



DEFENCE EQUIPMENT & SUPPORT
ANNUAL REPORT AND ACCOUNTS

2021-22

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

DEFENCE EQUIPMENT & SUPPORT
ANNUAL REPORT AND ACCOUNTS
2021-22

For the year ended 31 March 2022

Presented to the House of Commons pursuant to section 7 of the
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2021-22 HIGHLIGHTS

This year has presented Defence Equipment & Support (DE&S) with a range of extraordinary and unique challenges which have included, responding to the continued impact of the COVID-19 pandemic, to more recently the invasion of Ukraine. A significant moment for Europe, NATO, and for global security. These challenges have required our people to adapt to changing working practices across our sites, whilst continuing to effectively deliver to our clients and stakeholders at pace.

Regardless of the challenges we have faced, DE&S has achieved many successes. A handful of our highlights are detailed below.

SAVINGS FOR DEFENCE

Hard work on efficiency¹ savings has continued to produce significant results. Since 2016, we have delivered £5.9 billion of independently assured efficiencies and this number is expected to grow as the rolling assurance process continues.

SUPPORT TO CURRENT OPERATIONS

DE&S has continued to provide essential support to Defence operations. Our work has become increasingly critical following the Russian invasion of Ukraine where we have played a vital role in delivering the United Kingdom's (UK) commitment to provide military aid to the Ukrainian forces. This has included to date, well over half a billion GBP (and increasing daily) worth of military support, including the provision of anti-tank and air defence weapons, as well as a wide range of munitions and non-lethal aid such as helmets, medical equipment and body armour. With support of streamlined approval processes and our industry partners, we have been able to mobilise contracts with industry in days and hours to meet these urgent requirements. In addition to this, we have supported deployments to Afghanistan, Estonia and Lithuania, enabling important tasks such as reconnaissance, transportation of troops and equipment. The flexibility and agility of our equipment has also been demonstrated within our Wildcat Attack Helicopter capability during deployments to Oman and Estonia.

■ We have played a vital role in delivering the UK's commitment to provide military aid to the Ukrainian forces. ■

SUPPORTING WIDER GOVERNMENT DEPARTMENTS

We have continued to support the Ministry of Defence (MOD) Head Office (HO) and wider Government in tackling COVID-19. This has included deploying 31 of our people to Other Government Departments (OGD) during 2021-22² to provide commercial and project support to the vaccine task force. DE&S has been fully engaged on a number of aspects throughout the COVID-19 pandemic, more notably where we led a cross-government team from 17 different organisations, to form the New Suppliers Team. The team sourced £6 billion of Personal Protective Equipment (PPE) from all over the world which was used to protect National Health Service and Social Care staff. As a result, the team were awarded both the "International Quality Team of the Year" award from Chartered Quality Institute and a Chief Executive Officer (CEO) commendation for their significant contribution and exemplary support to the UK.

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 and clear evidence of actions taken to achieve the efficiency.

² DE&S employees were out on short term loan to OGDs for 4 months on average during 2021/22. Of note that any loan over 6 months to a year come with differing terms and conditions with costs being recouped from the gaining department.



|| Since 2016 we have delivered £5.9 billion of independently assured efficiencies. ||

OUR PEOPLE PRIORITIES

Our people remain at the core of our business. In DE&S Strategy 2025 we made the commitment to grow our people, equipping them with digitally-enabled skills, to enable them to operate effectively and to weave our new DE&S values through everything we do as an organisation and as individuals. The publication of the first ever People Strategy in February 2022 underpins our DE&S Strategy 2025 and seeks to create an inclusive environment where skilled people are engaged, empowered, and inspired to be the best they can be to deliver the DE&S vision and mission.

We have ensured that our people have what they need to deliver and adapt to a hybrid working model. This has been achieved by delivering a Working from Home equipment support capability to over 9,000 people throughout the pandemic whilst investing £3.5 million across our sites on infrastructure and Information Technology (IT) so employees could work effectively as they returned to the office in larger numbers. This investment supports our new Smarter Working Policy and has included upgrading workstations and re-designing floorplates so they can be better utilised. In addition, we have provided improved Video Conferencing Capability across our sites, which has already been installed in over 50 rooms. This has enabled teams to fully embrace the move to a hybrid way of holding meetings.

This year has seen the successful implementation of our new, civilian Human Resources (HR) system, MyHR, delivering core functionality of performance and absence management as well as bolt-on modules for talent acquisition, casework management, and workforce planning.

We completed our detailed review of our reward approach for civilian staff early in 2022, and following negotiation with our Trades Unions, our new reward framework was announced on 6 April 2022 for implementation in Summer 2022. We believe it will strengthen DE&S as an organisation, support the retention of valued, capable and experienced people and attract new skills to DE&S.

Our commitment to diversity and inclusion has been maintained through a comprehensive Equality, Diversity, Inclusion and Wellbeing action plan for 2021-22. With

key highlights being a very successful Race Conference in October during Black History Month and recognition from Bristol City Council for our commitment to championing diversity and inclusion. Our leadership programmes have seen all of our Senior Leadership Group (SLG) participate in a day-long 'Everyday Excellence' session to support behaviours and personal development and over 1,300 of our senior managers attended modules on leading virtually, adapting to change and coaching. DE&S was a finalist in the national CIPD Best Apprenticeship Programme award and won the Large Employer of the Year award from Bridgwater and Taunton Colleges thanks to our Engineering Advanced Apprenticeship scheme.

SUPPORT DELIVERY

Our £5.2 billion Future Maritime Support Programme was nominated for both Public Procurement Project and Best Procurement Transformation of the year. The programme, which will sustain more than 9,400 UK jobs, is critical to enabling the Royal Navy (RN) to fulfil its pivotal role in defence and provides £600 million savings to the taxpayer.

We played a significant role in supporting personnel, ships, aircraft and submarines during the maiden operational deployment of the RN's Carrier Strike Group 2021 (CSG21).

We secured a long-term support and training contract for the new fleet of Apache AH-64E helicopters, creating more than 200 UK jobs.

A support and training contract worth more than £230 million for the Royal Air Force's (RAF) Poseidon Maritime Patrol Aircraft fleet was negotiated with Boeing Defence UK (BDUK), creating more than 150 jobs across the UK. A logistics system critical to UK armed forces operations around the world will be supported under a new five-year, £460 million contract with BDUK. This will support vital services including inventory, transport, engineering and general ledger management, ensuring the UK can successfully deploy military personnel and equipment globally.

Our £5.2 billion Future Maritime Support Programme was nominated for both Public Procurement Project and Best Procurement Transformation of the year.

EQUIPMENT DELIVERY

We placed a £100 million contract to deliver pioneering electronic warfare systems to the RN, alongside delivery of a cutting-edge autonomous system to detect sea mines.

We delivered the Sky Sabre ground-based air defence system to the British Army. The totally integrated system will provide a step change in the force's medium-range capability and with it, unprecedented speed, accuracy, precision and target acquisition.

The final Poseidon maritime patrol aircraft was delivered in January 2022, with all nine aircraft arriving at RAF Lossiemouth during the last two years. Working alongside the RN and close maritime allies, the fleet locates, identifies and tracks potentially hostile submarines operating around UK waters.

The new lightweight Martlet system achieved Initial Operating Capability following a successful firing from a Wildcat helicopter during CSG21. The new anti-boat swarm missile system provides an offensive and defensive capability, helping to protect the two Queen Elizabeth-class aircraft carriers from attacks by small boats.

The Army's next-generation war-fighting vehicle, Boxer, began production. The DE&S managed programme will deliver 623 vehicles in four variants, improving the agility of our armed forces.

Following the creation of our Space Delivery Team, we awarded seven contracts to UK companies worth a total of £3.8 million, to explore cutting-edge ways of navigating in the event of disruption of Global Positioning Systems.



RAF Typhoons deployed on Op BILOXI at Mihail Kogalniceanu Air Base in Romania



Photex of Joint Warrior task group 2013 with HMS Bulwark the Fleet Flagship leading



CHAIR'S INTRODUCTION

MARK RUSSELL

I am delighted to introduce this report, which is the third during my tenure, and covers the eighth year of DE&S' operation as a Bespoke Trading Entity (BTE) and Arm's Length Body (ALB) of the MOD. During the last year we have continued to deliver major equipment and support programmes for the RN, Army and RAF, whilst simultaneously adjusting to the pandemic and other emergent issues.

As Chair of the DE&S Board, and alongside the Board's Non-Executive Directors, it is my job to provide strategic governance to DE&S in order for it to deliver its objectives. Through the year the Board has focused on a number of organisational issues including safety, supplier relations, diversity and inclusion, DE&S' management of COVID-19 and retention of our people. We have also looked at a number of our larger procurements, helping to assist the Executive team to identify both best practice in acquisition and support, and what lessons we can learn from our more challenging programmes.

I have been encouraged by our trajectory in 2021-22 and in our commitment to react appropriately to unexpected challenges and to deliver for defence. Our organisation had a key role to play in delivering the Government's response to the pandemic just as, currently, we play a vital part in the UK's response to the war in the Ukraine. It has been really good to see how quickly we have switched priorities and resourcing to meet these challenges and respond effectively to urgent operational requirements throughout the year.

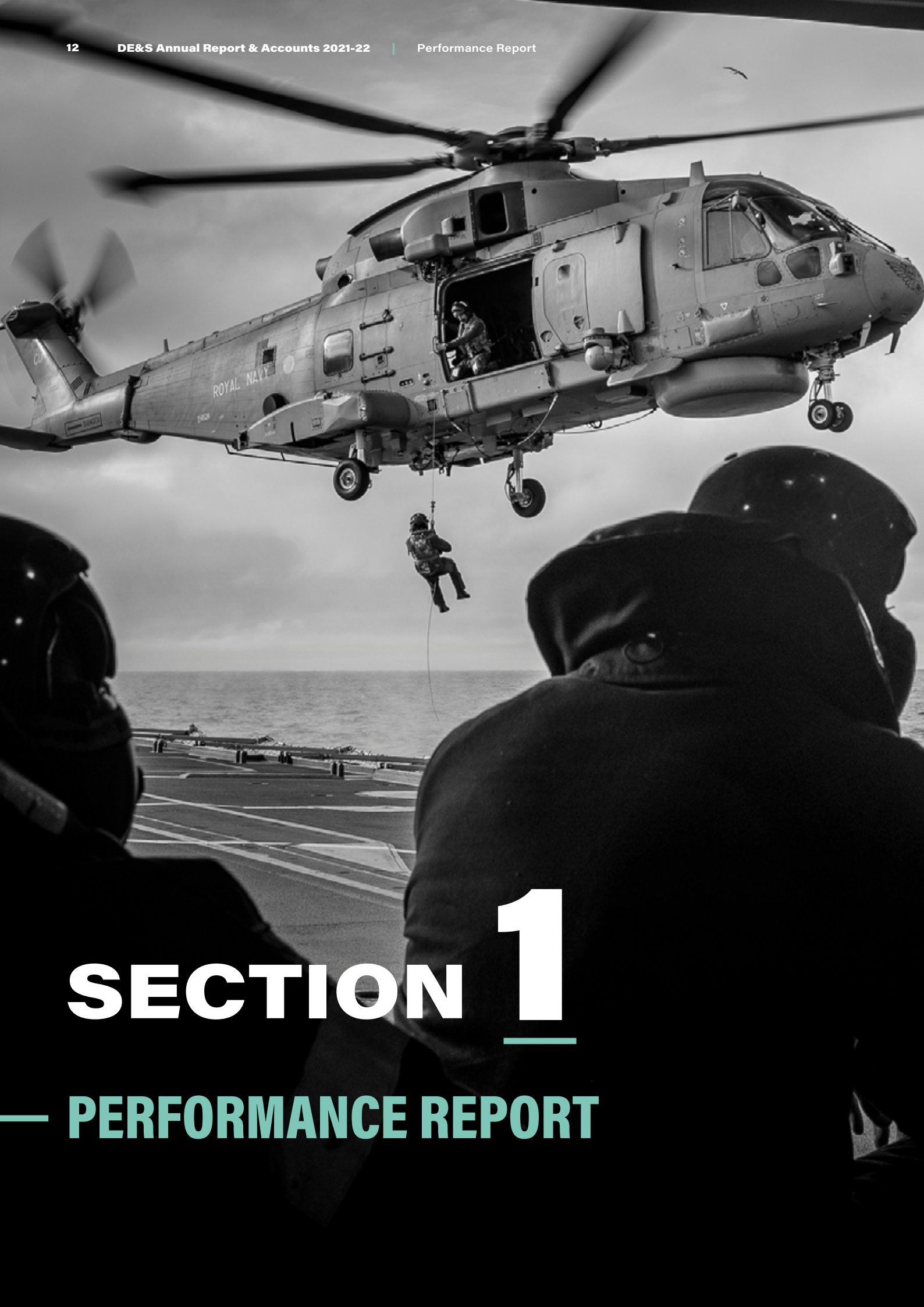
This year we saw the launch of the DE&S Strategy 2025 and our People Strategy. The DE&S Strategy 2025 sets out the roadmap for the coming years to help us meet the demands of defence, whilst addressing the skills gap and further improvements needed in our tools and processes. Underpinning the strategy are our four core values of excellence, inclusivity, collaboration and integrity, which are at the forefront of our decisions and priorities. Our People Strategy focuses on creating an

inclusive environment where our people feel engaged, empowered and inspired to be the best they can be. It complements the DE&S Strategy 2025 and aligns our corporate objectives with the people workstreams.

Within the wider landscape, the Integrated Review (IR) set out the course for a modernised, threat-focused and sustainable defence. Our security is increasingly reliant on effective international relationships, as we have seen this year in the worrying developments across eastern Europe. Through our collaborative programmes and international relationships, we have realised new opportunities and will continue to leverage our relationships with industry, to turn strategic needs and future priorities into deliverable programmes. All of these things are vital to the evolution of defence, as we increasingly focus on integrated and innovative defence procurement.

On behalf of the Board, I would like to extend a special thanks to Sir Simon Bollom, our CEO, who leaves us in July 2022. Over his tenure, Simon has demonstrated his commitment to defence and his colleagues in DE&S with unwavering resilience, and I wish him all the best for the future. I would also like to take this opportunity to welcome Andy Start as DE&S' new CEO. Andy will join us in September 2022, with considerable experience of Defence, the Private Sector and wider Government, and I greatly look forward to working with him.

■ I have been encouraged by our trajectory in 2021-22 and in our commitment to react appropriately to unexpected challenges and to deliver for Defence. ■



SECTION 1

— PERFORMANCE REPORT



Merlin from 829 NAS conducting winch operations on the flight deck of HMS ST Albans

■ We can only deliver for defence by ensuring that our people are better equipped to challenge our suppliers' performance and are able to deliver against important promises made to our clients. ■

OVERVIEW

CHIEF EXECUTIVE OFFICER (CEO) STATEMENT



This Annual Report and Accounts (ARAC) reflects another extremely busy year for DE&S. Delivering a vast, complex and challenging programme of work, we have maintained our focus and professionalism to support and equip our Armed Forces. I am proud of our successes - some of which are detailed in our highlights section - and the exceptional lengths that our people continue to go to deliver for defence.

In 2021-22, we launched the DE&S Strategy 2025 and set out our vision to be recognised leaders in the delivery of military equipment solutions. At the core of this strategy is the emphasis on driving digital solutions for business and battlespace advantage with initiatives to transform acquisition and embedding continuous improvement in programme delivery. It builds on the success of the DE&S@21 improvement plan and will deliver a further step-change in providing greater pace and agility for our clients and investing in the skills and capability of our people.

