

Defence Equipment and Support

Framework Document

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1 INTRODUCTION

- 1.1.1 This Framework Document has been drawn up by the Ministry of Defence (MOD) in consultation with Defence Equipment and Support (DE&S).
- 1.1.2 It details the parameters within which DE&S is expected to operate; obligations which DE&S is expected to comply with; and the freedoms delegated to allow DE&S to manage its workforce, make its own decisions and organise its business to ensure delivery of its strategic objectives efficiently and effectively, while ensuring value for money.
- 1.1.3 This Framework Document sets out agreed terms of the relationship between MOD and DE&S, and how such a relationship will be conducted in accordance with the principles of the Partnerships with Arm's Length Bodies: Code of Good Practice¹. MOD and DE&S will have an open, transparent, honest, trust-based partnership supported by the principles of the Code. As such, both parties will ensure that they clearly understand the strategic aims and objectives of each other. Both partners will also commit to keeping each other informed of any significant issues and concerns.
- 1.1.4 This document does not convey any legal powers or legal responsibilities. It is signed and dated by MOD and DE&S. Copies of this document and any subsequent amendments have been placed in the Libraries of both Houses of Parliament and made available to members of the public on the DE&S page of GOV.UK.
- 1.1.5 Any issues regarding the interpretation of this document will be resolved by the Corporate Sponsor Team in consultation with DE&S or Other Government Departments including Her Majesty's Treasury (HM Treasury) and/or the Cabinet Office as necessary.

2 STATUS AND PURPOSE OF DE&S

- 2.1.1 DE&S was set up as a Bespoke Trading Entity and Arm's Length Body (ALB) of the MOD in 2014 and granted certain operating freedoms from Cabinet Office controls, including:
- Strategic Supplier Management
 - Advertising, Marketing and Communications
 - External Recruitment
 - Redundancy and Compensation
 - Civil Service Learning
 - Commercial models
 - Consultancy
- 2.1.2 In 2020 DE&S was classified as an Executive Agency. Further detail on the operating freedoms, updated to reflect the latest Cabinet Office controls, is at Annex A.

¹ <https://www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice>

2.2 Purpose of DE&S

- 2.2.1 The purpose of DE&S is to equip and support the UK's Armed Forces for operations now and in the future. On behalf of its military customers, DE&S purchases new military equipment and provides the ongoing support that the Armed Forces need to operate effectively. DE&S' detailed objectives are captured in the DE&S Corporate Plan.
- 2.2.2 Activities range from the provision and support of complex equipment, such as warships and combat aircraft, through to the provision of global logistic operations in hostile environments, to the provision and support of relatively straightforward supplies, such as clothing and food. DE&S also provides Military Aid to the Civil Authorities in times of crisis, using its acquisition skills to meet urgent Government requirements. These roles demand best-in-class business capabilities that, while operating as part of an overall system, can be tailored depending on project value, complexity, risk and criticality.

3 GOVERNANCE AND ACCOUNTABILITY

- 3.1.1 The corporate governance and accountability arrangements for DE&S are akin to those typical for an Executive Agency, as per Cabinet Office guidance *Executive Agencies: A Guide for Departments*². They draw on best practice in the public and private sectors, and reflect its position as part of a Government Department and a professional technical programme and project management organisation.

3.2 Ministerial responsibilities

Secretary of State for Defence

- 3.2.1 The Secretary of State (SofS) for Defence is accountable to Parliament for all aspects of Defence including DE&S and its performance, strategy, operation and the effectiveness of its governance arrangements. While retaining ultimate accountability, the SofS delegates responsibility for DE&S to the Minister for Defence Procurement (Min(DP)).

Minister for Defence Procurement

- 3.2.2 Min(DP) acts as the Minister for DE&S and is responsible for:

- approving DE&S' policy and financial framework;
- approving its strategy and financial objectives within the DE&S Corporate Plan;
- agreeing the appointment of the DE&S Chief Executive Officer (CEO);
- holding the DE&S CEO to account for the delivery of the Corporate Plan, supported by UKGI (Defence) and DE&S Board;
- approving the appointments of the DE&S Chair and independent Non-Executive Directors (NEDs) and agreeing their remuneration;

² Executive Agencies: A Guide for Departments

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/690636/Executive_Agencies_Guidance.PDF

- being satisfied that the DE&S Board is working effectively³;
- within Departmental delegations, approving plans, programmes and projects that exceed DE&S delegated powers; and
- endorsing and approving the laying date for the Annual Report and Accounts (ARAC) in Parliament.

3.3 MOD's Permanent Secretary and Principal Accounting Officer (PAO)

- 3.3.1 The MOD Permanent Secretary (Perm Sec) is the senior civilian adviser on Defence and is the Principal Accounting Officer (PAO).
- 3.3.2 The PAO is accountable in respect of the MOD account and must satisfy themselves that the resources authorised by Parliament are used for the purposes intended by Parliament. The PAO must be satisfied that DE&S is operating in full compliance with the guidance in Managing Public Money⁴ on how to handle public funds.
- 3.3.3 The PAO is accountable to Parliament for issues concerning DE&S and is responsible for advising Min(DP) on:
- an appropriate framework of objectives and targets for DE&S, taking account of the Department's wider strategic aims and priorities.
 - an appropriate operating cost budget for DE&S in light of the Department's overall expenditure priorities; and
 - how well DE&S is achieving its objectives and whether it is delivering value for money for the exchequer as a whole.
- 3.3.4 The day-to-day running of DE&S is the responsibility of the CEO. However, the PAO is responsible for ensuring that arrangements are in place to monitor the organisation's activities; periodically carrying out assessment of the risks both to MOD and DE&S objectives and activities; informing DE&S of relevant government policy in a timely manner; and bringing concerns about DE&S to the Defence Board.
- 3.3.5 The Perm Sec is the CEO's line manager and in their role as PAO, appoints the CEO as the Accounting Officer (AO) for the DE&S accounts (the operating costs of the organisation).

3.4 The Role of the Sponsor

- 3.4.1 MOD is responsible for DE&S and is its Sponsor Government Department. MOD is supported by UK Government Investments (UKGI (Defence))⁵ who carry out Corporate Sponsor responsibilities, with the aim of providing advice to Min(DP) and the Perm Sec/PAO on their responsibilities as corporate owner of the organisation (such as governance and financial aspects, including agreement and delivery of the Corporate Plan). Deputy Chief Defence Staff (Military Capability) (DCDS(MilCap)) will provide policy advice as per paragraph 3.3.5. UKGI (Defence) will promote effective and efficient processes and systems to support

³ The Chair will report annually to the Minister on the effectiveness of the Board.

⁴ <https://www.gov.uk/government/publications/managing-public-money>

⁵ UKGI is a company wholly owned by HM Treasury. Its purpose is to be the Government's centre of excellence in corporate finance and governance.

effective governance activities in DE&S. The UKGI (Defence) role includes a UKGI director (hereafter referred to as the Corporate Sponsor Representative) who is appointed as a NED on the DE&S Board and its sub-committees.

3.4.2 UKGI (Defence) will maintain a close working relationship with their counterparts in DE&S and MOD on all issues.

3.4.3 UKGI (Defence) acts on behalf of MOD and ministers to promote high organisational performance, including:

- promoting strong corporate and governance performance;
- promoting strong corporate capability and effective leadership; and
- providing advice within MOD that DE&S performance is compliant with MOD spending plans, risk systems and overall financial and Enabling Organisation (EO) frameworks.

3.4.4 Details of UKGI (Defence) role and activities are set out in Annex B. In relation to these activities UKGI (Defence) will provide advice to the relevant ministers and the PAO, in consultation with DE&S and MOD officials.

3.5 The Role of the Deputy Chief Defence Staff (Military Capability)

3.5.1 DCDS(MilCap) and the Financial and Military Capability team (FMC) provide the policy perspective and represent MOD's coordinated policy interests in DE&S delivery. This team owns the policy for Military Capability within the MOD and is responsible for identifying any strategic capability issues that affect DE&S and advising on forward-looking policy and responding to the changing environment. FMC also acts as the voice of the combined customer community, reflecting the views the Single Service Commands, UK Strategic Command and Strategic Programmes. As the "Customer Voice", FMC is responsible for identifying any strategic or cross-Command issues, as well as providing a view or challenge in any areas where the Customers' view materially diverges from that reported by DE&S. As part of carrying out that function FMC hold regular Customer Voice meetings with all customer organisations, and will draw on these at the DE&S Performance and Risk Review (P&RR) meetings (further details at paragraph 3.7). DCDS(Mil Cap) is also a member of the DE&S Board.

