of the Army FLC Audit Committee. In addition, a close relation of Chris Bushell, DG (Land), is employed by Turner & Townsend (consultants). Adequate arrangements have been implemented to avoid any potential conflicts of interests.

7. 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 2020-21 this was £1,066 million, however our outturn position for the year was £1,062 million, a reduction against budget of £4 million.

The net revenue outturn position of £1,055.6 million is captured in the SoCNE and is made up of Direct Staff Costs, PSS Costs and OPC of £1,068.9 million offset by the income generated by DE&S in 2020-21 of £13.3 million.

The capital outturn position of £6.1 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 Board and Executive personnel changes have taken place as follows:

- Three new NEDs joined the DE&S Board on 1 April 2021: Angela Williams, Claire Hawkings and Tony Meggs.
- Katie Sloggett was appointed interim HR Director, replacing Daniel Griffiths, on 26 April 2021. Dr Jill Hatcher was appointed permanent HR Director on 9 August 2021.
- James Dorrian's tenure as NED ended in July 2021.
- Andrew Forzani was appointed DG Commercial, effective from 26 July 2021. Andrew replaces Morag Stuart, interim DG Commercial.

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.

GLOSSARY

Acronym	Definition	Acronym	Definition
AAR	Annual Assurance Report	IAS	International Accounting Standards
AFPS	Armed Forces Pension Scheme	IFRS	International Financial Reporting Standard
AFV	Armoured Fighting Vehicle	IR	Integrated Review
ALB	Arm's Length Body	KIM	Knowledge and Information Management
AMA	Agreed Management Action	KPI	Key Performance Indicator
AP	Accounting Period	KUR	Key User Requirement
ASE	Acquisition Safety and Environmental	LGBT+	Lesbian, gay, bisexual and transgender plus
ASEMS	Acquisition Safety and Environmental Management Systems	MOD	Ministry of Defence
ASEP	Acquisition Safety and Environmental Protection	NAO	National Audit Office
ASP	Acquisition Safety Project	NED	Non-Executive Director
AUC	Assets Under Construction	OBI	Order Book Item
BCM	Business-Critical Models	OC	Operating Centre
BTE	Bespoke Trading Entity	OGD	Other Government Department
CASP	Command Acquisition and Support Plan	OGSM	Objectives, Goals, Strategies and Measures
CCI	Client Confidence Index	OHSE	Occupational Health, Safety & Environmental
CEO	Chief Executive Officer	OPC	Other Programme Costs
CETV	Cash Equivalent Transfer Value	P&RR	Performance and Risk Review
CFO	Chief Financial Officer	P3M	Project, Programme and Portfolio Management
D&I	Diversity and Inclusion	PCSPS	Principle Civil Service Pension Scheme
DCDS	Deputy Chief of the Defence Staff	PPE	Property, Plant and Equipment
DE&S	Defence Equipment and Support	PRC	Programme Review Committee
DG	Director General	PSS	Private Sector Support
DHSC	Department for Health and Social Care	PSyA	Principal Security Advisor
DIA	Defence Internal Audit	QM	Quality Management
DOSG	Defence Ordnance Safety Group	RAF	Royal Air Force
DQAFF	Defence Quality Assurance Field Force	RN	Royal Navy
DRC	Depreciated Replacement Cost	SCS	Senior Civil Service
DRMI	Digital Records Management Improvement	SDA	Submarine Delivery Agency
DSCOM	Defence Support Chain Operations and Movements	SE	Strategic Enablers
DSIS	Defence and Security Industrial Strategy	SLG	Senior Leadership Group
DSTL	Defence Science and Technology Laboratories	SOCiTE	Statement of Changes in Taxpayers Equity
EDD	Equipment Delivery Date	SoCNE	Statement of Comprehensive Net Expenditure
EDI	Equality, Diversity, Inclusion	SOFP	Statement of Financial Position
EDP	Early Departure Payment	SQEP	Suitably Qualified and Experienced Personnel
EPP	Equipment Procurement Plan	SR	Safety Responsible
FLC	Front-Line Command	SSR	Senior Safety Responsible
FReM	Financial Reporting Manual	TU	Trade Union
FY	Financial Year	UEL	Useful Economic Lives
HMRC	Her Majesty's Revenue and Customs	UKGI	UK Government Investments
HMT	Her Majesty's Treasury	VAdm	Vice Admiral
HO	Head Office	VAT	Value Added Tax
HR	Human Resource		



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