In our continued response to COVID-19, we have enabled new ways of working and introduced flexible working solutions, such as collaboration zones at our Abbey Wood site. Our Smarter Working initiative has progressed significantly, balancing individual preferences, alongside business needs. We also recognised the need to strengthen our expertise in some areas and improve our project delivery capability. This has resulted in the creation of a project delivery function, by combining the project management and project controls functions. This will unlock further opportunities and provide a more coherent approach to project delivery.

We can only deliver for defence by establishing robust but collaborative relationships with our key suppliers and encouraging innovation from a broader section of the supplier base. Our future capability group has led the way on innovation, and we will continue to challenge ourselves to harness new technology with pace and confidence. Recent world events have caused instability in some of our supply chains, and we will need to be proactive in managing risk within the end-to-end supply chain. Sustainment and availability of equipment is a vital element of military capability and we will continue to look for new and innovative approaches to delivering cost effective support.

The Net Zero challenge is also of utmost importance. In Autumn 2021 we established a Net Zero team who will drive us to achieve our ambition of Net Zero emissions by 2050. They are already delivering successful outcomes, including securing Net Zero grants from the Department for Business, Energy and Industrial Strategy (BEIS), which will be used to improve DE&S infrastructure and to fund projects such as installing LED lighting across numerous DE&S sites, saving an estimated 142 tonnes of carbon dioxide each year.

As ever, I recognise that there is still room for improvement and the Ajax programme has thrown some of our processes and ways of working into sharp scrutiny. Our programme delivery performance continues to improve with the net cost of the programme reducing again and a further £140 million delivered in efficiencies. We need to continue our focus on schedule performance and whilst we are also improving this aspect, there is more still to do. We have worked hard to address concerns raised by both the National Audit Office (NAO)³ and Public Accounts Committee (PAC) reports⁴ published during this year and we will continue to strengthen our processes and systems to improve our safety culture as well as project cost and time performance.

³ <https://www.nao.org.uk/report/improving-the-performance-of-major-equipment-contracts/> and <https://www.nao.org.uk/report/the-ajax-programme/> and The Ajax programme - National Audit Office (NAO) Report

⁴ <https://publications.parliament.uk/pa/cm5802/cmselect/cmpubacc/185/summary.html>

On a personal level, it has been a real privilege to lead DE&S for the past four years. Throughout this time, I have seen that the work we all do is essential to the defence and security of the UK and our allies. I am proud of the progress we have made to strengthen our organisation and in making DE&S a more inclusive and diverse workplace.

I have reviewed the 2021-22 report and accounts and I am satisfied that this document accurately reflects the financial status and corporate position of DE&S during the 2021-22 reporting period and I am delighted with our achievement of an unqualified opinion by the National Audit Office for the fifth consecutive year.



Sir Simon Bollom - DE&S CEO and Accounting Officer

14 July 2022



Wing Commander with Eurofighter Typhoon ZK347 in Romania.

CHIEF FINANCIAL OFFICER (CFO) STATEMENT

DAVID JOHNSON, FINANCE DIRECTOR



2021-22 is our eighth year of operation as an ALB within the MOD, and our fifth consecutive year with unqualified accounts. For much of the year, like other organisations, we were operating within the constraints associated with the COVID-19 pandemic. Towards the end of the year, we took on additional tasks as part of the Department's support to Ukraine. Through all of this our people and our processes have shown considerable resilience.

THE EQUIPMENT PLAN

This year we spent £11,885 million on acquiring and supporting equipment for the armed forces, and £1,072 million on inventory items to support that equipment. We delivered 780 new assets with a Gross Book value of £3,843 million to our clients, of which the largest were intangibles for Land Ceptor (£276 million), and enhancements to the Wildcat helicopter (£186 million) and Typhoon fleets (£177 million).

■ **We delivered 780 new assets with a Gross Book Value of £3,843 million to our clients.** ■

During the year we remained within our budgets and delivered major efficiencies. On equipment acquisition and support, our outturn of £11,885 million was 3.1% under the overall budget of £12,263 million. The most material underspend was against our Army budget where the ongoing Ajax noise and vibration issues resulted in schedule slippage and the deferral of significant expenditure into future years. For each of our other four Front Line Command (FLC) clients we delivered outturns within -1.5% of the budgets which

DE&S is responsible for managing on their behalf. 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 decreased by £1,193 million (1%) from £105,191 million to £103,998 million. A key factor in this reduction was the delivery of some £1 billion of further efficiencies, subject to independent assurance in due course. The updated costs also include the impact of the implementation of the International Financial Reporting Standards (IFRS) 16 accounting standard on lease accounting. We are continuing to review all new 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.

OPERATING EXPENDITURE

In every year since we became an ALB, we have remained below budget, and we continued this track record in 2021-22. DE&S' core operating costs for 2021-22 (direct programme costs both RDEL and CDEL) totalled £1,050 million against a final budget of £1,079 million (2.7% under budget). This outcome was driven mainly by the impact of wider labour market conditions on our workforce plans. The combination of high inflation and a tight labour market is likely to pose a continuing challenge in this respect. Our Infrastructure Plan outturned at £131 million, £4 million under the final budget of £135 million.

COVID-19, EU EXIT AND IR

During 2021-22 we have worked closely with our clients and key suppliers to ensure that 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 were COVID-19

compliant and available for our people to attend for essential Business Continuity (BC) activities.

Our Tax team remains instrumental in mitigating any delays and costs relating to the movement of equipment into and out of the European Union (EU), navigating the legislative and procedural changes introduced as the BREXIT transition simplifications are rescinded.

We have also supported the Department, and our FLC clients, in taking forward the programme changes resulting from the cross-departmental IR of Security, Defence, Development and Foreign Policy. The review confirmed additional investments in several defence equipment programmes and a re-shaping of, or dis-investment in, other programmes and activities.

INFRASTRUCTURE AND ENVIRONMENTAL ACTIVITY

We have continued our refurbishment works to enable Smarter Working for our people, creating flexible workspaces and a safe environment to work. The Innovation Bridge in Abbey Wood provides a collaborative space designed to connect people from across Defence, Academia, and Industry.

To support the DE&S 2025 Environmental Strategy we have invested in solar energy solutions, electric vehicles and completed site surveys to enable us to make progress towards our Carbon Net Zero goals.

FINANCE FUNCTION - CONTINUOUS IMPROVEMENT

Throughout 2021-22 we have continued to strive to develop the skills and capabilities of our people and have successfully developed and delivered key finance training remotely. All finance roles which mandate a professional accountancy qualification are filled by qualified people. During the year, we have focused on improving Project Accounting in collaboration with the Department. We were a finalist under the category of Digital Finance Project of the Year at the Public Finance Awards for our design and development of a new forecasting and budgeting dashboard. We were also shortlisted under the Business Innovation category for a Government Finance Function Award. We have continued to attract and retain a diverse finance workforce, which is representative of our society in terms of both gender and ethnicity, including at senior leadership levels - 54% of our staff at Senior Professional and SLG levels are female, and 20% of our current SLG are from ethnic minority backgrounds.

GOVERNANCE AND COUNTER FRAUD ACTIVITY

We have maintained and further developed our approach to counter-fraud activities both within DE&S under the oversight of our DE&S Fraud Board and in support of wider MOD related initiatives. This year we established a new team within DE&S to provide a stronger focus on counter-fraud activity. We have reviewed and republished our Code of Business Ethics and our Gifts and Hospitality policy and completed a Fraud Risk Maturity assessment which confirmed the robustness of our fraud related risk management processes. 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 developed opportunities to further improve and digitise the oversight of compliance with data transparency requirements. We continue to support the counter-fraud related investigations led by our colleagues in Fraud Defence and the MOD Police, ensuring that incidents are followed up with appropriate actions and implemented within DE&S where practicable.

PROCESS AUTOMATION

As part of DE&S' digital strategy we have a well-developed automation & digitisation capability within the organisation and we are now exploring how we can realise the benefits Artificial Intelligence (AI) can offer the organisation, both in the business and the battlespace. We are currently operating 55 live automation processes, utilising robotic process automation, optical character recognition and Office 365 approval and workflow automation. As for AI, we have deployed a machine learning data classification solution to the maritime domain and are currently working on a number of proof of concept activities relating to predictive maintenance and chatbot tooling. To date, we have delivered over

“ We remain focussed on controlling costs and delivering efficiencies for our clients. ”

1,500,000 automated transactions across the business, saving our workforce over 170,000 hours of automated benefit through transactional or workflow processing. Over the next three years we aim to deliver the equivalent of a further 225 or more person-years of saved time back to DE&S and hence our customers. 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.

OUTLOOK

Our immediate focus for 2022-23 is on continuing to drive improvements to the way we support our clients, including through management of risks to project delivery. As part of this, we must continue to improve our forecasting. We remain focussed on controlling costs and delivering efficiencies for our clients, recognising the challenges that global economic conditions, including inflation and international competition for materials and industrial capacity may pose in the year ahead. We will also continue to drive improvements in our financial controls and the quality of our accounts to develop our long-term Infrastructure Strategy, taking practical steps towards meeting the Carbon Net Zero challenge.



Reservists from 3rd Battalion The Royal Welsh unloading a third airlift of PPE into Cardiff Wales Airport

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 underpins all that 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 HO and OGDs, to deliver a large, often complex programme of work that provides equipment and support to the UK’s armed forces.

We are a team of committed and professional people from the Civil Service and Armed Forces dedicated to excellence in DE&S.

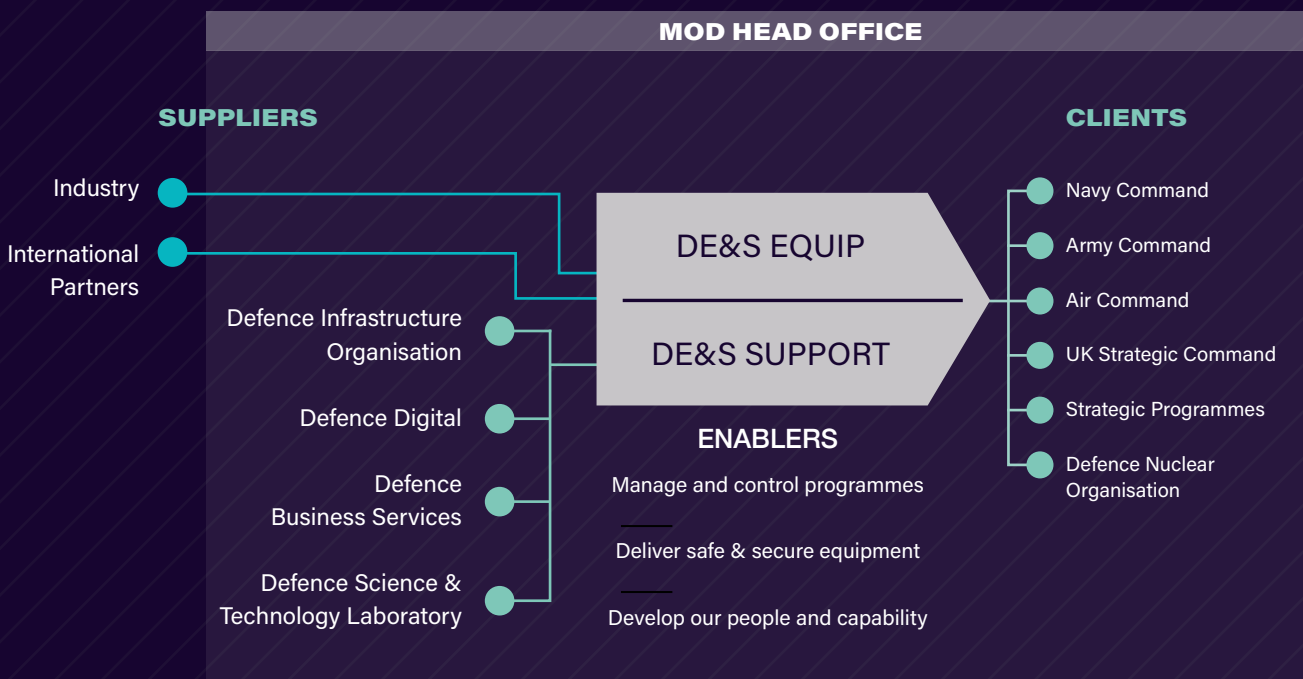
Our headquarters are in Bristol, with numerous locations across the UK and overseas, including in support of military operations.

WHAT WE DO

We procure equipment to meet the full spectrum of defence needs, from small drones through to carriers. We work with FLC’s and Industry to deliver safe, reliable and available equipment to meet the user requirements world-wide. When equipment reaches the end of its life we undertake equipment decommissioning, sale and disposal. We are investing more into the research and development of cutting-edge solutions, such as robotic dogs and 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 FLC, as well as MOD HO and the Submarine Delivery Agency (SDA), which is separate from DE&S.

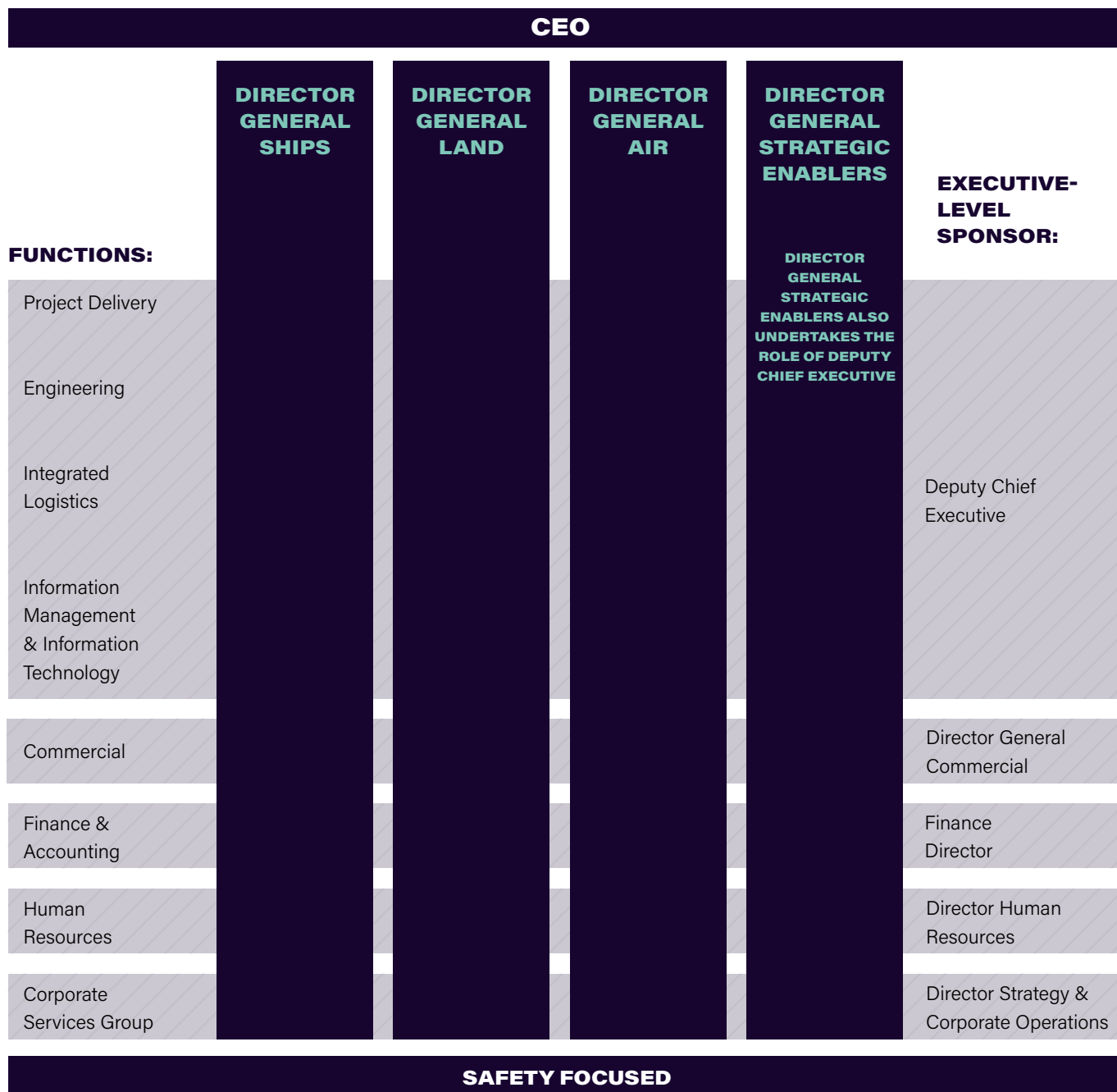
HOW WE OPERATE



HOW WE ARE ORGANISED

We are a matrix organisation and 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: Ships, Land, Air and Strategic Enablers (SE). Delivery of our business requires a range of specialist skills and is supported by eight enabling functions. Each function has an executive-level sponsor and supports the balanced matrix within which we operate, 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 2022



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, within 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)⁵ 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.