3.6 The Role of the DE&S Chief Executive Officer

3.6.1 The CEO is appointed by the Perm Sec, subject to agreement by Min(DP) and considering advice from the Chair. The recruitment process is led and coordinated by UKGI (Defence) and is funded by DE&S. As a senior post, the appointment also requires the agreement of the Head of the Civil Service and the Government's Senior Leadership Committee. The Perm Sec has line management responsibility for the CEO, but will consult the Chair on all performance reporting.

3.6.2 As Accounting Officer (AO), the CEO is personally responsible for safeguarding the public funds for which they have charge; ensuring propriety and regularity in the handling of those public funds; and providing assurances of high standards in DE&S' governance, decision-making and financial management when considering, promoting and safeguarding affordability, sustainability, risk and value for money

in and money across the public sector; and for the day to day operations and management of DE&S. This authority is provided from the PAO through the AO Letter of Designation.

- 3.6.3 In addition, the CEO is to ensure that DE&S is run on the basis of the governance, decision-making and financial management standards set out in Box 3.1 of Managing Public Money.
- 3.6.4 To complement the responsibilities of the AO, the Perm Sec also issues the CEO's Letter of Authority, which sets out a range of delegated authorities including financial, personnel/Human Resource, commercial, health and safety and environmental protection (including the CEO's delegation as the Senior Duty Holder for safety matters).
- 3.6.5 As AO, the CEO has responsibilities for accounting to Parliament including:
- preparing and signing the accounts and ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented and include a signed Governance Statement covering corporate governance, risk management and oversight of local responsibilities;
 - acting in accordance with the terms of this document, Managing Public Money and other instructions and guidance issued from time to time by the Department, the Treasury and the Cabinet Office; and
 - giving evidence, normally with the PAO, when summoned before the Public Accounts Committee (PAC) on DE&S' stewardship of public funds.
- 3.6.6 The **CEO** has certain responsibilities to MOD including:
- ensuring the smooth running of the organisation as a whole;
 - establishing a Corporate Plan and objectives aimed at improving performance and which reflect the Department's wider strategic aims and agreed priorities;
 - supporting the delivery of Departmental policy objectives and making best use of resources to achieve those objectives;
 - building a culture of openness and transparency between DE&S, its customers and MOD;
 - ensuring that timely forecasts and monitoring information on progress to deliver objectives, performance and finance are provided to the Department; that significant problems, financial or otherwise are notified to the Department in a timely fashion; and
 - leading and motivating the DE&S Executive team and other staff.
- 3.6.7 The CEO is personally accountable to the **Perm Sec** for:
- ensuring DE&S operates smoothly and effectively as an organisation;
 - delivering DE&S Corporate Plan outputs as effectively, efficiently, sustainable and economically as possible;
 - ensuring the security and resilience of those outputs;
 - the required Health and Safety and Environmental Protection measures;
 - reporting on performance and risk; and
 - remaining within control totals.
- 3.6.8 The CEO is authorised to commission contractual commitments but authority to place or amend contracts, or to deal with claims arising, may only be exercised by staff in receipt of a commercial letter of delegation issued by MOD's Chief

Commercial Officer. In DE&S this authority is discharged through the Director General (DG) Commercial.

3.6.9 The CEO has certain responsibilities to the Board including:

- advising the Board on the discharge of DE&S' responsibilities as set out in this document;
- ensuring that timely reports on business performance and finance are provided to the Board and that significant problems, financial or otherwise are notified to the Board in a timely fashion;
- ensuring the provision of information to allow the Board to take account of financial considerations in reaching and providing its advice.

3.7 Performance and Risk Reviews

3.7.1 UKGI (Defence) works with DE&S to set the agenda for quarterly formal P&RR. These meetings supplement the Board by providing support and challenge on key strategic issues where either the Board or MOD feels there would be benefit in a more focussed conversation than has been possible at the Board. They are typically attended by the Chair, CEO, DG Resources, the Corporate Sponsor Representative and DCDS(Mil Cap) (as MOD policy lead). Meetings are chaired by one of the Perm Sec/PAO, Chief of Defence Staff (CDS), Vice CDS or the MOD Chief Operating Officer (COO).

3.8 DE&S Board

3.8.1 The Board provides the strategic leadership for DE&S in delivering its objectives, and promotes the long term sustainable success of and the desired culture within DE&S.

3.8.2 The Board provides a forum for independent, non-executive support, advice and constructive challenge to the CEO and other DE&S Executives; it will adjust its approach over time as necessary to meet the needs of the organisation as it matures.

3.8.3 The Board is specifically responsible for:

- endorsing and supporting DE&S in achieving its objectives consistent with its overall strategic direction and within the policy and resources determined by the SofS;
- supporting and challenging the CEO in the discharge of their responsibility for effective and efficient delivery of the Corporate Plan and day-to-day management, delivery and performance of DE&S;
- ensuring that effective arrangements are in place to provide assurance to the Department on risk management, governance and internal control;
- ensuring that Min(DP) is kept informed of any changes which are likely to impact on the strategic direction of DE&S or the attainability of its targets, and determining the steps needed to deal with such changes;
- non-executive approval of the Corporate Plan for submission to Min(DP) via UKGI (Defence);

- working with UKGI (Defence) on the appointment and remuneration terms of a CEO, and formulating the CEO's objectives for agreement by the Perm Sec;
- agreeing the values of DE&S and ensuring there is a culture of openness and transparency between DE&S and other parts of MOD;
- demonstrating high standards of corporate governance at all times
- providing support, advice and constructive challenge on:
 - DE&S performance against the Corporate Plan and Command Acquisition and Support Plans (CASPs);
 - commercial and project management strategies to ensure they reflect best practice;
 - allocation of financial and human resources to achieve the Corporate Plan outcomes
 - the DE&S reward strategy on advice from the Remuneration Committee (see section 3.12.7 – 3.12.12), ensuring it is consistent with DE&S pay freedoms, and any guidance from MOD;
 - DE&S' risk appetite and the controls that are in place to manage risks and threats and to address opportunities;
 - the DE&S ARAC

3.8.4 Where the Board feels that the CEO (who has ultimate responsibility for decisions) is acting contrary to its advice, the Chair should make the Perm Sec and Corporate Sponsor Representative aware of the Board's views.

3.8.5 In the event that the CEO believes that the position of the DE&S Board is in conflict with their responsibilities as AO, the CEO will seek to remedy this in discussion first with the Chair of the DE&S Board, then through the Perm Sec and ultimately with Min(DP).

3.9 DE&S Chair's Responsibilities

3.9.1 The independent non-executive Chair of the DE&S Board is accountable to Min(DP) for leading the DE&S Board and ensuring its effectiveness in all aspects of its role. The Chair sets the Board's agenda and ensures that adequate time is available on all agenda items, in doing so promoting a culture of openness and debate.

3.9.2 The Chair has a role in advising UKGI (Defence) on high-level business issues affecting DE&S (over and above regular Board business) through the P&RR. They also report to the UKGI (Defence) and Min(DP) on the effectiveness of the Board through annual reviews.