845 Naval Air Squadron returns home from HMS Queen Elizabeth and CSG21 for the final time

⁵ 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 96.

DE&S STRATEGY 2025

Our DE&S Strategy 2025 was launched in 2021, responding to the IR, Defence Command Paper and Defence and Security Industrial Strategy (DSIS).

In the future our armed forces will be more persistently engaged worldwide, requiring full-spectrum and high-tech capabilities. Achieving our strategy will ensure we can deliver safe, secure and innovative solutions for our clients, with greater pace, agility and certainty.

DE&S 2025 centres around five strategic priorities to deliver our vision and includes measurable actions that show what we are going to be doing differently over the four-year period. All of our priorities are underpinned by our values, reflecting our shared commitment to our employees, clients and partners in delivery. Our values are:



Throughout 2021-22 we communicated the strategy both internally and externally, with extensive engagement taking place across our business and with our clients. All of this was well received by our people and our stakeholders. We have also routinely tracked progress against each of our five strategic priorities, some of which are listed below:

PACE & AGILITY FOR OUR CLIENTS	VALUE TO THE TAXPAYER & SOCIETY	DELIVERY THROUGH PEOPLE	ACCELERATED DIGITAL SOLUTIONS	DELIVERY THROUGH PARTNERS
<ul style="list-style-type: none"> In under 9 months, DE&S and the RN adapted and scaled technologies for heavy-lift Uncrewed Aircraft Systems (UAS) using new processes developed jointly with the RN. We supplied the Carrier Strike Group's 3,700 personnel with the supplies and equipment they needed for life at sea, on its seven-month voyage to over 30 nations, covering over 43,000 miles. 	<ul style="list-style-type: none"> We defined our approach in our DE&S Environmental Strategy, focusing on delivering more sustainable solutions to reduce our environmental impact. The Type 26 contract created 1,700 jobs in Scotland and 4,000 jobs across the UK maritime supply chain, which will be sustained until 2035. 	<ul style="list-style-type: none"> We launched our new HR system (MyHR), a modern, intuitive, user-friendly system to support our people processes and were recognised by Bristol City Council for our commitment to championing diversity and inclusion. Our Support Directorate Defence Packaging team won the Sustainable Procurement Award at the prestigious Sanctuary Awards. Their project modernised military level packaging, providing a sustainable and more cost-efficient approach. 	<ul style="list-style-type: none"> We launched three Centres of Expertise (COE) including in Expeditionary Robotics and Digital Battlespace, collaborating with experts from across defence, Government, academia and industry. Examples of what COEs are achieving include Robot Dogs, Nano UAS and the Heavy Lift Challenge. We have executed 1.5 million automated transactions, saving the equivalent of 134 Full Time Employees and £4 million worth of value to the business. 	<ul style="list-style-type: none"> The Future Capabilities Group, working with Team Defence Information, launched Open Innovation Laboratory, an open and collaborative platform for engaging with industry and academia on defence focused challenge areas. The level of pilot training has been expanded, thanks to the delivery of three F-35B Lightning II jets and another four Texan training aircraft being supplied through industry partners.

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



Royal Logistics Corps inspecting Personal Protective Equipment (PPE) within Clippers Logistics warehouse

OBJECTIVES GOALS STRATEGIES AND MEASURES (OGSM) 2021-22

The DE&S OGSM framework provides a robust mechanism to set out what we intend to do and how we will measure progress against it. This in turn will help to link our strategic priorities, as detailed in DE&S Strategy 2025, to our individual contributions across DE&S.

1

HITTING OUR NUMBERS

We will stay within our operating expenditure budget and in-year Equipment Plan allocation; manage stable and efficient ten-year equipment procurement and support plans; drive efficiency; manage the balance sheet; and produce timely, accurate year-end accounts.

2

PERFORM TO PROCUREMENT PLAN

We will manage delivery in accordance with our plan for earned value; deliver agreed equipment procurement milestones; keep projects within approved time and cost parameters; and ensure outputs are safe by design.

3

SAFE & OPTIMISED SUPPORT

We will deliver agreed equipment support milestones; provide inventory on time; maintain safe, sustainable, reliable and available support outputs; and develop effective and compliant through-life support solutions for new equipment.

4

STRENGTHEN OUR WORKFORCE CAPABILITY

We will create an inclusive environment where skilled people are engaged, empowered and inspired to be the best they can be to deliver the DE&S vision and mission.

IMPROVING OUR DELIVERY

CONTINUOUS IMPROVEMENT

Throughout 2021-22 we have embedded and enhanced our systematic control of change activity across the organisation, routinely monitoring and reporting against our Change Portfolio programme of work and the resource effort to deliver it. We have also focused on the most beneficial changes, reducing the volume of lower risk / less complex change activities, whilst actively managing the optimum balance between internally driven and externally imposed change.

Our business planning process brings together quantified data on our programme of work and resource requirements, to set a realistic five-year plan that reflects our agreed funding and risk appetite. We continue to assess, quantify and enact activities that will increase our productivity and support our workforce in maximising the client value that they deliver.

STRATEGIC PARTNERING PROGRAMME (SPP)

Having strong and effective relationships with our strategic suppliers, is critical to delivering the complex projects we are responsible for. Within the programme we work with some of our strategic suppliers using

a structured programme improvement initiative. This enables us to deliver improved performance, collaborative working and shared goals, bringing mutual benefits to both the MOD and industry.

We have also implemented a number of initiatives to improve the collective performance of projects. This includes: a joint schedule assessment of readiness, which ensures the end-to-end alignment of contractor and DE&S schedules; integrated baseline reviews, which are 'golden rules' associated with planning and scheduling; risk management interventions; and a review of Government Furnished Assets (GFA).

The SPP is already demonstrating success in terms of collaborative behaviours and creating opportunities to mitigate project risks.

MANAGEMENT INFORMATION (MI) STRATEGY

Our MI Strategy enables development of an organisation wide solution that delivers against our total MI requirement in a coherent manner. This includes utilising quality data from a single source of truth, while exploiting modern analytical methods alongside quality training solutions, to develop our ability to use MI and improve our decision making.



US Navy EA-18G Growler electronic warfare aircraft being refuelled by an RAF Voyager

COMMERCIAL IMPROVEMENTS

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. This work is now being fully aligned with wider MOD Commercial and Acquisition Change activities and will form part of the new MOD Change Directorate from 2022-23.

In addition to maintaining a range of 'Business as Usual' activities, there has been significant focus on the transition and embedding of Category Management tools and techniques into the acquisition DNA of our organisation. Closely aligned to this work is an initiative looking at streamlining the procurement of low value / low complexity product categories and we are working collaboratively with the Crown Commercial Services to explore the use of their 'Tail Spend' framework, an Amazon-style 'click-and-buy' portal which negates the need for bespoke contract action. Two new COEs have been established to ensure that the Department's tendering activities are enhanced and that delivery teams are using the most effective methods and techniques. This will ensure they achieve the best results for defence and the taxpayer during the competitive tendering process. In parallel, the Social Value COE has been established to ensure the consistent and coherent rollout of the Cabinet Office Social Value model to all defence acquisitions.

The MOD-wide Supply Chain Resilience and our Supplier Management Programmes aim to ensure optimal management of the defence supply chain. The programmes continue to move at pace and will both be fully operational at the start of the next Financial Year (FY). They are already providing the consistent frameworks, methodologies, and MI to collaboratively drive innovation, mitigate risk and deliver value for money. They have also played a key role in supporting MOD's response to COVID-19, EU Exit transition, and the crisis in Ukraine. The forward programme aims to map all key and critical defence programmes within DE&S, offering the capability and scalability to be used by the MOD and, potentially Government wide.

DELIVERING FOR OUR CLIENTS: OUR PERFORMANCE, RISKS AND ISSUES

Corporate performance for 2021-22 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 Functions 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 2021-22, 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

British Army troops on exercise at Imber Village, Salisbury Plain

As a professional delivery organisation, we measure our performance using KPIs. Our KPIs are categorised under four headings: finance, equipment acquisition, equipment support, and people. Strategic milestones and other key output metrics are agreed with our clients each year and captured in their respective CASPs, and these feed into our corporate KPIs. Performance against all the KPIs is measured according to a scoring system agreed with our Board, and the overall score is reflected in our reward system for our staff.

This year we introduced two new KPIs. An Earned Value Management (EVM) measure was included as part of our equipment acquisition KPI 2 (providing an early indicator for any projects requiring intervention and support), and a new KPI for Inventory (KPI 3.2) which measures stock availability to satisfy demand. We also retired two KPIs; 'Client Satisfaction' and 'Health, Safety and Environmental Protection' as part of our simplification of performance management for FY21/22. This does not, however, mean they are less important. Both now have elevated importance and sit above the KPI framework, with safety metrics monitored in the same way as before and the client survey still conducted annually. Whilst no longer KPIs, the DE&S Board still take a critical interest in these areas (both of which are measured and reported as part of our internal OGSM structure), and consider whether outcomes in these areas merit any adjustment to our overall performance score.

For 2021-2022 we achieved our Operating Expenditure target (KPI 1.1), with expenditure outturning at £1,050 million, £29 million under budget. In addition, the Infrastructure Plan was £4 million under budget at £131 million. This year we spent £11,885 million on behalf of our clients to deliver the DE&S Equipment Programme against a budget of £12,263 million. For four of our five FLC clients we delivered our forecasts within the KPI 1.2 parameters of between +0% and -1.5% of the budget: the exception was our forecast for the Army, where the ongoing Ajax noise and vibration issues contributed to a significant re-profiling of planned expenditure into future years.

During the year, the underlying cost of the 10-year Equipment Plan (KPI 1.3) managed by DE&S reduced by £788 million, primarily as a result of efficiencies which reduced the forecast costs of a number of projects.

We have successfully incentivised efficiency delivery through the setting of in-year efficiency targets across the organisation. Subject to assurance, we realised £140 million of efficiencies that delivered benefit in 2021-22, significantly exceeding our target of £66 million (KPI 1.4). Again, subject to assurance, during 2021-22 we delivered £1,199 million of efficiencies over the ten-year planning period (2022-23 to 2031-32) exceeding our target of £763 million.

As part of our equipment acquisition targets (KPI 2), 11 out of the 22 projects remained within the EVM tolerance which equated to an overall score of 50% (KPI 2.1): our reflection from the first year of this KPI is that the tolerances we applied sometimes penalised what was good cost and schedule performance, and that the overall measurement was too influenced by historical activity, so we are modifying the KPI for FY22/23 with the aim of making it more representative of current performance. We performed well against our Equipment Procurement Plan (EPP) CASP strategic milestones, meeting on time or early 30 out of the 34 milestones (88%) agreed with our clients, exceeding the target of 85% (KPI 2.2). The four milestones that were missed were due to a combination of system performance and stability problems, integration issues and technical issues.

Across the cost targets for equipment procurement projects post Full Business Case (FBC)⁶ (KPI 2.3) two out of the five CASPs (Navy and Strategic Programmes) reported overall cost growth. The increased costs in Navy were attributable to increasing programme risk exposure, risk to GF⁷, and delivery impacts of COVID-19 on schedule and cost for the Type 26 Global Combat Ship. The cost growth in Strategic Programmes was due to late integration work (Wildcat and Sea Venom), contractor under-performance and late delivery of GFA. For projects post Outline Business Case (OBC)⁸ (KPI 2.4) there was no reported aggregated forecast variance cost increases across any of the CASPs. Against the Equipment Delivery Date targets, three out of the five CASPs reported aggregate in-year schedule slippages subsequent to the FBC investment decision against the CASP baseline (KPI 2.5). However, we reported no

⁶ The FBC is the Main Investment Decision point before projects enter the Demonstration and Manufacture phase.

⁷ Government Furnished Assets is the generic term for materiel loaned to a contractor, these are tangible items that the contractor must manage and account for.

⁸ The OBC is the principal decision point in any investment and involves an assessment phase and maturing the project procurement route.

aggregate time delays across each of the five CASPs for those OBC approved projects yet to meet their FBC decision point (KPI 2.6).

We have continued to deliver against our equipment support targets (KPI 3) exceeding our ESP CASP Strategic Milestone 85% target (KP 3.1), where we met 13 out of the 15 milestones on time or early. The two that were missed were both in the Navy CASP due to Helicopter availability (specifically Merlin and Wildcat) and delays to the HMS Dauntless Power Improvement Project (PIP).

Three of the CASPs met the new Inventory target of 90% (KPI 3.2) with Navy just below it. We met all our Availability, Sustainability, and Safety targets across all five CASPs. One CASP narrowly missed the Reliability target (KPI 3.4), which was due to Aircraft and Ship availability to clear equipment before use on those platforms.

We missed our three targets relating to our workforce capability (KPI 4), reflecting an increasingly challenging labour market and some longstanding reward issues which we are addressing in FY22/23. Our preventable attrition was in excess of our KPI 4.1 target of 6.0%, and the annual survey of our people recorded a very slight reduction in our Employee Engagement Index from 60% to 59%, missing our KPI 4.3 target of 63%. We narrowly missed both of our targets in relation to KPI 4.2, which was to increase the proportion of females and individuals from an ethnic minority in our organisation.

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



Banshee Jet 80 target drones launching from the flight deck of HMS Prince of Wales

KPI 1 – FINANCE

DE&S Finance KPIs measure how we live within the allocated in-year Operating Expenditure (KPI 1.1) and EPP and Support Plan budgetary controls (KPI 1.2). KPI 1.2 tracks in-year forecast outturn within an agreed tolerance of the budget by each command-facing area and KPI 1.3 measures forecast stability by command over a ten-year period. We also measure the delivery of efficiencies, both in-year (KPI 1.4) and across a ten-year period (KPI 1.5), tracked against targets agreed at the start of the FY.

KPI 1.1 OPERATING EXPENDITURE BUDGETARY CONTROL

DE&S -£33M	Metric Green ≤ budget Red > budget
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Table above includes £4 million of Infrastructure Plan savings.

For 2021-22 DE&S continued to live within its means in relation to its Operating Expenditure budget (includes Infrastructure Plan), with expenditure outturning at £1,181 million, £33 million under budget. However, our underspend was higher than we would have wished, primarily because of the challenging labour market which had an impact on expected workforce numbers and led to numerous forecast adjustments through the year.

KPI 1.2 IN-YEAR EQUIPMENT PLAN BUDGETARY CONTROL

Navy -£12M -0.44%	Army -£285M -10.71%	Air -£57M -1.19%	Metric Overspend: Red Underspend: Green <0% ≥-1.5% Amber <-1.5% ≥-2% Red <-2%
UK Strategic Command -£10M -1.06%	Strategic Programmes -£11M -0.91%		

The overall Equipment Plan outturn was £11,885 million against a budget of £12,263 million, 3.1% under budget, which includes adjustments for foreign exchange movement and deliberate changes enacted by our clients. The Army underspend was materially driven by ongoing noise and vibration issues with Ajax which saw a reduction of £210 million in its forecast due to the reprofiling of the General Dynamics UK production schedule.

KPI 1.3 FORECAST STABILITY TO BUDGET – 10-YEAR EPP AND SUPPORT PROGRAMMES

Navy £74M	Army -£3334M	Air -£3330M	Metric Green ≤ 0% Red > 0%
UK Strategic Command -£173M	Strategic Programmes -£28M		

The 2021-2022 forecast of the DE&S’ ten-year EPP saw a decrease to underlying costs of -£788 million, with cumulative underlying cost reductions across Army, Air, UK Strategic Command and Strategic Programmes. The significant cost reduction for Army was partly driven by a £138 million reduction to the Mechanised Infantry Vehicle (MIV) basis of estimate, following a challenge to costing assumptions and refinement of risk provision ahead of a Review Note submission. The large reduction in Air was helped by the delivery of £338 million of efficiencies including the recognition of E7 sustainment efficiencies arising from co-location and synergies with the Poseidon aircraft and recognition of recoupment income from future F35 purchases. The cost growth in Navy was driven by Type 26 contractor performance, supply chain problems, COVID-19 and risk and indexation changes.

KPI 1.4 REALISE IN-YEAR EP EFFICIENCY TARGETS FOR 2021-22

DE&S £140M target of £66M	Metric Green ≥ target Red < target
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KPI 1.5 REALISE IN-YEAR EP EFFICIENCY TARGETS ABC PERIOD (FY 2022-23 TO 2031-32)

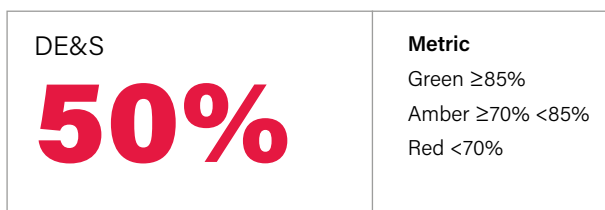
DE&S £1,199M against target of £763M	Metric Green ≥ target Red < target
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Subject to assurance, DE&S has exceeded both KPI efficiency targets. We exceeded the KPI 1.4 in-year target by £74 million and under KPI 1.5 realised £1,199 million of efficiencies over the ten-year planning period, significantly exceeding the target of £763 million.

KPI 2 - EQUIPMENT ACQUISITION

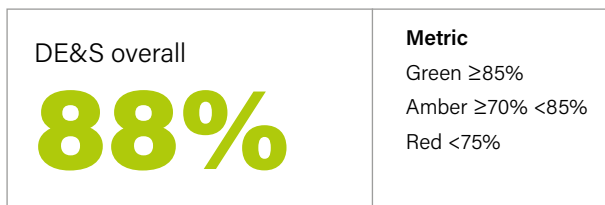
DE&S monitors delivery performance of all procurement projects. KPI 2.1 measures cost and schedule performance against our top acquisition projects within an Earned Value Management tolerance. Each CASP includes up to 12 strategic milestones (split between EPP and ESP) due to be delivered in-year and agreed with our clients as a significant measure of a project's success. KPI 2.2 measures performance against the EPP strategic milestones (KPI 2.2), in addition to this we also measure performance against cost (KPIs 2.3 to 2.4) and time (KPIs 2.5 to 2.6) targets for our Outline Business Case and Full Case Business Projects. Variances to forecast cost or time might arise because of technical or supplier challenges, commercial and procurement processes, international collaboration issues, accounting adjustments or dependencies upon associated projects.

KPI 2.1 EARNED VALUE MANAGEMENT



The KPI looks at our top acquisition projects and measures the value we are earning against the Schedule and Cost performance baseline. Performance is measured by looking at the number of projects, in a rolling 12 months, that are within tolerance by year end. The projects are required to be within the Cost Performance Index (CPI) and Schedule Performance Index (SPI) tolerance of 0.9 to 1.1 by the end of the reporting year to score Green (the upper tolerance limit – which reflects better than planned progress – has been revised to 1.3 for FY 2022-23). 11 out of the 22 projects remained within tolerance for both CPI and SPI, resulting in an overall score of 50%, primarily due to schedule and contractor delays.

KPI 2.2 CASP STRATEGIC MILESTONES (EPP)



In total DE&S delivered 30 of 34 Procurement CASP Strategic milestones either early (17) or on time (13) during the year, resulting in us exceeding our target with a score of 88%. Of the remaining four milestones, Defence Operational Training Capability (Air) Core System and Services was missed due to system performance and stability problems; Typhoon Future Synthetic Training was missed due to ongoing remedial work on a number of integration issues and third-party software bugs; Spear Cap 3 Weapons Development Phase was missed due to technical issues; and the fourth milestone was missed due to the rebaselining of the Ajax programme as a result of the noise and vibration issues.

KPI 2.3 FULL BUSINESS CASE PROJECT COST

Navy	Army	Air	Metric Green ≤ 0% Red > 0%
£261M	-£204M	-£1M	
UK Strategic Command	Strategic Programmes		
£0M	£131M		

KPI 2.3 tracks cost variances of Full Business Case projects and shows how much the forecast cost to complete this phase of work changed over the year. The significant cost increase in Navy was a consequence of increasing programme risk exposure, including the risk to GFA delivery, and the impact of COVID-19 on schedule and cost for Type 26 Global Combat Ship. Under the target cost incentive fee (TCIF)⁹ DE&S are liable for 50% of the cost increase on Type 26.

The significant cost reduction within Army was partly attributable to maturing MIV cost and risk estimates.

The £131 million overall forecast cost growth against approval for Strategic Programmes was materially impacted by the Future Anti-Surface Guided Weapon - Light (FASGW(L)) project which reported a cost increase of £97 million. This was due to the impact of late Wildcat and Sea Venom integration work, due to contractor under-performance and late delivery of GFA from the separately contracted weapons programmes.

KPI 2.4 OUTLINE BUSINESS CASE PROJECT COST

Navy	Army	Air	Metric Green ≤ 0% Red > 0%
£0M	-£1M	£0M	
UK Strategic Command	Strategic Programmes		
£0M	£0M		

Projects in the Outline Business Case phase (KPI 2.4) were within the aggregate in-year cost variance target across all the CASPs.

⁹ TCIF contracts set an estimated Target Cost within agreed levels of confidence, ideally derived from a robust three-point estimate

KPI 2.5 FULL BUSINESS CASE PROJECT TIME

Navy 36 months Avg mths: 6.0	Army 21 months Avg mths: 1.2	Air -3 months Avg mths: -0.2	Metric Green ≤ 0 Red >0
UK Strategic Command 0 months Avg mths: 0.0	Strategic Programmes 48 months Avg mths: 3.4		

This KPI tracks time variances to achieving the Equipment Delivery Date (EDD) against the baseline agreed in the CASP, with three out of five CASPs reporting aggregated in-year time variance to the approved FBC duration. The largest variation was in Strategic Programmes and related to Spear Capability 3 across its two EDDs due to a re-baseline of MBDA's demonstration phase schedule. The re-baseline was required after an Integrated Baseline Review in February 2021 confirmed that the existing schedule was undeliverable. Additional time variations arose in the Future Anti-Surface Guided Weapon project which was caused by delays in agreeing a joint scope for initial Certificate of Design.

In the Navy CASP a 36-month variation was reported across three Type 26 EDDs to align the forecast to the Batch 1 Review Note, with Ships one and two experiencing the delays. BAE anticipate Ship three will meet the contracted Vessel Acceptance Date. Delays were caused by BAES schedule performance in achieving design maturity and addressing engineering issues to complete the final stages of design.

The Army 21-month variation was primarily attributed to the Ajax noise and vibration issues; work continues to resolve these issues. Testing is now underway to verify the effectiveness of modifications proposed by General Dynamics to mitigate the noise and vibration issues to a safe and acceptable level. Until a suitable suite of design modifications has been identified, tested, and demonstrated, it is not possible to determine a realistic timescale for the introduction of Ajax vehicles into operational service with the Army.

KPI 2.6 OUTLINE BUSINESS CASE PROJECT TIME

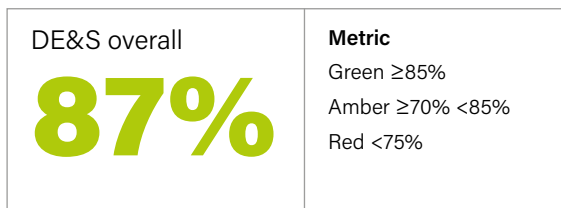
Navy 7 months Avg mths: 1.4	Army 0 months Avg mths: 0.0	Air 0 months Avg mths: 0.0	Metric Green ≤ 2 mths Amber >2 mths ≤3 mths Red >3 mths
UK Strategic Command -1 month Avg mths: 1.2	Strategic Programmes 0 months Avg mths: 0.0		

All CASPs remained in tolerance on performance against the approved OBC duration for projects in scope of this KPI. The time variances show how much the forecasted time to complete this phase of work changed over the year and the tolerance is based on an average of no more than 2 months' delay per project. The seven month slippage in Navy CASP is due to slippage on Electronic Warfare Countermeasures activity due to unplanned work impacting the schedule. Despite the slippage Navy remain within tolerance as their average time variance remains under the target of two months.

KPI 3 EQUIPMENT SUPPORT

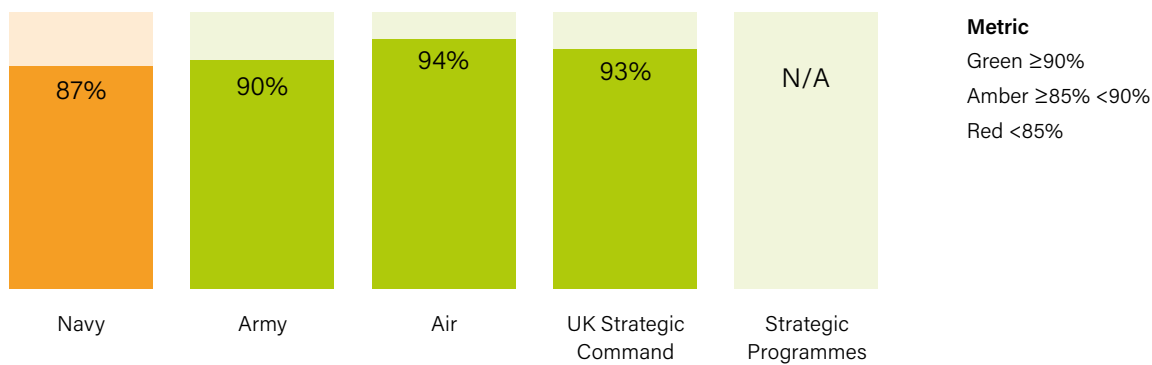
This KPI measures how well we support In-Service equipment against the performance targets set individually in each CASP. It considers Availability, Reliability and Sustainability as defined by our military clients and we agree relevant performance thresholds with each of them. We also measure how well 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) in a Safety metric. Together these four metrics provide an overview of our performance in supporting in-service equipment.

KPI 3.1 CASP ESP STRATEGIC MILESTONES



In total DE&S delivered 13 of 15 Support CASP Strategic milestones and as a result we achieved 87% of the CASP Strategic milestones either early or on time. The two milestones that were missed were reported in Navy. One milestone related to improving Merlin and Wildcat Helicopter availability; the other related to the HMS Dauntless Power Improvement Project (PIP), which fell behind schedule due to industry underestimating the complexity of the task.

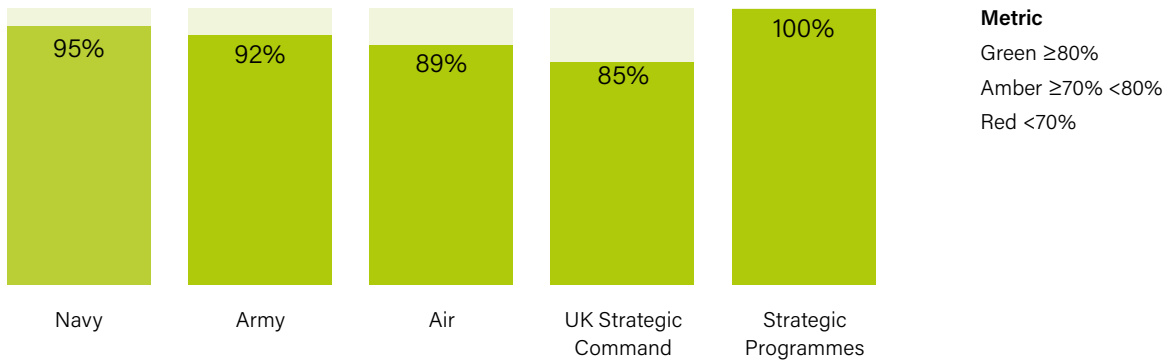
KPI 3.2 INVENTORY (ON-TIME ISSUES)



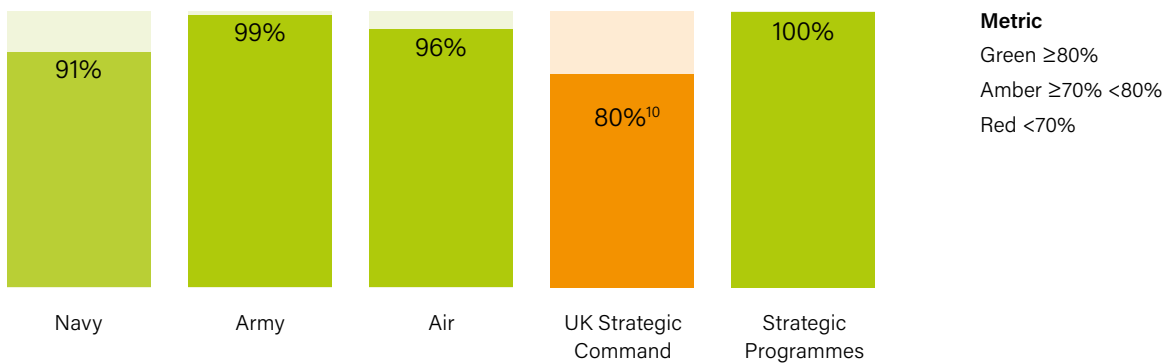
A new Inventory KPI for this year measures the percentage of demands which can be allocated from available stock (by an issue voucher) within 24 hours. We successfully achieved a 90% aggregate target with only one of the Commands marginally under target (Navy).