3.9.3 In addition, the Chair has the following responsibilities:

- The overall effectiveness of the Board;
- formulating the Board's strategy;
- providing advice to Min(DP) via UKGI (Defence) on DE&S strategic direction, objectives and risks;
- monitoring objectively, management performance and attainment of objectives against target performance
- ensuring there is a culture of openness and partnership within DE&S and with MOD;

- providing support, advice and constructive challenge to the CEO;
- delivering high standards of regularity and propriety for the Board;
- ensuring board members are fully briefed on terms of appointment, duties, rights and responsibilities;
- ensuring the Board is supported by effective and properly constituted Audit and Risk Assurance, Remuneration, Nomination and Programme Review⁶ subcommittees;
- ensuring there is a Board Operating Framework (the Board Charter) in place setting out the role and responsibilities of the Board consistent with the Government Code of Good Practice for Corporate Governance and the Cabinet Office publication Code of Conduct for Board Members of Public Bodies;
- ensuring any personal or Board member conflicts of interest are actively identified and managed;
- organising an annual assessment of the effectiveness of the Board;
- assessing the performance of individual board members;
- leading and undertaking annual performance reviews of the CEO on behalf of the Perm Sec, including recommendations on performance award (as advised by the RemCo), which include Departmental feedback on performance;
- providing liaison between the Board and the senior executives of DE&S and between the Board and staff of the organisation;
- providing senior liaison with, and gathering feedback from, the Front-Line Commands and other MOD customers;
- participating in Whitehall, customer and supplier stakeholder management;
- representing DE&S to the public and stakeholders
- advising on the appointment of the CEO including as a selection panel member;
- managing the frequency, content and conduct of Board meetings, ensuring that systems are in place to provide members with accurate and timely information of good quality to allow the Board to properly consider all matters before it

3.9.4 To strike the right balance of skills, experience and objectivity, the Chair will agree the size and composition of the Board with the CEO, including a commitment to improve diversity, taking into account guidance and best practice on Boards in the public and private sectors, subject to approval from the Corporate Sponsor Representative and PAO and the approval of Min(DP).

3.10 Individual board members' responsibilities

3.10.1 Individual board members should:

- Act in accordance with the Seven Principles of Public Life (the Nolan Principles);
- Comply at all times with the Code of Conduct for Board Members of Public Bodies and with the rules relating to the use of public funds and to conflicts of interest;
- Not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations;
- Comply with the Board's rules on business appointments;

⁶ Terms of Reference for Programme Review Committee being drafted at time of publication

- Comply with DE&S policy on the acceptance of gifts and hospitality and travel and subsistence; and
- Act in good faith and in the best interests of DE&S.

3.11 Board Composition and Appointments

- 3.11.1 The composition of the Board is a critical factor for the Department in ensuring that DE&S effectively discharges its functions, and does so within a strong and effective corporate governance system, with effective arrangements in place to provide assurance to the Department on risk management, governance and internal control.
- 3.11.2 The majority of DE&S board members will be independent non-executives (not including the MOD board members). The Non-Executive Directors (NEDs) shall have a balance of skills and experience relevant to directing DE&S business. Filling a Board vacancy will be based on an audit of skills and experience across the Board and an assessment of the skills required over the coming years. The role of the NEDs is to provide expert support, advice and constructive challenge to the CEO, the DE&S Executive team and the Board itself.
- 3.11.3 As a minimum, the DE&S Board will comprise of:
- an independent, non-executive, Chair;
 - independent NEDs;
 - the Corporate Sponsor Representative NED;
 - DCDS(MilCap) as a MOD NED reflecting their lead on policy;
 - the DE&S CEO;
 - the DE&S Chief Finance Officer;
 - other NEDs and Executive(s) as agreed between the Chair and the CEO.
- 3.11.4 The quorum necessary for the transaction of business is three NEDs (which includes the Chair or a lead NED appointed in the absence of the Chair) and two DE&S Executives. If a NED has a direct or indirect interest in any proposed discussion, they have a duty to declare both the nature and extent of that interest to the other board members. All board members are required to update their declarations of interest as and when they change.
- 3.11.5 The Chair is a non-regulated appointment managed in accordance with the principles of the Governance Code for Public Appointments. The Perm Sec has responsibility for appointment of the Chair, following advice from the Corporate Sponsor Representative and approval from Min(DP). The recruitment process is led and coordinated by UKGI (Defence) with advice from the MOD Public Appointments Team where necessary and is funded by DE&S.
- 3.11.6 Other board member appointments are also non-regulated appointments managed in accordance with the principles of the Governance Code for Public Appointments. The Perm Sec has responsibility for NED appointments, following advice from the Corporate Sponsor Representative and approval from Min(DP). The recruitment process will be led and coordinated by UKGI (Defence) with advice from the Department's Public Appointments Team where necessary and is

funded by DE&S. The Chair and CEO will be consulted on proposed appointments.

- 3.11.7 Board appointments can be for a fixed-term of up to five years which may be extended for a further term up to a maximum of nine years, subject to their meeting required performance standards. Reappointments and extensions require the agreement of Min(DP). Individual independent NED appointments totalling more than nine years will be considered only in exceptional circumstances and justified in the DE&S ARAC. DE&S will ensure that all new NEDs receive an appropriate induction and the support to enable them to contribute effectively to the Board's activities.

3.12 DE&S Board Sub-Committees

- 3.12.1 In discharging its role and responsibilities, the Board delegates some activities to sub-committees of the Board. These are the Audit and Risk Assurance Committee, Remuneration, and Nomination Committees. The DE&S Board Chair will ensure that the Board receives adequate and timely feedback on the work of these sub-committees and that it is able to consider their recommendations.
- 3.12.2 The Corporate Sponsor Representative shall be a member of the Nomination, Remuneration, and Audit and Risk Assurance Committees.

Audit and Risk Assurance Committee

- 3.12.3 The role of the Audit and Risk Assurance Committee is to support the DE&S Board and CEO in monitoring the organisation's corporate governance and control systems. Members are responsible for reviewing the comprehensiveness, reliability and integrity of controls and reviewing the financial statements. The Audit and Risk Assurance Committee advises the Board and the CEO on:

- the strategic processes for risk, control and governance, and the Governance Statement;
- the ARAC;
- the planned activity and results of both internal and external audit;
- adequacy of management response to issues identified by audit activity;
- assurances relating to the management of risk and corporate governance requirements for DE&S, including external audit's management letter and any actions arising from the MOD's external audit management letter;
- proposals for tendering for external audit services or for purchase of non-audit services from contractors who provide audit services;
- any in year changes to the accounting policies, the key accounting judgements, or the estimates used in preparing the accounts;
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

- 3.12.4 The Audit and Risk Assurance Committee is chaired by a NED, who is also a member of the Board. Its membership will include at least one additional NED, and the Corporate Sponsor Representative or their representative, as agreed by the Chair of the committee (in their role as a MOD NED). The Chair of the

committee will make provision as appropriate at every meeting for members to discuss matters without other executive attendees.

- 3.12.5 The Chair of the DE&S Board has a standing invitation to attend. Also normally in attendance (but not part of the committee) are the DE&S Chief Finance Officer (DE&S DG Resources), the Director of Strategy and Corporate Operations, the Head of Financial Accounting and representatives from the National Audit Office (NAO) and Defence Internal Audit (DIA). In addition there is an open invitation to the CEO to attend and as a minimum they should attend one meeting a year.
- 3.12.6 The Audit and Risk Assurance Committee will annually review its own effectiveness and report the results of that review to the DE&S Chair and to the Board.
- 3.12.7 The quorum necessary for the transaction of business is two NEDs (including the Chair of the Audit and Risk Assurance Committee).

Remuneration Committee

3.12.8 The Remuneration Committee advises the Board and CEO on matters relating to the proper development and application of the DE&S total remuneration strategy (including its pay and reward structures) and the relevant freedoms (as set out in Annex A), as well as on the remuneration of the CEO, the top civilian executive team⁷ and other senior staff while recognising that these are often determined by Senior Civil Service (SCS) and Departmental guidelines^{8,9}.

3.12.9 Specific responsibilities for the Remuneration Committee include¹⁰:

- Reviewing and providing advice on the DE&S total remuneration strategy (including pay structures) and providing advice to the Board to ensure the strategy is financially sustainable; takes into consideration the longer term spending position; ensures the organisation retains control of the pay bill and is consistent with the pay freedoms and any guidance from MOD; is evidence based; and appropriately incentivised;
- having regard to, but not bound by, the pay and employment conditions elsewhere in the Civil Service and public sector pay policy, especially when determining annual salary increases;
- reviewing and providing advice on DE&S' application of its pay freedoms, ensuring these are applied effectively and appropriately to meet business needs, and reporting its views on this in the ARAC;
- determining that DE&S remains within the allocated and agreed HM Treasury ceiling of the number of individuals whose base salary can exceed the 'Senior Salary Cap';
- advising on the remuneration (including the performance award) of the CEO;
- advising on the development of the framework and broad policy, including performance framework, for the remuneration packages of the Executive members (defined as Executive Committee members) and senior staff

⁷ The CEO, the Executive Committee and the wider Senior Leadership Group as appropriate

⁸ Guidance on Terms of Reference Remuneration Committee. Institute of Chartered Secretaries and Administrators (ICSA), October 2010. And the Corporate Governance Code for Central Government Departments.