EQUIPMENT SUPPORT PERFORMANCE

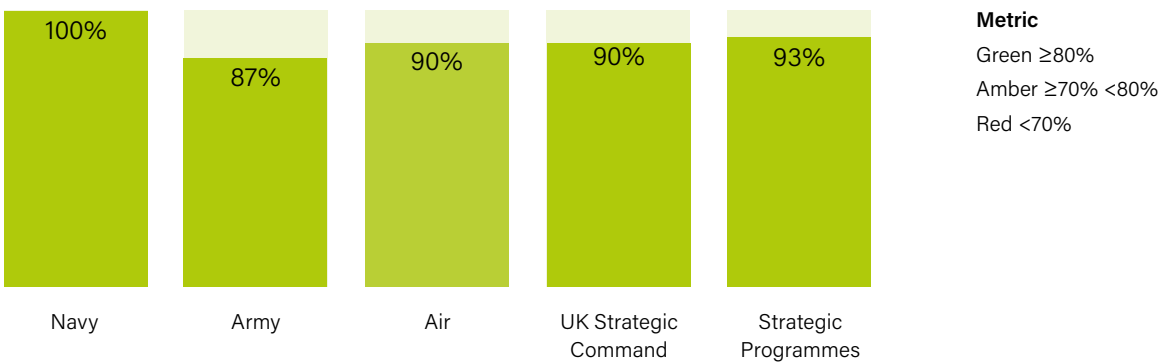
KPI 3.3 AVAILABILITY



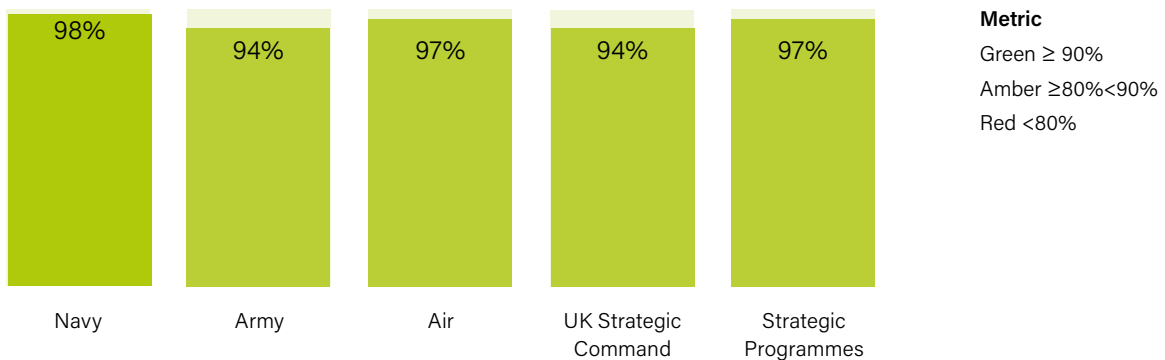
KPI 3.4 RELIABILITY



KPI 3.5 SUSTAINABILITY



KPI 3.6 SAFETY



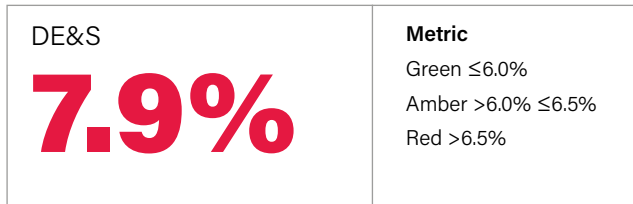
We achieved our support targets for Availability, Sustainability, and Safety across all Commands. Reliability fell very slightly short of our target in UK Strategic Command due to the availability of Aircraft and Ships to clear equipment for use on those platforms.

¹⁰ UK Strategic Command scored Amber for Reliability, scoring 79.7%, which is fractionally under the target of 80%.

KPI 4 - PEOPLE

KPI 4 comprises three of the people metrics listed within OGSM 4 (Strengthen our Workforce Capability). These metrics cover engagement (based on the overall engagement score from the 2021 People Survey), capacity (through measuring preventable attrition, which is the loss of people through resignation, early retirement or transfers to OGD or wider MOD (less SDA)), and diversity (specifically the proportion of our people who are female or who declare themselves as part of an ethnic minority group).

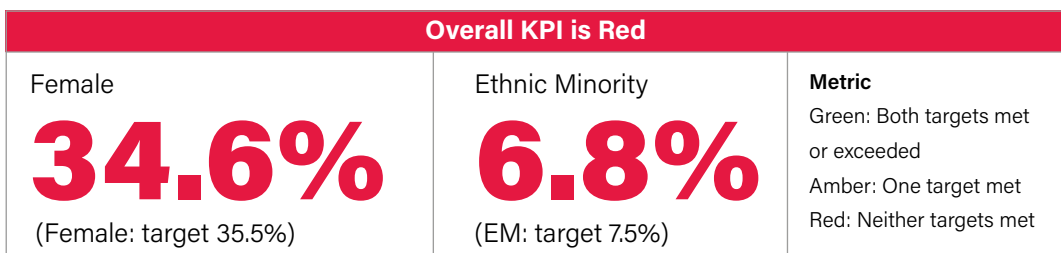
KPI 4.1 PREVENTABLE ATTRITION



KPI 4.1 is measured against a target of preventable attrition of less than 6.0%, and as at the end of March 2022 it was at 7.9%, having increased from 4.7% at the same time the previous year. The extraordinary circumstances of COVID-19 had a massive impact on the employment market and contributed to a markedly reduced number of leavers in 2020-21 leading to an artificially low level of attrition. From Spring 2021, when the COVID restrictions were lifted, the employment market opened and became extremely competitive. An increase in attrition was therefore expected, but it has exceeded our target.

To counter this we have prioritised the retention of our valued skilled people by seeking better to understand the causes of resignations through exit surveys and interviews; and by addressing these causes through engagement and opportunities for personal and professional development, such as employee apprenticeships and leadership programmes, and through improved people management. Our new reward framework, which we are implementing in Summer 2022, aims to address both internal and external pay factors to support our retention of the skilled people we need now and into the future.

KPI 4.2 WORKFORCE DIVERSITY (FEMALE AND ETHNIC MINORITY (EM))



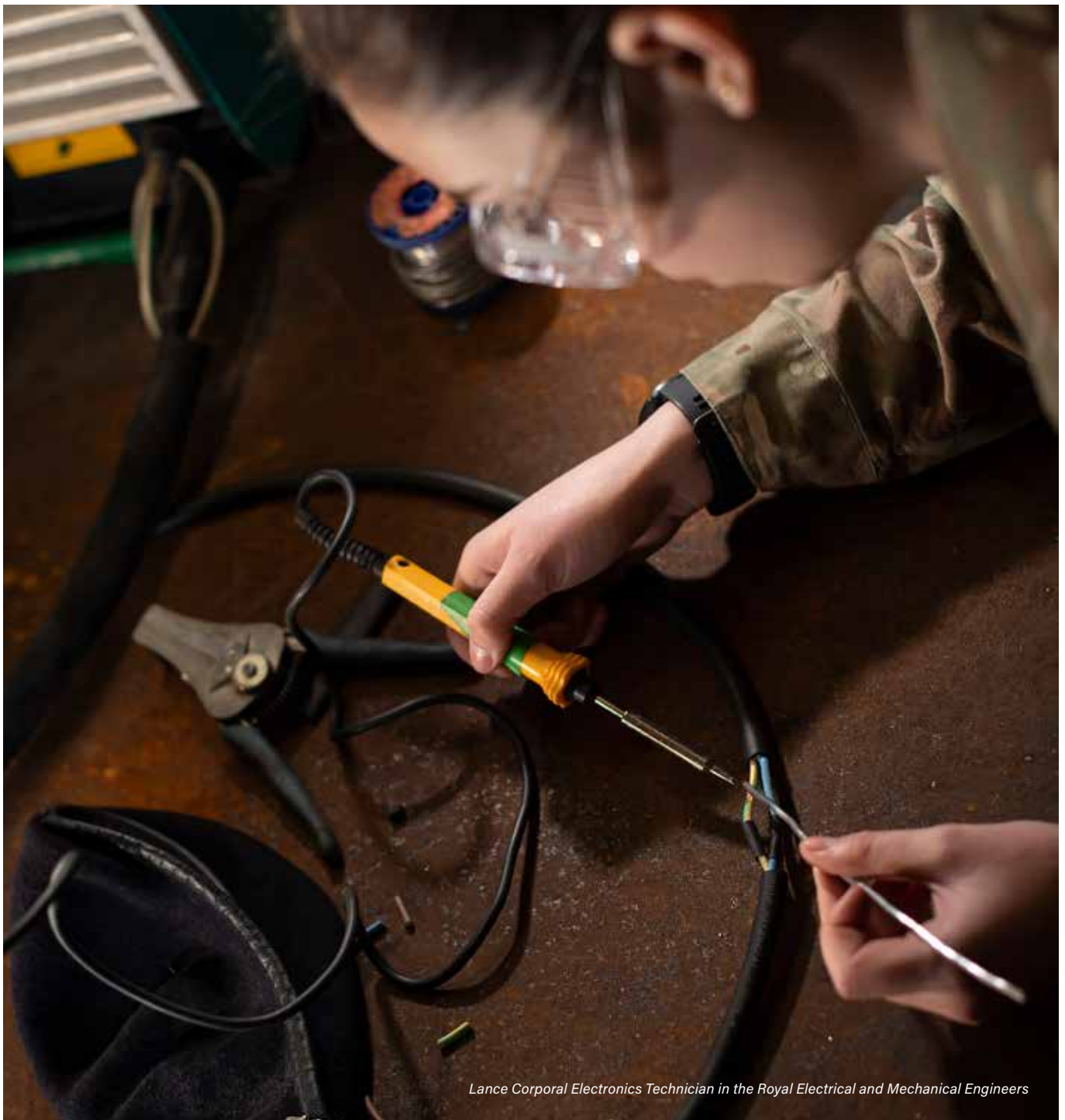
This KPI reflects the strategic intent to make DE&S increasingly representative of society, and focusses specifically on females and individuals from ethnic minorities. This year we have seen a slight increase in the proportion of females in DE&S (34.6% as at end of March 2022 compared with 34.1% at the end of March 2021), but this increase fell short of our target of 35.5%. We have seen a small decrease in the proportion of permanent people from an ethnic minority from 6.9% to 6.8% against a target of 7.5%.

Whilst this outcome is disappointing, 2021/22 was a difficult year for recruitment, which made it difficult to drive significant changes into the workforce mix. 2021/22 was also the first full year following the publication of our Equality, Diversity, Inclusion and Wellbeing Strategy 2025. The underpinning action plan for the year successfully delivered many enabling outputs, including an updated diversity and inclusion policy, implementation of Fair Treatment Ambassadors to support employees, a pilot diverse assessors programme to support recruitment, and a Reverse Mentoring programme for the whole senior leadership cohort to engage with employees who are female, from an ethnic minority, disabled and LGBT+.

KPI 4.3 EMPLOYEE ENGAGEMENT

DE&S 59%	Metric Target 63%
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The annual survey of our people in Autumn 2021 recorded a very slight reduction in our Employee Engagement Index from 60% to 59%, missing our KPI target of 63%. The headline score reflects the five questions that are listed within the People Survey relating to pride, advocacy, attachment, motivation, and inspiration. We have responded to what our people have told us through a published set of commitments at an organisational level, aligned with our new People Strategy, as well as all parts of DE&S addressing survey outcomes at a local level.



Lance Corporal Electronics Technician in the Royal Electrical and Mechanical Engineers

PERFORMANCE ANALYSIS – CUSTOMER SATISFACTION AND SAFETY

KPIs for Client Satisfaction (KPI 5) and Health, Safety and Environmental Protection (KPI 6) were retired as part of our simplification of performance management. This does not, however, mean they are less important. Both now have elevated importance and sit above the KPI framework, with safety metrics monitored in the same way as before and the client survey still conducted annually. The DE&S Board take a critical interest in both these areas, enabling them to intervene where necessary to ensure they remain of utmost priority. A summary of performance against these two areas can be found below.

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.

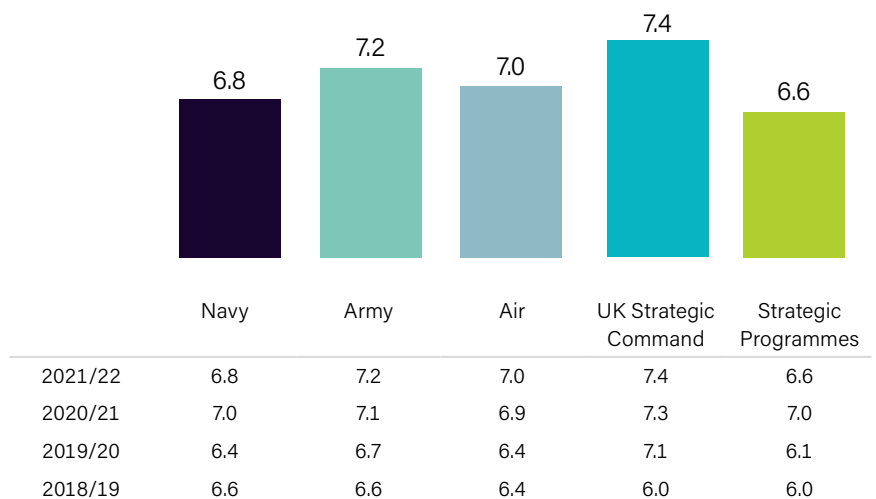
The digitised approach and improved targeted questions for the 2020 Client Satisfaction Survey produced improved MI and for 2021, the anonymity option was removed allowing all comments to be accurately attributed to identification of strategic and operational improvements. This year the number of clients responding increased by 4% from 117 to 132, including a notable 43% increase in responses from Air Command. Examples of key findings and analysis include:

- Overall, DE&S achieved the same Client Confidence Index (CCI)¹¹ score as last year (7.1), against an in-year target of 7.2
- Individual client targets were met in the case of Strategic Command and Army but not for the other three¹². The trend over the last four years is shown in figure 1 below
- Overall, there is little movement across the individual themes surveyed, with the Delivery Confidence score dropping by 0.1 and the Trusted Advisor score remaining the same. The trend across each command is shown in figure 2 below
- The issues we will continue to focus on include MI, resources and flexibility. See the below key themes for further details.

2021/22 CUSTOMER CONFIDENCE INDEX BY COMMAND

THEME GROUP SCORE

Communication	7.5
Expertise	7.2
Challenge	7.2
Consultation	7.2
Collaboration	7.3
Trusted Advisor	7.0
Programme Mgmt	7.0
Satisfaction	6.9
Flexibility	6.6
Management Information	6.2



CLIENT CONFIDENCE SCORE

7.1 2022 total Score **7.1** 2021 total Score **0.00** variance

¹¹ 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.
¹² Air Command maintained parity with the February 2021 score, the scores for both Navy and Strategic Command decreased by 0.2 and 0.4 respectively

KEY THEMES

There are two strategic areas for development:

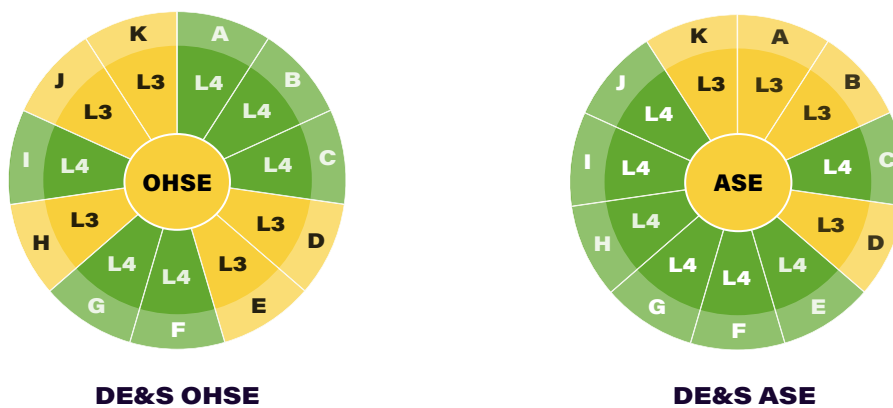
- Improve MI - one version of the truth across defence. This remains a key issue, despite an increase from 6.2 to 6.3. The release in April 22 of a Client facing MI dashboard should address this and improve transparency and information flows
- Flexibility in the allocation of resource and the changing requirements of the Clients formal change requests. Work is already underway in both of these areas which should bring clarity before the next survey in November 2022.

The findings of the survey will now be used to inform 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 enable improvements in the process for the 2022 survey.

HEALTH, SAFETY & ENVIRONMENTAL PROTECTION

In 2021-22, the Health Safety and Environmental Protection assessment (HS&EP) was measured by applying the Element Framework referenced in JSP 375¹³. The HS&EP assessment concluded that DE&S has achieved Substantial Assurance. Minor Weaknesses were identified and presented in the report, along with the actions required to resolve them. DE&S is currently implementing a number of initiatives and strategies to ensure that we are on the path to Full Assurance. A full assessment of DE&S' performance against these elements has been provided within the 2021-22 DE&S Annual Assurance Report (AAR).

The DE&S assessments for Occupational Health, Safety & Environment (OHSE) and Acquisition Safety & Environment (ASE) are calculated using a defined scoring methodology endorsed by the DE&S Safety Health and Environment Committee (SHEC), using Operating Centre (OC) assessments and the MOD Maturity Model. A summary of the ASE and OHSE assessments are shown below.



- 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

13 <https://www.gov.uk/government/collections/jsp-375-health-and-safety-handbook>

OHSE PROGRESS 2021-22

OHSE Trend		20/21	21/22	21/22	21/22	21/22	
Element	Description	Q4	Q1	Q2	Q3	Q4	
A	Applicable Legislation, Defence Regs, Policy and Guidance	3.9	3.9	3.9	3.9	3.9	=
B	Information Management	3.8	3.7	3.7	3.7	3.9	^
C	Organisational Leadership, Culture, Capability & Change Management	3.9	3.9	3.9	4.0	3.9	^
D	Personnel Competence and Training	3.2	3.2	3.1	3.5	3.5	^
E	Risk Assessments & Safety Cases	3.7	3.6	3.6	3.7	3.5	v
F	Equipment/Material & Infrastructure Design and Manufacture	3.6	3.9	4.0	4.0	4.0	^
G	Equipment/Material & Infrastructure Maintenance	3.4	3.5	3.6	3.5	3.9	^
H	Supervision & Control of Activities	3.8	3.7	3.7	3.6	3.6	v
I	Incident Management & Learning from Experience	3.9	3.9	3.9	3.9	3.9	=
J	Emergency Arrangements	3.9	3.8	3.9	3.9	3.7	v
K	Self-Assurance	3.9	3.8	3.6	3.6	3.6	v

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

ELEMENT D – PERSONNEL COMPETENCE & TRAINING

A number of key OHSE posts, including specialist roles, have been challenging to fill and we have had to look internally to identify talent or to fill these posts. A broader Training Needs Analysis, reviewing the OHSE scope for the organisation, has been conducted and recommendations presented to the OHSE Steering Group. This analysis identified new training requirements, and a programme of delivery is currently being developed.

ELEMENT E – RISK ASSESSMENTS & SAFETY CASES

This element has been negatively reported due to resource constraints in specialist areas. We anticipate that this will be resolved in early 2022-23.

ELEMENT G – EQUIPMENT/MATERIAL AND INFRASTRUCTURE MAINTENANCE

Although improving, the Infrastructure Maintenance aspects of Element G remain one of DE&S’ weaker OHSE areas. The DM sites: Plymouth, Glen Douglas, Longtown, and Kineton had reported Level 2 (Significant Weakness) earlier in 2021. However, an infrastructure improvement plan with DIO is now in place and proactively managing infrastructure maintenance on an agreed and evolving prioritised schedule. All these sites apart from Kineton are now improving.

ELEMENT J – EMERGENCY ARRANGEMENT

A review of emergency arrangements at Abbey Wood indicated access to first aiders may be limited due to SMART working arrangements. We anticipate resolving this issue in early 2022-23.

ELEMENT K – SELF ASSURANCE

This element has been negatively reported due to resource constraints. We anticipate resolving this issue in the early part of 2022-23.

ASE PROGRESS 2021-22

		ASE Trend					
		20/21	21/22	21/22	21/22	21/22	
Element	Description	Q4	Q1	Q2	Q3	Q4	
A	Applicable Legislation, Defence Regs, Policy and Guidance	3.5	3.6	3.5	3.6	3.6	▲
B	Information Management	2.8	2.9	2.7	2.9	2.9	▲
C	Organisational Leadership, Culture, Capability & Change Management	3.9	3.7	3.7	3.7	3.9	=
D	Personnel Competence and Training	3.1	3.3	3.3	3.2	3.4	▲
E	Risk Assessments & Safety Cases	3.8	3.6	3.7	3.7	3.7	▲
F	Equipment/Material & Infrastructure Design and Manufacture	4.1	4.1	4.1	4.1	4.1	=
G	Equipment/Material & Infrastructure Maintenance	3.8	3.6	3.6	3.9	3.7	▲
H	Supervision & Control of Activities	4.0	3.9	3.9	4.0	4.0	▲
I	Incident Management & Learning from Experience	4.1	4.1	4.1	4.1	4.1	=
J	Emergency Arrangements	4.1	4.1	4.1	4.1	4.1	=
K	Self-Assurance	3.9	3.7	3.7	3.7	3.5	▼

ELEMENT A – APPLICABLE LEGISLATION, DEFENCE REGULATION, POLICY & GUIDANCE

Work has been undertaken on the Defence legislation support tool to provide enhanced functionality to projects team to determine statutory compliance. This has been delivered and should see an improvement in Element A.

ELEMENT B – INFORMATION MANAGEMENT

Information management remains an area of concern following significant weaknesses identified earlier in the year within the Air Environment. The implementation of a standardised approach to records management via updated policy and a metadata framework has provided a foundation alongside the roll-out of Office 365, a significant improvement in this area. All Air Safety documents supporting Equipment Safety Assessment Reports have been accounted for, and the roll out of MS Teams and O365 across DE&S are on schedule. We anticipate this element to be compliant by November 2022.

ELEMENT D – PERSONNEL COMPETENCE & TRAINING

We have addressed the resource issue across DE&S over the past 12 months, with fill rates of 99% for Senior Safety Responsible (SSR), 98% for Senior Responsible (SR) and 98% for Safety Delegated safety decision making assignments.

Fill rates for the key supporting roles in the Acquisition Safety and Environmental Protection (ASEP) Technical Discipline are now 100% filled with competent staff or supported via Internal Technical Support (ITS) or Engineering Delivery Partner (EDP) resource. The Strategic Enablers Domain has reported the dependency on ITS and EDP as a significant weakness due to over-reliance on external expertise. This element remains an enduring challenge to achieving Full Assurance.

ELEMENT E – RISK ASSESSMENT AND SAFETY CASES

Following several assessments of safety cases, and building on Ajax recommendations, it has been recognised that weaknesses exist in many safety cases, particularly at system and operating boundaries. To address these issues a standardised structure for creating a Safety Case Assessment / Report has been developed for use by both, DE&S, and our industry partners. This will allow the maturity of our safety cases to be assessed against this standard and reported as part of the safety dashboard and will highlight areas of weakness to the Duty Holder.

PATHWAY TO FULL ASSURANCE

DE&S has made progress in many areas, as recognised by the achievement of Substantial Assurance for this reporting period, however we recognised that there are still improvements required in ASE and OHSE performance. Substantial effort has gone into producing the 2022 DE&S Safety Strategy, which follows a revised DE&S Environmental Strategy. The safety strategy presents a significant package of work to build on Substantial Assurance on the path to Full Assurance. The strategy aligns with the Defence Vision for HS&EP, aiming to eliminate fatalities whilst enhancing capability. DE&S recognises that it is our responsibility to protect our people and to ensure that the equipment we buy, and support, is safe for the users avoids harm to others.



**SAFETY,
SUSTAINABILITY
AND SECURITY**

Wildcat and Merlin Mk 3 Helicopters from 845 and 847 Naval Air Squadron, of the Commando Helicopter Force

SAFETY AND ENVIRONMENTAL PROTECTION

We are committed to preventing harm to our employees and to the environment across our sites. Activities are undertaken to provide safe equipment to our armed forces and in protecting the environment within which the equipment operates. Our commitment is underlined by the launch of our Environmental Strategy and more recently, the Safety Strategy. Each strategy aims to deliver improvements in the way we manage safety and the environment, enabling informed decisions to be made.

The HS&EP report on Ajax highlighted some failings and, subsequently, recommendations on how we can improve. Since the report was published we have been working hard to implement these recommendations across DE&S and wider defence. One of the key recommendations from the report was when decision making, safety should be considered as equally as important as cost and schedule. This underpins the approach within our Safety Strategy and the improvements needed on safety case maturity assessments, ultimately recognising that we can, and must, do better.

ACQUISITION SAFETY

Our Safety Strategy aims to deliver significant and enduring improvements to the way we manage and deliver safety across all aspects of our business. It is based on the following nine goals:

- An engaged and just culture
- Everyone takes responsibility for safety
- Safety is critical in decision making
- Compliant operations and products
- We protect our colleagues
- Our products, systems and services are safe to operate
- Safety tools make safety management easier
- Critical indicators give insight to improve safety
- A learning organisation – we learn, adapt and improve

We recognise that continuous improvement is critical to meeting the challenges of today's armed forces. The complexity of our systems and the changing demands to operate in different environments, requires a comprehensive approach to safety. Our drive to provide a more standardised approach in our safety case outputs will deliver several improvements, including:

- a better approach to identifying and resolving potential gaps within the safety case reports
- improved communication with our stakeholders to understand the level of risk exposure
- taking necessary action to reduce the risk to as low as reasonably practicable

The development of a safety case maturity tool will enable safety to be reported and assessed at the highest level, alongside project schedule and cost, as part of our overall programme of work dashboard. We will link our maturity model assessment and assurance to the dashboard, as well as benchmarking our performance with industry. This will further enable robust decision making, drive improvements and allow deep dive visibility into our safety maturity. We are also embracing "an engaged and just culture" by commending our people for finding and resolving any gaps in our safety case reports. This approach will provide our Safety, Health and Environmental Committee with improved visibility on how safety is being managed across the organisation.

We continue to assess our safety culture through an annual survey which employs the Patrick Hudson scale¹⁵. Overall, this showed a small decrease on last year, however, we recognise there needs to be a step change in the way we manage and report safety to progress towards the proactive level assessment. We will achieve that step change through implementation of our Safety Strategy, to ensure that we become an organisation that looks forward and proactively manages safety.

¹⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1041370/20211210-HSEP_Ajax_Noise_and_Vibration_Review.pdf

¹⁵ The Patrick Hudson culture ladder detailed in this link is used by DE&S and more widely across many organisations: <https://publishing.energyinst.org/topics/hearts-and-minds/hearts-and-minds/english/hse-201-understanding-your-hse-culture-v6-english>

The SSR and SR decision makers remain critical to our business performance, with the competence and fill rates monitored monthly via the safety dashboard. During this year the SSR coverage has been maintained at 98%, with SR in excess of 95%, demonstrating our commitment to prioritising the safety Suitably Qualified and Experienced Personnel (SQEP). We have also augmented our Safety Manager cadre by utilising internal consultants and external technical assistance.

Last year saw an impact in delivery of the training provision due to COVID-19. The re-established System Safety courses will lead to a recognised academic qualification and will be re-introduced in 2022-23. A full review of these courses has also been conducted, alongside a Training Needs Analysis, leading to a new suite of modular training covering both core and specialist skills. Development of the new training will be a nine-month programme, with pilots being rolled out in 2023. This change in approach will provide a better structure, removing some of the duplication in training delivered and provide an enhanced immersive experience to those being trained.

ENVIRONMENTAL PROTECTION AND SUSTAINABLE PROCUREMENT

This year we completed a comprehensive rewrite of our Environmental Strategy involving stakeholders across the Defence Enterprise. The new strategy is based around 11 goals covering both acquisition and infrastructure:

Strategic environmental goals

- Environmental Management System
- Competent and capable people
- Sustainable thinking culture
- Net Zero
- Resource efficiency and waste management

Operations and infrastructure goals

- Sustainable estate
- Sustainable transportation
- Conservation and biodiversity

Acquisition goals

- Shared ambitions with our clients
- Informed selection and support
- Influencing our supply chain

Our strategy will ensure environmental and sustainability factors are considered as part of the defence equipment programme, our estate, and business activities. The strategy now accommodates emerging priorities and the Net Zero 2050 challenge, for which we have established a Net Zero programme team who are already conducting analysis to determine the most appropriate approach for delivering Net Zero by 2040. Delivering Net Zero has been broken into 3 waves covering our Operations and Infrastructure, Acquisition and Support, and Behaviours and Culture through 3 themes of carbon reduction, sustainable energy, and carbon capture. A strategy implementation plan is being developed, with several initiatives already progressed. Early benefits include:

- The inclusion of mason bee nests on most sites with work beginning on the development of pollination meadows on various sites across the DE&S estate in partnership with Praise Bee.
- A Waste Assurance programme on Logistics and Support Operating Centre (LSOC) sites to better understand waste management and manage the associated risks.
- Delivery of World Environment Day events.
- Annual Safety & Environmental Management System (SEMS) review including new and updated policy and guidance.
- Delivery of DE&S Environmental communication campaigns.
- Provision of Carbon Literacy Training for our people.
- Sharing of guidance and best practice with the Environment Agency and UKGI (UK Government Investments).
- Development of a DE&S Nature Recovery Plan in line with Greening Government Commitment (GGC) targets. The GGCs set out the actions Central Government departments will take to reduce their impact on the environment and deliver sustainable environmental performance. DE&S contributes to the MOD overall commitments and continues to drive improvements in the quality of data and accuracy of GGC reporting by DE&S and the wider MOD.

We have conducted surveys across 9 DE&S sites including the approach to sequestration. Two of these sites are being down selected to a pilot on which to test and assess Net Zero technologies for wider role out across our estates. A further Net Zero study was undertaken on our Test & Evaluation sites, as a demonstrator to assess options for wider application across these sites. We secured 23,400 solar panels in-year which will be utilised across the Long-Term Partnering Agreement (LTPA) estate, with ground surveys and installation to be taken forward. The solar panels will provide approximately 13MW and offset circa 2.8kt CO₂e per annum. Further contracts have been awarded to improve management information and to conduct a scoping study for the improvement of environmental culture and behaviours across DE&S and enable improvements in support to our clients.