⁹ Corporate Governance in Central Government Departments: Code of Good Practice. HM Treasury and Cabinet Office, July 2011.

¹⁰ Guidance on Terms of Reference Remuneration Committee. ICSA, October 2010.

recognising that these are often determined by Senior Civil Service (SCS) and Departmental guidelines;

- considering what compensation commitments (including pension contributions and all other elements) the Executives' terms of appointment would entail, and as part of a specific policy, in the event of early termination;
- based on recommendations from the CEO, consider individual reward packages of the Executives and other senior staff as appropriate;
- reviewing and providing advice on the development and application of any other remuneration and conditions of employment issues as directed by the Board or the CEO.

3.12.10 The Remuneration Committee comprises at least three members, all of whom shall be NEDs. One of the members shall be the Corporate Sponsor Representative NED, or their representative as approved by the Chair of the Board. The Board appoints the Committee Chair who should be an independent NED. The Chair of the Board shall not be Chair of the Committee nor a full-time member but has a standing invitation and will attend as appropriate.

3.12.11 Appointments to the Committee shall be made by the Board and shall be for a period of up to three years, which may be extended for a further period of up to three years, so long as they remain independent.

3.12.12 By agreement with the Committee Chair, other individuals may be required to attend all or part of any meeting as appropriate, including the CEO, the DE&S Human Resources Director and their specialist advisors, the DE&S DG Resources, and other Executives or Non-Executives, unless there is a conflict of interest. The quorum necessary for the transaction of business is two members to include its Chair or a vice Chair (nominated by the Chair of the Board).

3.12.13 The Committee will typically be engaged to consider proposals which have been developed by the DE&S Executive and People Committee, but before any final decisions or communications related thereto. This will allow the Committee to reasonably inform, advise and shape proposals prior to final decision. Such proposals, in addition to the related core content, should particularly provide clarity on i) use of 'pay freedoms' ii) any related deviation from or impact on wider MOD and DE&S/MOD interfaces iii) specific dilemmas/choice points upon which the Executive seeks advice. Proposals should also, insofar as is possible, address the business case, value for money and affordability.

Nomination Committee

3.12.14 The Nomination Committee meets as necessary to advise DE&S Chair, CEO and the Corporate Sponsor Representative on the balance of skills on the Board, succession planning for independent NEDs and appointments to senior leadership roles in the Executive.

3.12.15 Specific responsibilities for the Nomination Committee include:

- supporting the Chair to evaluate regularly (at least every three years) the balance of skills, knowledge and experience of the DE&S Board;
- Supporting the Chair and UKGI (Defence) on succession planning for independent NEDs;
- succession planning for the DE&S Executive Committee and other senior leadership roles.

3.12.16 The Nomination Committee comprises a minimum of three NEDs and is chaired by a NED (currently the Chair of the DE&S Board). Only members of the Committee have the right to attend meetings. Other individuals may be required to attend all or part of any meeting as appropriate. The quorum necessary for the transaction of business is two members including its Chair or a Vice Chair (nominated by the Chair of the Board).

Programme Review Committee

3.12.17 The PRC will undertake regular reviews of the status, progress and management of selected critical in-flight programmes providing challenge and support to the executive relating to the effective delivery of the Equipment Programme. It will provide Early Strategic Advice to new programmes early in the phase (around Strategic Outline Case and well before the Outline Business Case). It will review and provide advice on DE&S programme delivery improvement activities and will annually review the processes to undertake and embed Learning from Experience. In reviewing 'in flight' programmes, the Committee shall review, but not be limited to, performance of the associated supply chain, progress against Earned Value, EAC & other financial metrics, critical milestone delivery, mitigating actions to overcome issues and performance to programme specification and customer requirements.

3.12.18 At the start of each financial year the Committee will propose and agree with the Board the programme of activity for the year.

3.12.19 Specific Responsibilities for the PRC include:

- Review the DE&S delivery of specific in-flight (i.e. post Outline Business Case or Full Business Case) programmes
- Review & provide Early Strategic Advice into new major programmes (usually around the time of the Strategic Outline Case or well before the Outline Business Case)
- Review and provide advice on any Programme delivery improvement activity including Lesson Learned
- Provide advice & guidance to the DE&S Board and Executive based upon its findings & observations

3.12.20 The Programme Review Committee comprises at least three DE&S Non-Executive Directors (one of who will be the Chair), plus the CEO and DG Resources. Although not formally part of the membership the DE&S Chair and DCDS (Fin Mil Cap) will also have standing invitations to attend. The quorum necessary is four members.

4 CUSTOMER RELATIONSHIPS

4.1.1 DE&S has a set of customers, which consists of the military commands (Royal Navy, Army, Royal Air Force and Strategic Command), and Director Strategic Programmes within MOD Head Office. The relationship with the military customers is about ensuring the best delivery of the equipment, support and services they need. It is managed through the CASPs, which formally capture the

agreed outputs against which DE&S teams deliver. The CASPs are reviewed and updated on annual basis, with measurement of performance undertaken through regular review meetings.

- 4.1.2 Should there be a failure (DE&S or a customer) to deliver against the CASP, the DE&S Board and P&RR should be informed. The formal escalation route would be to the MOD lead for the Acquisition System. In the first instance, this is DG Finance and DCDS(MilCap). As with all elements of Defence, ultimate responsibility for ensuring the Defence system is working to meet Defence's needs is with the PAO.

4.2 Additional DE&S Responsibilities to MOD

- 4.2.1 DE&S has additional responsibilities to provide advice and guidance and support to a number of Government Wide initiatives and activities (e.g. Quality Assurance, Safety and Anglo/French Cooperation) on behalf of MOD to all MOD Top Level Budget (TLB) holders and customers. DE&S will act as the lead and focal point for such initiatives.

4.3 Reporting on legal risk and litigation

- 4.3.1 The parties acknowledge the importance of ensuring that significant legal issues are communicated appropriately to UKGI (Defence) in a timely manner. The primary route for such communication will be via the CEO's monthly report to the DE&S Board.
- 4.3.2 Where necessary, in the event of significant legal challenges resulting in, or likely to result in Court hearings, the relevant DE&S team will prepare a Ministerial Submission. This will be routed through the CEO and copied to UKGI(Defence). The DE&S Board will also be informed via the CEO's monthly report to the Board, or via a separate briefing at the CEO's discretion.

4.4 HM Treasury and Cabinet Office

- 4.4.1 DE&S is part of MOD and therefore complies with current HM Treasury guidance including Managing Public Money and any instructions and guidance to government departments and to bodies that operate at arm's length, except where it has been delegated freedoms in respect of such instructions and guidance as set out in Annex A. On novel and contentious issues, advice will be taken from MOD Finance Policy (shared with UKGI (Defence)) and referred to HM Treasury for final approval. DE&S also follows all relevant Cabinet Office instructions and guidance, except where it has been delegated freedoms in respect of such instructions and guidance as set out in Annex A.

4.5 MOD Functional Leadership

- 4.5.1 All MOD enabling organisations, including DE&S, comply with strategies, policies, standards, and processes set by both Government and MOD Functional Owners, unless specific derogations have been agreed.
- 4.5.2 MOD Functions consult EOs, including DE&S, on their strategies and any form of new policy, process or directive, prior to implementation.
- 4.5.3 If DE&S judges that proposed changes would unduly hinder or obstruct the delivery of its delegated responsibilities (for example contradictions or its management freedoms), it can make a case for exemption to the relevant Functional Owner.
- 4.5.4 Resolution of disagreements between DE&S and MOD Functions takes place at the lowest possible level. If a disagreement remains, the MOD Functional Leader and the DE&S Function Director will jointly escalate in line with the process outlines in the relevant Functional Operating Model, with appropriate engagement with the MOD Functional Owner and DE&S CEO if this is necessary.
- 4.5.5 The final arbiter for disagreements is the Perm Sec, via the MOD COO. Any submissions must have been visible to all parties affected, and there must have been the opportunity for both sides to respond and/or explain before a submission is formally made.

5 CORPORATE GOVERNANCE

- 5.1.1 DE&S shall operate corporate governance arrangements that, so far as practicable and in the light of the other provisions of this Framework Document or as otherwise may be agreed with MOD, accord with corporate governance best practice.
- 5.1.2 In particular (but without limitation to), DE&S should seek to comply with:
 - the principles and provisions of the Financial Reporting Council's UK Corporate Governance Code (the "Code") (as amended and updated from time to time); and
 - the principles and provisions of the codes of good practice set out in Annex C of this Framework Document, as they apply to arms' length bodies.
- 5.1.3 DE&S shall provide an account of corporate governance in its annual governance statement including the Board's assessment of its compliance with these codes with explanations of any departures.
- 5.1.4 To the extent that DE&S does not intend to observe the Code, UKGI (Defence) and MOD should be notified in advance.

5.2 DE&S Corporate Plan

- 5.2.1 DE&S will prepare a Corporate Plan for a rolling period of three years. It is reviewed and agreed annually by the DE&S Board and approved by Min(DP) through submission from UKGI (Defence). In preparing the Corporate Plan, DE&S

shall agree with the Board and UKGI (Defence) the issues to be addressed in the plan. The Corporate Plan shall be published on www.gov.uk.

- 5.2.2 The plan shall include DE&S' objectives and shall demonstrate how DE&S contributes to the achievement of the Department's priorities. The Corporate Plan shall set out the Key Performance Indicators (KPIs) and associated targets within the policy, financial and resource parameters set by the SofS. In addition, it will also encompass:
- the strategy for delivering DE&S' purpose and vision;
 - the main activities and investments that will deliver this strategy;
 - how success will be measured, including delivery against objectives and milestones;
 - the wider context and key underpinning assumptions;
 - an overview of DE&S' resources.
- 5.2.3 Individual business decisions flowing from the assumptions contained in the Corporate Plan will be subject to the finance and control framework at Section 10.
- 5.2.4 Underpinning the Corporate Plan will be annual plan(s) for the delivery of DE&S business, reviewed as appropriate by the DE&S Executive and the DE&S Board. Business plan(s) will not be published externally.

6 PERFORMANCE AND MONITORING

6.1 Monitoring of performance

- 6.1.1 DE&S will operate management information and accounting systems that enable the Board to review in a timely and effective manner, DE&S' financial and non-financial performance, and the key risks to delivery.

6.2 Sharing information

- 6.2.1 DE&S will support MOD and UKGI (Defence) and HM Treasury in fulfilling their roles by providing relevant information on request, including but not limited to: financial performance against plans and budgets, achievements against targets, capital expenditure and investment decisions, Board appointments and remuneration, branch network information and reports on key corporate risks. Some of this information will be provided through the DE&S Board and sub-committees and MOD and UKGI (Defence) will recognise the need to utilise existing DE&S management information and the principle of 'input once, use many times' wherever possible.
- 6.2.2 UKGI (Defence) may use the information as necessary to properly exercise their role on the understanding that due care will be taken in handling commercial sensitive and legally privileged information.
- 6.2.3 More widely, the Board and CEO are responsible for creating a culture of openness and transparency with UKGI (Defence), MOD Functional Owners and

MOD as a whole to ensure effective flows of high quality information and provision of early warning of potential issues.

- 6.2.4 DE&S and the Department must take the initiative in informing the other of changes in conditions which need to be agreed or other significant developments, in particular where these may: make the achievement of DE&S' objectives more or less difficult; impact DE&S' ability to deploy its budget allocation; or raise significant reputational risks for DE&S or the Department.
- 6.2.5 This shall be done without delay, particularly where DE&S considers an issue will impact on the ability of the CEO to discharge their AO responsibilities.
- 6.2.6 FMC and DE&S will liaise regularly to discuss and inform wider policy developments that might have an impact on DE&S. The Department shall, as soon as it is aware, provide DE&S with notice of any emerging policy, programme or operational changes that may have implications for DE&S performance and/or present budgetary or financial implications and will agree a way forward for implementation.
- 6.2.7 The Corporate Sponsor Representative shall work with DE&S to resolve issues, where required, escalating within the Department to the Perm Sec and with the DE&S CEO respectively if this becomes necessary.
- 6.2.8 As part of MOD, DE&S is subject to the same guidance on providing advice to Ministers as all other elements of the Department. This includes the requirement to consult widely with the relevant functional experts for all submissions, and with UKGI (Defence) where applicable. Submissions must bring together the evidence and the experts to give clear, balanced, and objective advice.
- 6.2.9 In particular:
- FMC must be consulted on, and clear, advice that affects the Department's financial or capability positions, or which impacts force structure, Departmental output or materially changes the financial position of a TLB.
 - UKGI (Defence) must be consulted on advice related to DE&S corporate strategy, plan, capability, performance, funding and risks.
- 6.2.10 Submissions covering significant corporate issues should also reflect the views of the organisation Board.
- 6.2.11 In the event of doubt or matters that are novel or contentious, the default assumption should be that MOD and UKGI (Defence) consultation is required.

7 ANNUAL REPORT AND ACCOUNTS

- 7.1.1 The CEO is required to prepare the DE&S ARAC in accordance with the relevant guidance from HM Treasury and the NAO and must comply with HM Treasury's Financial Reporting Manual (FreM); Managing Public Money; HM Treasury's Fees and Charges Guide and relevant Public Expenditure System instructions.

- 7.1.2 The ARAC provides details of DE&S' business and financial performance over the previous financial year, and includes:
- statement from the Chair and CEO;
 - governance statement setting out disclosures related to governance, risk and control;
 - review of performance against objectives and targets;
 - sustainability report;
 - biographies and remuneration details of key personnel;
 - detailed financial statement that meets the accounting and disclosure requirements set by HM Treasury in the latest published Financial Reporting Manual (FReM).
- 7.1.3 The ARAC is endorsed by the Audit and Risk Assurance Committee and the Board. The financial statements are audited by the NAO, and a certificate is included in the ARAC.
- 7.1.4 The specific timetable for preparing the ARAC shall be agreed with the Audit and Risk Assurance Committee and the Board each year.
- 7.1.5 In accordance with the FReM, DE&S will be treated as part of the Core Department and Agencies disclosures in preparing the MOD's Group Accounts. In this regard, DE&S will operate within the Departmental accounting framework, complying with the MOD timetable and updating the DE&S Audit and Risk Assurance Committee as necessary.
- 7.1.6 The accounts shall be laid in Parliament and made available on gov.uk website. A draft of the report should be submitted to the Department two weeks before the proposed publication date.

8 POLICY FRAMEWORK

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

8.2 Parliamentary Accountability

- 8.2.1 Min(DP) remains accountable to Parliament on all matters concerning DE&S and retains the right to intervene in the operations of DE&S if public or parliamentary concerns justify it.
- 8.2.2 The PAO is accountable in respect of the MOD account. Accordingly, a Select Committee may choose to invite the PAO and/or policy officials with representatives of DE&S to give evidence together. All Departmental staff are subject to Cabinet Office's Guidance on Giving Evidence to Select Committees.

- 8.2.3 As AO, the CEO is directly responsible to Parliament for the stewardship of DE&S' resources. Where a Select Committee wishes to take evidence on matters assigned to DE&S, it will normally fall to the CEO to give evidence.
- 8.2.4 Parliamentary Questions and other enquiries about DE&S from Members of Parliament, Members of the National Assembly for Wales, the Northern Ireland Assembly and the Scottish Parliament are answered by Min(DP). Min(DP) may ask the CEO to reply directly to other correspondence and about issues delegated to them.

8.3 Health and Safety, Environmental Protection and Sustainability

- 8.3.1 DE&S will maintain and manage its responsibilities for health and safety at work and environmental protection in line with legislative requirements and the SofS' Policy Statement. DE&S is regulated by appropriate external bodies (e.g. Health and Safety Executive, Office of Nuclear Regulation) and internally by the Defence Safety Authority (DSA).
- 8.3.2 DE&S will incorporate sustainable development principles in all its strategies, policies, processes and associated programmes, projects and activities, as stipulated in the MOD's policy.