In addition, we have created new environmental professional success profiles, which describe the technical, professional, and leadership requirements for acquisition environmental roles. These success profiles enable us to focus on creating a cadre of specialists to meet the environmental and sustainability challenge.

We have robust arrangements in place for the management of hazardous materials. The non-statutory inquiry into asbestos identified a number of recommendations to improve how we manage this material and during the last year, significant improvements have been made, resulting in full legal compliance with asbestos legislation. This work, whilst focussed on asbestos, has put our organisation in a better position to address future hazardous material challenges, as more substances become subject to tightening legislative requirements.

The DE&S sponsored Defence Standard 00-051, Environmental Management Requirements for Defence Systems, has been updated to account for Net Zero. This Standard strengthens assurance that environmental aspects are considered in contracting for defence capabilities. Our acquisition projects now include sustainability as a core consideration in their competition, demonstrating our commitment to putting environmental issues at the heart of our decision making.

Defence has a significant role to play in meeting the UK Government's Net Zero carbon commitment. Building a clear understanding of the carbon footprint from Defence acquisition and supply chain activities is a key initiative. DE&S as part of the Defence Suppliers' Forum (DSF) has been integral in the development of the DSF Green House Gases (GHG) Code of Practice which provides a common approach to CO₂e measurement, including Scope 3 emissions. The Code of Practice is important in supporting the development of more consistent reporting and to demonstrate how Defence is meeting the commitment set out in the MOD's Climate Change and Sustainability Strategic Approach. The code also informs the development of innovative solutions to meet both our environmental and future operational objectives. DE&S also has significant opportunity to support the reductions in FLC capability emissions and is engaging with our clients in this key area.

OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENT

The pandemic continued to affect business working practices, marking a long-term shift to hybrid working patterns. This will require us to deliver a fundamental change in how we manage our duty of care legal obligations, ensuring the right resources are available to facilitate this across the business. An OHSE focussed Training Needs Analysis and review of the mandatory training requirement has therefore been undertaken, with recommendations being delivered during the next FY.

Our World Environment and Safety Day events are now firmly established into our annual calendar, improving awareness and helping to reinforce our OHSE vision and commitment to continual improvement. All DE&S employees are actively encouraged to engage and to recognise their responsibilities in helping the organisation to improve. The further embedding of our Mental Health First Aid approach continues to be a success story and supports our endeavour to seek certification to ISO 45003, managing psychological health and safety at work, next year.

Our Chief Environmental and Safety Officer, supported by OHSE specialists across the business, continues to provide competent advice, guidance and support to help us meet our legal, defence regulation and policy responsibilities. Our Incident Notification Cell continues to provide an accident and incident reporting system that satisfies both statutory and MOD policy requirements. All reports are monitored for trends, with statistics reported monthly to the Executive Committee to inform them of organisational performance and any emerging issues requiring attention. A move to a centralised MOD reporting system is on the horizon and will further enhance this capability. We also continue to improve our OHSE Management System. This is now fully integrated into the overarching corporate Business Management System which was successfully certified to ISO 9001¹⁶ this year.

Looking forward, we will improve performance by further embedding OHSE as normal business across all our sites and activities, whilst ensuring a consistent and coherent approach. We will also drive the correct accountability and responsibility for OHSE performance. To support this, we have strengthened the delegations to our Heads of Establishment and set up an internal OHSE enforcement process, as well as a Virtual Accident and Incident Investigation team. Further bolstering our OHSE governance and assurance arrangements is high on our agenda, helping to deliver further improvement and an increase in confidence that we are, and will remain, compliant across all aspects of our business.

SECURITY

Our focus remains the delivery of equipment and support which meets the security risk appetite of 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 is 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.

Our Principal Security Advisor (PSyA) team continue to refine our suite of through-life project and programme security and resilience processes, as we engage with stakeholders across our business, the wider MOD and Government to ensure processes are aligned and that equipment is secure by design. This makes it easier for project teams to manage risk against our clients' security and resilience risk appetite, which is the amount and type of risk we are willing to take to sustain outputs. This also allows us to deliver appropriate independent assurance of the risks carried across our acquisition and support projects.

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

¹⁶ ISO 9001 is the international standard by which organisations are measured to demonstrate their implementation of a sound Quality Management System.

We strengthened our plans to protect our most critical, sensitive and vulnerable assets from compromise. Our Executive Committee reaffirmed our commitment in this area with the establishment of a Strategic Risk for Protective Security. The risk response plan covers a broad scope, including security governance, culture and awareness, supply chain security, and infrastructure. Aged infrastructure remains across much of our estate, however security improvements continue to be delivered within the constraints of funding and delivery resources.

Our PSyA team has expanded its industry facing services, with the creation of the Industry Security Assurance Centre. This is one of five Cabinet Office sponsored Security Centres of Excellence and which also now includes an Industry Personnel Security Assurance (IPSA) capability. IPSA will ensure that our industry partners working in the most sensitive areas of our supply chain have the appropriate personnel security measures in place, in particular the aftercare of vetted individuals. This is a challenging and large-scale programme, with more than 750 existing industry partners scheduled to implement and be assessed against the framework within the first three years of the programme. IPSA enhances our existing portfolio of assurance services and will increase the security of our defence industry partners, who play such a vital role in supporting the MOD to protect and defend the UK.

In the past year we have worked in partnership with Home Office Police Forces across the country to implement significant technology led enhancements to the security in movements of items that are attractive to criminals and terrorist organisations, initiating a pilot to further enhance the security at our sites using innovative technology. Despite COVID-19 travel constraints disrupting some elements of the establishment assurance programme, assurance was maintained to manage impact on the highest priority areas. A programme of physical security reviews delivered security assurance across the Defence Munitions estate, as well as to organisations within the Defence Nuclear Enterprise. COVID-19 prompted an increased focus on BC planning and a thorough review, updating and testing of BC planning arrangements took place. This resulted in the formation of an enduring Crisis Operations Management Team which supported the resilient operation of our business throughout the year.

The PSyA team embarked on an ambitious project to implement a new IT system to manage its existing and new services. Phase 1 of this new system has been delivered, with further phases to be completed during 2022. This new system will improve team efficiency and provide better management information and opportunities to collaborate more effectively within our organisation, wider MOD, industry and OGDs.

Following a successful maintenance audit against our framework of control standards, we retained our certification of the ISO 27001 information security standard. This helps to further improve our organisational governance, enhancing management of risk and protection of information assets. We anticipate a successful recertification during 2022-23. At all levels we have improved responsibility, accountability and transparency regarding 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 actively support the development of the Government Security Profession, launched in early 2020, by sharing our knowledge and expertise.



LOOKING FORWARD

British troop trialling Robot Dog in Cotswolds

The year ahead is likely to be turbulent and unpredictable. Agility and adaptability will be vital to support defence's needs going forward. Through COVID-19, EU exit and the war in Ukraine, DE&S has been responsive to rapidly emerging new priorities. New demands will continue to be placed upon us during 2022-23 and we will need to anticipate where we can and innovate in support of the Armed Forces. We will rise to the challenge of multi-domain integration which will ensure every part of defence can work seamlessly together, and with OGDs and our allies, to deliver a desired outcome. We will renew our focus on becoming more dynamic and agile to deliver for the UK's armed forces, as well as ensuring our people are suitably equipped and motivated, with the diversity of talent and thinking crucial to our success.

We will continue to emphasise how important safety is in everything that we do, and we will be pro-active in identifying problems and making improvements. A good safety culture comes from being open and collaborative in our approach and using the experience and knowledge of those around us, including our industrial partners. In March 2021 the Minister for Defence Procurement, Jeremy Quin, announced the Terms of Reference for a review led by Clive Sheldon QC to look more in depth at the Ajax programme, beyond just health and safety, to identify lessons and make recommendations to help MOD deliver major programmes more effectively in the future. We will fully engage with this review and ensure we are able to positively react to the findings. I know that we are all determined to improve performance, whilst remaining focussed on delivering the required capability, that is safe to operate and at the best value to the taxpayer.

Since 2014 we have operated as an ALB and have grown our specialist skills and capabilities in complex acquisition, support and contract management, bringing together professionals from the civil service, military and private sector. Over the coming year we will continue to deliver against our DE&S Strategy 2025 and will further improve our performance, tools and processes. The strategy underpins and drives everything that we do and is aligned with our People Strategy, which will deliver on four key pillars: culture and inclusion; leadership, skills and growth; people offer; and people activities. We will create a more inclusive environment where skilled people are engaged, empowered and inspired to be the best they can be to deliver our mission. By spring 2023

our values will be further embedded into our leadership development, recognition and performance management processes, with positive action programmes in place to support increased retention of our people, and promotion of all under-represented groups.

I envisage that COVID-19, and its associated challenges, will continue to have an impact throughout 2022-23, although much less so than the last two years. Recognising the environmental benefits of smarter working, we will empower and trust our people to make the right decisions about where, when and how they work to meet the business needs. To support this, we will continue to invest in improvements to the workplace, ensuring our people have the right technology to work in both the home and office environment. We have a clear vision of the organisation we want to create and in order to deliver for our clients, we need all of our people to help us to grow as an inclusive organisation that is at the forefront of great delivery. Inflation and competition for key skills will challenge us in the labour market and we will strive to improve the offer to our people in its broadest sense, our internal efficiency and delivery of our programme commitments.

The conflict in Ukraine has provided us with a renewed focus to build a modernised defence to enable our armed forces to outpace our adversaries and retain our adaptive edge. As we look to the future we will advance in technology and innovation, alongside developing our unified approach with our clients and industry suppliers, to deliver cutting edge capabilities into the hands of our military service people. We know that there is significant operational advantage in exploring and delivering better digital and innovative capabilities. Over 2020-23 our FCG team will continue to deliver ground breaking technology and I am pleased to say that work is currently underway to explore innovative procurement models to accelerate from Experimentation to Exploitation in a matter of months. We will focus on AI, autonomy and digitising the equipment capability, increasing the speed of technology exploitation and the pace of our processes to respond to new and emerging threats.



Sir Simon Bollom - Accounting Officer

14 July 2022

A silhouette of a surveying instrument, possibly a theodolite or level, is positioned on the right side of the frame. The instrument is mounted on a structure, and its long horizontal arm extends towards the left. The background is a vast expanse of the ocean under a sunset sky, with colors ranging from deep blue to orange and pink. The horizon line is visible in the distance.

SECTION 2

— ACCOUNTABILITY REPORT



Royal Navy Gunner man's his M134 Minigun onboard HMS Trent in Africa



CORPORATE GOVERNANCE REPORT

British troop on exercise in Copehill Down

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 Director's 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, which 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 61.

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, with a focus on educating our people and making them aware of data protection matters, to support greater consistency and enhanced compliance across our business.



Seaman on HMS Prince of Wales preparing to leave Portsmouth

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 16 December 2021. 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; and
- 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 ARAC as a whole is fair, balanced and understandable. I take personal responsibility for the ARAC and the judgements required for determining that it is fair, balanced and understandable.

Sir Simon Bollom, Accounting Officer



Royal Navy Lieutenant drills into the ice to obtain core samples

GOVERNANCE STATEMENT

I, Sir Simon Bollom, as CEO and Accounting Officer of DE&S, am responsible for maintaining an effective 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 structure includes the P&RR, DE&S Board and its sub-committees which 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. Met four times during 2021-22.

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 and 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 and experience, 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.

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, papers adopt

the principles of evidence-based decision making. This helps to ensure that the information to which the Board has access is current, balanced and accurate.

DE&S BOARD ACTIVITY

The DE&S Board met ten times during 2021-22, which included a strategy event in November 2021.

Name	Number of meetings attended ¹⁷
Mark Russell	10(10)
Air Marshal Richard Knighton CB	8(10)
Henry Lloyd	8(10)
Sir Simon Bollom	10(10)
David Johnson	10(10)
James Dorrian (tenure as NED ended in July 2021)	4(4)
Dr Ros Rivaz	8(10)
Iain Lanaghan	10(10)
Andy Lord	8(10)
Claire Hawkings	10(10)
Angela Williams	9(10)
Tony Meggs	9(10)

DE&S BOARD MEMBERS AS AT 31 MARCH 2022



¹⁷ The figures represent the number of meetings attended by each individual, with the total number of meetings available to attend in brackets.

DE&S BOARD DECLARATION OF INTERESTS AS AT 31 MARCH 2022

Name	Declaration
Mark Russell	UK Government Investments (Vice-Chair) Angel Trains (Chair)
Sir Simon Bollom	Submarine Delivery Agency (NED) Altus Advisory (Director) Royal Academy of Engineers (Trustee) Owlstone Medical (daughter's employer) Fellow RAEng Fellow Royal Aerospace Society Member Institute of Mechanical Engineers Nuclear Decommissioning Authority (member of Independent Review Panel)
Air Marshal Richard Knighton CB	Mills and Reeve (wife is employed as a family lawyer) RAF Charitable Trust (Vice President) RAF Association (Ambassador) Fellow Royal Academy of Engineers Fellow Institute of Mechanical Engineers
David Johnson	Acorn Education Trust (NED) Army Audit and Risk Committee (Committee Member) Cundall Engineering (son's employer) Member Chartered Institute of Public Finance and Accountancy
James Dorrian	Nil
Iain Lanaghan	Scottish Water (NED and Audit Committee Chair) Iain M Lanaghan (Consultancy) KPMG (son's employer) North Sea Transition Authority (NED and Audit Committee Chair) Oil and Gas Authority (NED and Audit Committee Chair) 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 and Remuneration Committee Chair) Victrex plc (Senior Independent Director) Aperam SA (Lead Independent Director) Nuclear Decommissioning Authority (Chair) Faithful+Gould (Atkins – SNC Lavalin) (son's employer)
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) Fellow Royal Aeronautical Society Member Institute of Directors Associate member Institute of Mechanical engineers
Henry Lloyd	Mercers Livery Company (Board Member and Chair of Investment Committee) AWE plc (NED)
Angela Williams	Post Office (Group Chief People Officer - interim) Angela Williams Consulting, Advisory and Interim Services Limited (Consultancy) AND.digital (NED) 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) FirstGroup plc (NED)
Tony Meggs	Marakon – Management Consulting Subsidiary of Charles Rivers Associates (Advisor) Sellafeld Limited (Chair)

BOARD PERFORMANCE BY MARK RUSSELL, DE&S CHAIR

The DE&S Board continued to adapt and develop through the year, integrating our three new NEDs¹⁸ and pursuing best practice wherever possible. Meetings were conducted remotely where necessary and subsequently moved to a hybrid approach, in line with smarter working commitments. The latest Board Effectiveness Review confirmed that overall effectiveness has improved, with members having greater opportunity to provide support and advice to the executives. The Programme Review Committee (PRC) was assessed as being particularly helpful, as were the Board Domain Days, which provided key insights into the challenges being addressed by DE&S and its clients. The quality of management information provided to the Board has also improved and we had the opportunity to engage in the development of DE&S Strategy 2025. Two of our longer serving NEDs will depart their positions later in the year, providing an opportunity to further improve Board diversity and broaden our already strong skills base. In the meantime, I am confident we have the right skills and experience in place and that these are being applied in support of DE&S achieving its objectives. In summary, I am content that the Board is operating efficiently and effectively, within a robust governance framework.



Lieutenant on the bridge of HMS Sutherland during a Replenishment at Sea.