8.4 Safety and Environmental Performance of Military Systems

- 8.4.1 In addition to the CEO's general responsibilities, they are also responsible for ensuring that governance, systems and processes are in place to deliver safe and environmentally compliant military systems and to ensure that users:
- are fully informed of the instructions, and where appropriate restrictions for the use and deployment of equipment;
 - understand the skills and competence requirements needed to operate and maintain equipment according to defined procedures, instructions, Joint Service Publications, statutory and regulatory requirements and Departmental policy;
 - ensure equipment complies with legislation and departmental policy, and that the safety risks when used in accordance with design assumptions are "as low as reasonably practicable" and those risks and impacts are monitored and progressively reduced.

8.5 Quality, Interoperability and Coherence

- 8.5.1 DE&S will ensure that governance, systems and processes are in place to: deliver its quality responsibilities; contribute to interoperability and the management of capability coherence; and mitigate associated risks. This will include having suitable arrangements in place to support the following:
- Quality. Implement appropriate governance systems, provide assurance and continuous improvement to enable the delivery of defence equipment and support supplied to the front line. This includes the configuration management of the supplied equipment.

- Interoperability. Consistent with customer requirements, ensure that procured systems and services can operate together in permanent or temporary configurations to provide increasing levels of military capability. Interoperability is enabled between planned and existing UK military assets and with those of allies, and emergent interoperability risks are mitigated.
- Coherence. Ensure that acquisition projects preserve the integrity of customer capability needs, from requirements to technical specifications, in contracts with industry.

8.6 Parliamentary Commissioner for Administration

- 8.6.1 DE&S is subject to the jurisdiction of the Parliamentary Commissioner for Administration. The CEO is responsible for the preparation of replies on any matter concerning DE&S, consulting Min(DP) as appropriate.

8.7 International Partnering and External Relations

- 8.7.1 The CEO or DE&S Executives will, if tasked by Government customers, further the interests of DE&S and MOD at national and international events. in agreement with **DCDS(MilCap)**. The objective of this is to deliver continually improved products and services for Defence and Government customers and for the benefit of DE&S and MOD's partner organisations.
- 8.7.2 The CEO is also the UK's National Armaments Director (NAD). This role fulfils a number of functions, ranging from the senior representative on the NATO committee responsible for Alliance armaments cooperation, materiel standardisation and defence procurement, to international capability cooperation at the strategic level. As NAD, the CEO also plays a key role in representing MOD at official level in bilateral and multilateral relationships, particularly equipment procurement programmes.

8.8 Information Rights and Management

- 8.8.1 The CEO is responsible to the SofS for complying with the requirements of the Freedom of Information Act (FOI), the Environmental Information Regulations and the General Data Protection Regulation (GDPR). The CEO will ensure that adequate resources, appropriate structures, policies and processes are in place to enable MOD to meet its statutory information rights obligations in respect of information held by DE&S, or related to its activities.
- 8.8.2 DE&S will follow information rights best practice standards identified by the MOD and as set out in Information Commissioner Guidance and its performance will be included within the overall FOI performance reports provided by MOD to the Cabinet Office on a quarterly and annual basis. The MOD will provide policy, procedural, legal advice and support to DE&S on information rights matters and an independent appeals process for the handling of complaints in accordance with the legislation and the related Statutory Codes of Practice.

8.8.3 DE&S will follow MOD Information Policy to support compliance with legislation and preservation of an effective Departmental record of business. The information produced by DE&S will be owned by MOD.

8.9 Organisational Certification

8.9.1 In order to meet best-practice standards as an employer and supplier, DE&S will achieve and maintain accredited certification under ISO 9001 (Quality Management Standard) and later ISO 14001 (Environmental Management System), ISO 45001 (Occupational Health and Safety Management System) and ISO 27001 (Information Security Management Systems).

8.10 Intellectual Property Rights (excluding Crown Copyright)

8.10.1 Intellectual Property Rights (IPR) generated in DE&S remain vested in the SofS for Defence. These rights are administrated in accordance with the Letter of Authority from the PAO to the CEO. The IPR (except Crown Copyright) in all work carried out by DE&S is handled in accordance with MOD standard policy and held in the name of the SofS for Defence under the administrative and managerial control of MOD Defence Intellectual Property Rights (DIPR), as delegated by MOD's Head of IPR. IPR conditions in contracts placed by DE&S must be standard IPR contract conditions (such as IPR DEFCONs) unless otherwise approved by DIPR.

8.11 Members of the Public – Complaints

8.11.1 DE&S should comply with MOD and Government guidance on dealing with complaints. Any external complaints or concerns can be raised by telephone, email or post and the complaints procedure, including relevant contact details, is available on the DE&S website at: **www.gov.uk**.

8.12 Disposals Authority

8.12.1 The CEO has full authority to agree the selling of surplus and excess stores, equipment and capital items subject to the requirements of the Defence Logistics Framework. In addition, the CEO is to develop effective and efficient policies in respect of the disposal of MOD surplus equipment to enable:

- the best achievable receipt to be delivered to the donor of the equipment;
- a positive outcome to Defence priorities that include defence engagement and security cooperation; and
- an opportunity to enhance British prosperity through working with industry.

8.12.2 The CEO is accountable to the Perm Sec/PAO for:

- the disposal process for all surplus MOD owned capital assets (excluding, land, buildings and nuclear materiel);
- the disposal process of all surplus inventory stock (excluding nuclear materiel);

- the disposal process of all surplus non-inventory stock (e.g. waste and scrap but excluding nuclear material);
- sales of relevant current stock on a specific repayment basis; and
- the placing of contracts in support of disposal activities (subject to the commercial licence provided by DE&S DG Commercial).

9 HUMAN RESOURCES

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

9.2 Status of Staff and Conditions of Service

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

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

9.2.3 The CEO is responsible for the management of civilian staff and for developing and implementing personnel policies to meet the needs of DE&S and for ensuring the quality and consistency of DE&S personnel standards and practices.

9.2.4 The CEO will exercise their authority for setting the terms and conditions of service, including pay, for all DE&S staff, in accordance with the principles and standards laid down in the Civil Service Management Code, other centrally issued guidance; the principles governing the management of staff throughout MOD; and in line with the freedoms as set out in Annex A. Within this framework, the CEO should bear in mind the responsibilities of the PAO and their interest in the development of pay regimes across the Department as a whole.

9.2.5 In cases where changes are envisaged to DE&S personnel policy or practice (particularly pay or grading) that might have wider implications for MOD the CEO should discuss these with the Chief of Defence People through the DE&S HR Director and MOD's Civilian HR Director. Any significant changes to personnel policies or the reward strategy will be included in the DE&S Corporate Governance process (as described in this document). The CEO is required to share management information for the completion of Departmental reports as may be required.

9.2.6 Remuneration of senior executives will take into account the advice of the DE&S Remuneration Committee. Appointments at SCS Pay Band 3 will be made in conjunction with the PAO and the Senior Leadership Committee.

9.2.7 There is certain expenditure that HM Treasury will not delegate. The CEO will inform the PAO via the Chief of Defence People or DG Finance as appropriate, of

any proposed HR policies or payments that may be considered novel and contentious, and where necessary the Department will seek approval on DE&S' behalf.

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

9.3 Staff Recruitment and Retention

- 9.3.1 The CEO will ensure the optimum balance of civilian, military and contract staff on permanent and fixed-term appointments to achieve the most effective and efficient delivery of DE&S' products and services. The CEO has delegated authority to manage DE&S' staff and to recruit to fill vacant posts directly, determining their tenure and other conditions of appointment. Any changes to the total staff complement should be made within the extent of the freedoms set out in Annex A; any changes outside these freedoms will require external justification and agreement with MOD, HM Treasury and/or Cabinet Office. All requests for special severance payments should be staffed through the MOD prior to submitting to HM Treasury and/or Cabinet Office.
- 9.3.2 DE&S supports the MOD's achievement of Government targets for apprenticeships, as set out in the Enterprise Act and Apprenticeships, Skills, Children and Learning Act.

9.4 Staff Conduct and Discipline

- 9.4.1 All DE&S staff are expected to comply with the Civil Service Code and its standards of integrity, honesty, objectivity and impartiality and to uphold the highest professional standards.
- 9.4.2 The CEO will ensure that civilian disciplinary and poor performance cases are handled appropriately. They will have full powers, within their delegation, in matters relating to the conduct and discipline of all employees, which include dismissal, demotion, loss of seniority, loss of pay, reprimands and postings.
- 9.4.3 Any conduct or disciplinary issues involving military personnel working for DE&S will be taken forward in consultation with the appropriate personnel staffs in the Front Line Commands.

9.5 Employee Relations and Trade Unions

- 9.5.1 The CEO will ensure that staff are fully consulted about any proposed changes to terms and conditions of service. DE&S will engage openly and constructively with recognised Trade Unions in discussing proposals for changes affecting DE&S staff, and has its own Employee Relations Framework Agreement. However, any decisions around recognition or derecognition of Trade Unions remain with the MOD Civilian Employee Relations Team.

9.6 Whistleblowing

- 9.6.1 DE&S has a Whistleblowing and Raising a Concern process which outlines what DE&S staff should do when reporting perceived wrongdoing or malpractice within the organisation, including something they believe goes against the core values of the Civil Service Code (the Code). The Whistleblowing and Raising a Concern process has been written in accordance with the process set out in the Code and the Civil Service Management Code and follows that of the MOD Whistleblowing and Raising Concern process.

9.7 Diversity and Inclusion

- 9.7.1 The CEO will promote best practice in the area of diversity and inclusion. At a minimum, they will ensure compliance with all applicable legislation and MOD's Diversity and Inclusion policy. They will ensure that DE&S staff are provided with a working environment free from discrimination and harassment.

9.8 Welfare

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

9.9 Pensions, Redundancy and Compensation

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

10 FINANCE AND CONTROL FRAMEWORK

10.1 Managing Public Money and other government-wide corporate guidance and instructions

- 10.1.1 Unless agreed by the Department and, as necessary by HM Treasury, DE&S shall follow the principles, rules, guidance and advice in Managing Public Money, referring any difficulties or potential bids for exceptions to MOD in the first instance.
- 10.1.2 Once the budget has been approved by the MOD (DG Finance) and subject to any restrictions imposed by statute, Min(DP)'s instructions through the Perm Sec and this document, DE&S shall have authority to incur expenditure approved in the budget without further reference to the MOD, on the following conditions:
- DE&S shall comply with the delegated financial limits agreed with MOD (DG Finance) and set out in an annual delegation letter issued prior to the commencement of a new financial year. These delegations shall not be altered without the prior agreement of MOD (DG Finance).

- DE&S shall comply with MPM regarding novel, contentious or repercussive proposals and all such items will be referred to D Finance Strategy for agreement with HMT as necessary;
- inclusion of any planned and approved expenditure in the budget shall not remove the need to seek formal Departmental approval where any proposed expenditure is outside the delegated limits or is for new schemes not previously agreed;
- DE&S shall provide MOD with such information about its operations, performance individual projects or other expenditure as MOD may require.

10.2 Business Model

- 10.2.1 DE&S will comply with Managing Public Money and other government-wide corporate guidance and instructions. As part of the MOD it will comply with the standard financial policy processes and rules as set by the MOD DG Finance. At all times it will act within its delegated limits both for its operating costs and the programme of work. The limits are set out in the CEO's Letter of Authority.
- 10.2.2 DE&S will provide the financial information that is requested by MOD to allow MOD to manage its financial processes, taking into account the requirements and timescales associated with the annual planning and budgeting round and the publication of the MOD's ARAC. This will include the information required to support the production of MOD's ARAC particularly on inventory and assets.
- 10.2.3 The MOD's equipment and logistic support budgets are held by the Commands. The CASPs that are agreed annually between DE&S and each Command set out the Programme of Work that DE&S will deliver as the agent on behalf of the Commands as customers. The Commands provide the funding and these costs are accounted for solely in the MOD's ARAC and not in DE&S' ARAC.

10.3 Equipment approval decisions

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

10.4 Capital Investment

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

10.5 Audit

- 10.5.1 The CEO and the Audit and Risk Assurance Committee shall establish and maintain arrangements for internal audit in accordance with the Public Sector Internal Audit Standards.
- 10.5.2 The Head of the DIA is tasked by the Perm Sec and the Defence Audit Committee to carry out audits on all MOD departments. DIA should have continuous unrestricted access to all records, personnel, property and operations of the MOD including its arm's length bodies, with strict responsibility for confidentiality and safekeeping, and compliance with all statutory instruments relating to the use, retention and disclosure of data. DIA may attend Audit Committee meetings as observers.
- 10.5.3 DE&S will use the services of DIA and will agree an annual internal audit programme with them.

10.6 Internal Control

- 10.6.1 As AO, the CEO has responsibility for reviewing the effectiveness of the system of internal control in accordance with Government guidance. This review shall be informed by the work of the internal auditors and by the senior managers within the organisation who have responsibility for the development and maintenance of the internal control framework. This is augmented with advice from the NAO.
- 10.6.2 The CEO provides regular updates to the DE&S Board and Audit and Risk Assurance Committee to address any weaknesses, lessons learned and to ensure continuous improvement.

10.7 Risk Management Framework

- 10.7.1 DE&S shall ensure that the risks that it faces are dealt with in line with the MOD risk management process from strategic risks through to project delivery. The Risk Management Framework shall include agreed escalation processes and ways of working with the Department.
- 10.7.2 DE&S and MOD acknowledge the importance of ensuring that material risks are communicated appropriately to the Department in a timely manner.
- 10.7.3 DE&S shall adopt and implement policies and practices to safeguard itself against fraud and theft, in line with HM Treasury guidance on tackling fraud, Managing the Risk Fraud Guide for managers. It should also take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract.
- 10.7.4 The DE&S Risk Management Framework shall be subject to review and approval by the Department on an annual basis. Furthermore, it will be reviewed by the DE&S Board on an annual basis.

10.8 Government efficiency constraints

- 10.8.1 Government efficiency constraints on Departmental expenditure require HM Treasury and Cabinet Office approval of expenditure above certain limits and use of the Crown Commercial Services for the procurement of common goods and services.
- 10.8.2 DE&S will publish online information on all organisational expenditure over £25,000, in accordance with the format specified by the Cabinet Office and consistent with any agreed Transparency exemptions.
- 10.8.3 DE&S will publish all contracts with a value of over £10,000 in accordance with the instructions issued by the Cabinet Office and consistent with any agreed Transparency exemptions.

10.9 Right of access

- 10.9.1 The MOD has the right of access to all DE&S records and personnel for any purpose including, for example, sponsorship audits and operational investigations.

11 REVIEW OF DE&S

11.1 Tailored Review Programme

- 11.1.1 In accordance with the Cabinet Office Guidance for Tailored Reviews of ALBs, MOD will undertake a review of DE&S at least once every Parliament.

11.2 Duration of the Framework Document

- 11.2.1 Duration: This Framework Document shall be reviewed by the MOD, with the assistance of DE&S, at three yearly intervals, and when a new CEO is appointed. If required, amendments may be proposed for mutual consideration whenever either party considers this necessary.
- 11.2.2 Effective Date: This Framework Document will take effect from 15 January 2021. The next scheduled review of this document shall take place no later than December 2023.



Signed S Lovegrove
Date 15 Jan 21
(On behalf of MOD)



Signed. S Bollom
Date 15 Jan 21
(On behalf of DE&S)

ANNEXES

Annex A: DE&S Granted Freedoms

Annex B: UKGI (Defence) Responsibilities

Annex C: Compliance with Government-Wide Corporate Guidance and Instructions

Annex D: Glossary

DE&S GRANTED FREEDOMS

At point of creation as a Bespoke Trading Entity and arm's length body, DE&S was given the fullest possible freedom to manage its workforce and to organise itself consistent with delivery of its objectives. Specifically, this freedom of operation includes:

- a. The Department will agree with DE&S an operating cost envelope. The cost envelope will include an agreed level of efficiency and will be set out in the DE&S Corporate Plan. Within this cost envelope DE&S will have the freedom to manage all aspects of its workforce as necessary to meet its business needs. In doing so DE&S' pay strategy will be treated as separate from that of the MOD^{11,12}.
- b. DE&S will have the freedom to pay 23¹³ members of its staff more than the senior salary cap set by HM Treasury without further agreement. Should DE&S wish to appoint additional staff (above the 23), at salaries higher than the senior salary cap, individual cases will be made to seek the appropriate agreement.

To meet its business needs DE&S will be exempt from the relevant Cabinet Office Controls V6. Specifically, it is exempt from those controls on:

- Advertising, Marketing and Communications
 - Redundancy and Compensation
 - External Recruitment
 - Learning and development (Civil Service Learning)
- c. For Strategic Supplier Management DE&S will continue to work with the Cabinet Office to leverage the Government's relationship with strategic suppliers and will support the work of Crown Representatives. DE&S will contribute data and other information to strengthen the Government's position, both prior to and during projects. MOD and the Cabinet Office may jointly agree to formally badge a number of projects as "collaborative" with dedicated Cabinet Office resource made available.
 - d. For external recruitment, control will be delegated to the DE&S Chair. DE&S is required to comply with the National Trade Union agreement on surplus staff. However, DE&S can apply for a block exemption for specialist posts.
 - e. On redundancy and compensation DE&S is free to make staff exit arrangements, provided they are compliant with the rules of the Civil Service Compensation Scheme. Any proposals for special severance payments require separate agreement from HM Treasury/ Cabinet Office.
 - f. The commitment to transfer expenditure and to work in collaboration with the Crown Commercial Service remains in place. DE&S will continue to participate in the wider commercial agenda under the auspices of the Chief Commercial Officer.

¹¹ Civil Service Management Code paragraph 7.1.3 states that a business case is required for major pay and grading changes. However this framework document and the Corporate Plan affirm that DE&S have a continued freedom to set its own pay approach (noting any responsibilities to consult with relevant parties as set out above)

¹² Pay freedoms will be subject to Government scrutiny and direction in extraordinary circumstances. In such circumstances HMT retain the right to impose restriction or restraint as necessary and appropriate.

¹³ Originally 25 posts, 2 have moved across to Submarine Delivery Agency

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

h. As confirmed to the National Audit Office (NAO) via the publication of the 2021-22 Annual Report and Accounts (ARAC), the controls which currently impact DE&S relate to:

- Consultancy
- Professional Services
- Contingent Labour¹⁴
- Commercial controls (with the threshold for Cabinet Office clearance standing at £150m rather than £10m)

¹⁴ An exemption is in place from the Consultancy, Professional Services and Contingent Labour controls for expenditure associated with the delivery of Capital Assets

UKGI (Defence) Responsibilities

Establish and maintain appropriate and effective corporate governance foundations which govern the department-DE&S relationship

- work with MOD and DE&S to **establish and maintain appropriate corporate governance documents and systems**, through up to date and fit for purpose governance documents, including the Framework Document, Articles of Association where relevant, Board Terms of Reference and Chair's letter.

Promote effective objectives, business planning and performance against the Corporate Plan

- assess and challenge from an owner's perspective the DE&S Corporate Plan, the clarity of the objectives, the quality of the Corporate Plan and the financial, and where relevant commercial, strength underpinning it, and its effectiveness as a tool for DE&S.
- monitor and challenge both DE&S and its Board as to the **performance** against its Corporate Plan or equivalent document, in terms of how DE&S is performing as an organisation (as opposed to monitoring the success of the policy delivery itself).
- UKGI is not responsible for formally reviewing such business cases, providing advice to the Department and Ministers, or obtaining HMG approval for Business Cases, unless explicitly agreed otherwise.

Promote strong corporate capability

- through the UKGI(Defence) Team, and the Corporate Sponsor Representative's membership of the DE&S Board, promote the **strength of DE&S governance systems which support organisational performance**, by providing high level challenge to DE&S (and its Board) on:
 - a. governance framework compliance – defined as DE&S' view on its compliance with its governance framework (as set out in this Framework Document, delegated authorities, and any other specified governance documents); and
 - b. the adequacy and strength of DE&S reporting to the Department on these issues.

Promote effective leadership (high quality boards and senior management)

- promote the **effectiveness of DE&S leadership**, specifically through:
 - a. promoting high quality and diverse boards, challenging the Board's capability and effectiveness, and monitoring DE&S succession planning;
 - b. promoting the implementation of effective board composition, recruitment, remuneration and appointment processes;
 - c. providing a Corporate Sponsor Representative NED on the DE&S Board; and
 - d. giving a view on DE&S board level executive capability in relation to its responsibilities, and remuneration

Promote effective relationships between MOD and DE&S

- support effective relationships between MOD and DE&S, including through:
 - a. (UKGI) building effective relationships with DE&S Board and senior management;

- b. promoting effective interfaces and communications between the Department and DE&S, including through regular shareholder meetings; and
- c. maintaining an effective regular meeting “rhythm” with DE&S Chair, Board and executive to ensure appropriate flow of information (management information) between DE&S, UKGI and MOD, including effective reporting to MOD.

Supporting and supplementing the activities above by providing a Corporate Sponsor Representative NED on the DE&S Board who will:

- carry out the non-executive director role effectively, drawing on the support and analysis from the UKGI Defence team.
- be a member of DE&S Remuneration Committee, Audit and Risk Assurance Committee and Nomination Committee.
- act as an interlocutor between the Department and DE&S Board.
- provide a view to the Department on the strength of DE&S Board.

COMPLIANCE WITH GOVERNMENT-WIDE CORPORATE GUIDANCE AND INSTRUCTIONS

DE&S shall comply with the following general guidance documents and instructions:

- this document;
- Appropriate adaptations of sections of *Corporate Governance in Central Government Departments: Code of Good Practice*
<https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017> ;
- *Code of Conduct for Board Members of Public Bodies*
<https://www.gov.uk/government/publications/code-of-conduct-for-board-members-of-public-bodies>
- *Code of Practice for Ministerial Appointments to Public Bodies*
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/578498/governance_code_on_public_appointments_16_12_2016.pdf
- *Managing Public Money* (MPM) <https://www.gov.uk/government/publications/managing-public-money>;
- Public Sector Internal Audit Standards,
<https://www.gov.uk/government/publications/public-sector-internal-audit-standards> ;
- Orange Book: Management of Risk - Principles and Concepts
<https://www.gov.uk/government/publications/orange-book> HM Treasury Guidance on Tackling Fraud,
https://webarchive.nationalarchives.gov.uk/20130102192905/http://www.hm-treasury.gov.uk/d/managing_the_risk_fraud_guide_for_managers.pdf.pdf ;
- Government Financial Reporting Manual (FReM),
<https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>;
- Fees and Charges Guide, Chapter 6 of *Managing Public Money*;
- Departmental Banking: A Manual for Government Departments, annex 5.6 of *Managing Public Money*;
- relevant Dear Accounting Officer letters
<https://www.gov.uk/government/collections/dao-letters>;
- The Parliamentary and Health Service Ombudsman's Principles of Good Administration
<https://www.ombudsman.org.uk/sites/default/files/page/0188-Principles-of-Good-Administration-bookletweb.pdf> ;
- Consolidation Officer Memorandum, and relevant DCO letters;
- relevant Freedom of Information Act guidance and instructions (Ministry of Justice);
- other relevant guidance and instructions issued by the Treasury in respect of Whole of Government Accounts;
- other relevant instructions and guidance issued by the central Departments;
- specific instructions and guidance issued by MOD;
- recommendations made by the Public Accounts Committee, or by other Parliamentary authority, that have been accepted by the Government and relevant to DE&S.

GLOSSARY

ALB	Arm's Length Body
AO	Accounting Officer
ARAC	Annual Report and Accounts
CEO	Chief Executive Officer
COO	Chief Operating Officer
DE&S	Defence Equipment & Support
DIPR	Defence Intellectual Property Rights
DPA	Data Protection Act
DSA	Defence Safety Authority
DSOP	Directorate of Sponsorship and Organisational Policy
FOI	Freedom of Information Act
FReM	Financial Reporting Manual
HM Treasury	Her Majesty's Treasury
HR	Human Resources
HSE	Health and Safety Executive
IPR	Intellectual Property Rights
KPI	Key Performance Indicator
MOD	Ministry of Defence
MPM	Managing Public Money
NAO	National Audit Office
NED	Non-Executive Director
PAO	Principal Accounting Officer
P&RR	Performance and Risk Review
Perm Sec	Permanent Secretary
SofS	Secretary of State
TORs	Terms of Reference
UKGI	UK Governance & Investments