¹⁸ The three new NEDs on the DE&S Board are: Angela Williams, Tony Meggs and Claire Hawkings

KEY BUSINESS DISCUSSED AT THE DE&S BOARD DURING 2021-22

Subject	Discussion
Strategy	<ul style="list-style-type: none"> Strategy day in November 2021 to discuss the DE&S Strategy 2025. Discussed strategic issues relating to our clients and wider stakeholders and our status in the wider-MOD and external environment.
Risk	<ul style="list-style-type: none"> DE&S strategic risks scrutinised and discussed throughout the year. Strategic risk workshop held on the 14 October 2021, 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 ARAC 2020-21 (published January 2022), the implementation of 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. Executive Committee members provided updates on key DE&S business, including supplier management, Corporate KPIs, OGSM, DE&S projects and programmes and strategic workforce planning.
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.
HR, Equality, Diversity, Inclusion (EDI) and Wellbeing	<ul style="list-style-type: none"> Reviewed the new DE&S People Strategy and endorsed the Equality, Diversity, Inclusion and Wellbeing Action Plan for 2022-23.

DE&S BOARD SUB-COMMITTEES

The DE&S NEDs attended the following sub-committees¹⁹.


Name	Audit & Risk Assurance Committee	Remuneration Committee	Nomination Committee	Programme Review Committee
Mark Russell	5(5)	7(7)	3(3)	5(5)
James Dorrian ²⁰	N/A	1(1)	1(3)	N/A
Dr Ros Rivaz	N/A	6(7)	1(3)	N/A
Iain Lanaghan	5(5)	N/A	N/A	4(5)
Claire Hawkings	5(5)	N/A	N/A	5(5)
Angela Williams	N/A	7(7)	3(3)	N/A
Tony Meggs	N/A	N/A	N/A	5(5)
Dr Ilona Blue	4(5)	N/A	N/A	N/A
Henry Lloyd	5(5)	5(7)	2(3)	5(5)
Andy Lord	N/A	N/A	N/A	4(5)
Air Marshal Richard Knighton CB	N/A	N/A	2(3)	4(5)


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. James Dorrian tenure as a NED ended in July 2021. Dr Ilona Blue is a Department for Transport employee, appointed as a NED to the Audit and Risk Assurance Committee.


¹⁹ The figures represent the number of meetings attended by each individual, with the total number of meetings available to attend in brackets.


²⁰ James Dorrian's tenure as NED ended in July 2021

 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 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' ARAC, 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 AAR. An annual effectiveness review, held in winter 2021, concluded that the Committee was performing effectively, with a few continuous improvement recommendations being taken forward as required. Other topics discussed included the DE&S Risk Maturity Improvement Plan, GFA and contingent liabilities. Met five times during 2021-22.

 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	Usually three to four times per year.
Membership	Finance Director (Chair), Director Commercial Capability, Director Engineering and Safety, Director Logistics Delivery, Director HR, Deputy Director Finance, MOD Director Assurance and MOD Head of Fraud Defence. Also normally in attendance are the Fraud Risk & Assurance Team, a fraud focal point, 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 2021) communications on our collective responsibility to prevent and detect fraud and how the organisation is tackling fraud. Met three times during 2021-22.

 REMUNERATION COMMITTEE	
Purpose	The Remuneration Committee advises the DE&S Board and the CEO on the development and application of the DE&S reward strategy across the whole of DE&S. The Committee also has a specific interest in the application of the reward strategy to the civilian executive team and to the SLG, noting that these are often determined by Senior Civil Service or Departmental guidelines. As required, the Committee advises the Minister for Defence Procurement and Permanent Secretary on the CEO's remuneration.
Frequency	Normally four times per year.
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, remuneration foundation principles, pay and performance policy, the reward review and senior executive performance assessment and outcomes. The Committee Terms of Reference were reviewed and updated. Met seven times during 2021-22.

 NOMINATION COMMITTEE	
Purpose	The Nomination Committee meets as necessary to advise the DE&S Chair, CEO and the Corporate Sponsor Representative (MOD NED) on the balance of skills and diversity of the Board, succession planning for independent NEDs and appointments to senior leadership roles within the Executive.
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 strategic workforce planning. The Committee Terms of Reference were reviewed and updated. Met three times during 2021-22.

 PROGRAMME REVIEW COMMITTEE	
Purpose	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	Six times per year.
Membership	At least three NEDs, one of whom will Chair, the CEO and Finance Director. The DE&S Chair and the 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 on improvements needed, for example across project schedule and controls and in response to PAC ²¹ and NAO ²² reports on improving performance of major equipment contracts. The Committee also identified and agreed eight themes on which to focus and monitor going forward, which will help identify high risk projects or issues early for intervention. The themes are: realistic approach to cost and schedule estimation; clarity of roles and responsibilities; working as one team; slimming down the current assurance process; systems integration capability; annularity of funding and over-programming; commercial and project management skills; and transferring equipment and capability to customer. Due to COVID-19 restrictions, the committee only met five times during 2021-22.

21 <https://publications.parliament.uk/pa/cm5802/cmselect/cmpubacc/185/summary.html>

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

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 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.

Changes since the last report are:

- July 2021 – Andrew Forzani was appointed as DG Commercial, replacing Morag Stuart interim DG Commercial
- August 2021 – Dr Jill Hatcher was appointed HR Director, replacing Katie Sloggett interim HR Director

DE&S EXECUTIVE COMMITTEE AS AT 31 MARCH 2022

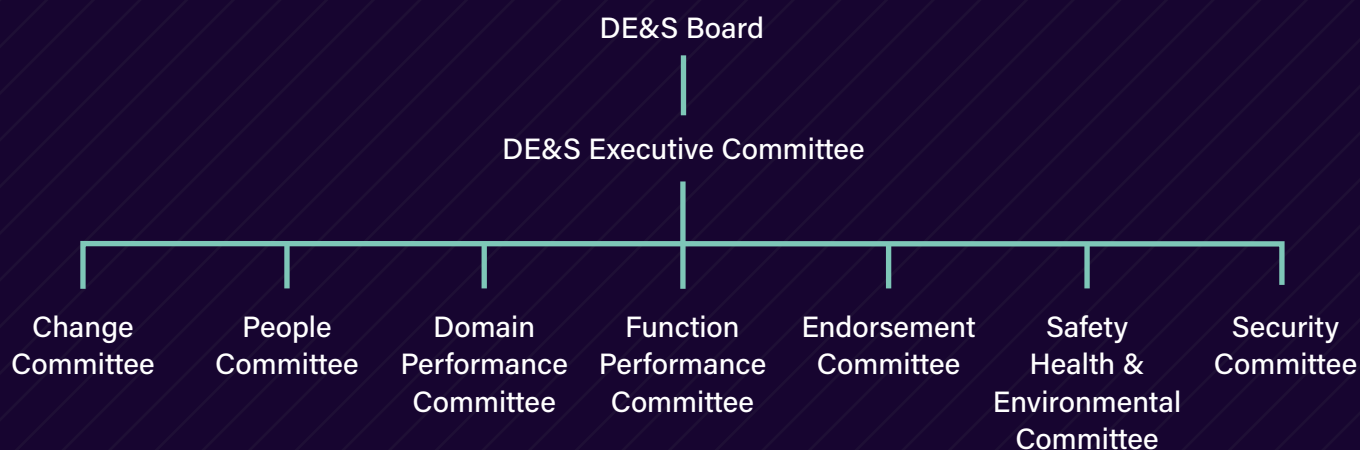


During 2021-22 the Executive Committee discussed / provided direction on the following key topics:

Subject	Discussion
Strategy	<ul style="list-style-type: none"> DE&S Strategy 2025 Net Zero by 2050 Exports Strategy
Safety & Security	<ul style="list-style-type: none"> Safety dashboards on OHSE and equipment & acquisition safety The Safety & Environmental Assurance Report Protective security risk Ajax Noise & Vibration Review
People	<ul style="list-style-type: none"> DE&S People strategic risk COVID-19 Smarter working
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 The AAR and outstanding AMAs Optimising Operations

EXECUTIVE COMMITTEE SUB-COMMITTEES

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





CHANGE COMMITTEE

The CEO-chaired Change Committee provides strategic direction and oversight of the DE&S Change Portfolio in support of the DE&S 2025 Strategy.



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 generation of the People Strategy, the reward review and annual performance award and pay recommendations, leaderships, learning and development programmes and strategic workforce planning and resourcing. The quarterly Diversity and Inclusion committee, chaired by DG Ships²³, reports to the People Committee.



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 Command Approving Authorities.



SAFETY HEALTH & ENVIRONMENTAL COMMITTEE

The CEO-chaired Safety Health & Environmental Committee governs all safety and environmental aspects across DE&S. The Committee is chaired alternately by the CEO and Director Engineering and Safety.



SECURITY COMMITTEE

The Security Committee is chaired by Director of Strategy and Corporate Operations and provides oversight of security and resilience throughout 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.

DE&S RISK AND CONTROL FRAMEWORK

RISK MANAGEMENT

The pro-active approach to our management of risk increases the likelihood of our programme adhering to schedule and budget. It demonstrates a responsible approach to our client community, the armed forces, and enables us to make informed decisions so that we can focus our efforts on the most important areas of concern.

Risk is managed at different levels based on complexity and potential impact. 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. Lower-level project-based risk management is organised and undertaken by risk professionals across the different functions, specifically in the project delivery function.

The DE&S Board looks at 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. Under delegation, the Executive Committee regularly reviews our strategic risks, challenging 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 apply the MOD's risk management policy to our strategic risks and report significant risks to the Defence Risk and Assurance Committee and ultimately, the Defence Board.

In October 2021 we held our seventh annual risk stocktake with our Board members. The level of challenge provided through the annual risk stocktake and the bottom-up / top-down horizon scanning between our strategic and sub-strategic risk themes, has helped us to identify and escalate emerging strategic risks. One new strategic risk was accepted, and we assigned NED leads to work alongside our strategic risk owners to bring external and independent challenge to our risks and innovative thinking in terms of the development of risk response plans.

There have also been significant developments this year in our work to enhance the risk management maturity of our organisation and a recent risk maturity audit by Defence Internal Audit (DIA) assigned a maturity Level 3, equivalent to a Substantial Assurance. We have appointed our Deputy Chief Executive as Risk Champion, to provide an increased level of advocacy across our organisation and to improve culture and communications. We recently revised our Risk Policy which provides a detailed explanation of how strategic and sub-strategic risks are managed across the business. We have also issued a revised escalation and transfer process to link, for the first time, the full risk escalation procedure from project level up to the strategic level.

Under the direction of our Executive Committee, work is underway to explore the approach, potential impact, and implementation strategy for the introduction of risk appetite and tolerance levels for our organisation. Benefits of this approach will help us to ensure better understanding of our appetite and tolerance levels and improve our ability to prioritise, highlighting opportunities where more ambitious responses could be developed to achieve our goals.



RAF Typhoon aircraft being refuelled by an RAF Voyager

PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2021-22

Strategic Risk	Potential impact	Progress
<p>Potential Flaws within Safety Cases</p>	<p>There is a risk that contributory factors leading to significant injury or death, which were reasonably foreseeable, were not captured in the Platform/ System/Service (PSS) Safety Case Report/ Assessment ²⁴ (SCR)</p>	<ul style="list-style-type: none"> • New safety strategy launched, seeking to create a climate of trust and environment where we talk openly about safety across the organisation. • Development of “good practice” safety case construct. A tool is being developed in parallel to assess maturity of safety cases, to be piloted in 2022-23. • Focus on improved recruitment processes to ensure the right SQEP resource is in place. • Training throughput almost back to pre-COVID-19 level and a Training Needs Analysis covering all safety training is in progress. A new modular training suite is estimated to be rolled out in early 2023. • Improved policy and systems for management of safety-related records and information, with a consistent DE&S-wide file plan for safety artefacts being rolled out.
<p>People</p>	<p>Failure to effectively and efficiently deliver equipment programme and support services to defence</p>	<ul style="list-style-type: none"> • DE&S People Strategy published February 2022, coherent with, and supportive of, DE&S Strategy 2025. • Process for annual self and manager assessment against success profiles (which describe the technical, professional and leadership requirements for each role in DE&S) embedded as business as usual, allowing development of learning plans that reflect the skills and capability needs of the organisation. • Introduced a refreshed Strategic Workforce Plan (SWP) to embed our approach to long-term skills planning. SWP formal governance established, via People Committee, with updates to the Board as required. • Niche skills and pinch point analysis in a pan-function approach implemented. • Delivered MyHR, our new HR system. This critical enabler will support Strategic Workforce Planning by a future bolt-on module. • Delivered training opportunities in leadership and management for DE&S people at Level 3 and up to SLG. • Employee Value Proposition marketing approach launched to assist with attracting new and diverse talent. • Confirmed a new, competitive reward framework, delivered in 2022-23, to enable DE&S to attract and retain the skilled workforce it needs. • Developing an agreed SQEP framework with identified baseline and clear requirements for the future, to understand SQEP gap analysis for each function. • Developing a pilot for the use of regional hubs to recruit where talent is prevalent in the market.
<p>Continuity of supply</p>	<p>Supply chain interruption, capability loss, increased costs, delay to equipment delivery and damage to the DE&S reputation</p>	<ul style="list-style-type: none"> • Progress made on the Supply Chain Resilience Control Tower with a scalable and configurable technical solution capable of mapping the MOD and DE&S SC, using external and internal data. Two successful pilot programmes mapped and an operating model defined. • The above capability enables the MOD and DE&S users to identify and address vulnerabilities within the SC chain through the exploitation of data, technology and innovation. • Supplier segmentation has been conducted as part of the Supplier Relationship Management programme, identifying ‘Strategic’ Critical’ and ‘Tactical’ suppliers to DE&S in terms of importance. Strategies and prioritisation have been determined for the next tranche of activity. The Supplier Strategy Committee has been reinvigorated and we are providing ongoing support to MODs Strategic Partnering Programme and Strategic Supplier Management team.

²⁴ Air Domain use the term Safety Assessment, herein referred to Safety Case Report.

PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2021-22 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"> • A risk-based cyber security awareness strategy aimed at our people has been, and continues to be, implemented to respond to the changing threat landscape. • Training pathway for security engineers has been established and implemented. • Risk deep dive review, including assessment against ISO27001²⁵ Response plan developed to include further mitigation activities. • 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. • Improved Project Cyber Risk Assessment completion levels.
Reputation	Failure or perceived failure to deliver on our major objectives and obligations, and the lack of a strong DE&S employee brand, causes DE&S to have a poor reputation with our clients, key stakeholders and current and prospective employees, leading to an impact on our current status and freedoms as an ALB / BTE, and our ability to recruit / retain the best people	<ul style="list-style-type: none"> • Horizon scanning and forward look developed to identify risks and opportunities. • Communication of successes internally and externally to build engagement and awareness of DE&S. • Delivery of a targeted and coordinated engagement activity plan, providing the Executive Committee and Board with the appropriate tools, briefings and opportunities to ensure proactive delivery of right messages, at right time, to right people. • Client survey updated and digitalised with better targeted questions, providing improved insight into how FLCs view DE&S. • Management of shock events that could impact reputation, for e.g. safety, environmental, legal, people issues. • Procured additional reputational monitoring and benchmarking services to track social media activity, providing more depth and insight.

25 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

Table continued on next page.

PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2021-22 CONT.

Strategic Risk	Potential impact	Progress
Protective Security	Loss of confidentiality, integrity and / or availability of critical or sensitive assets or dependencies, leads to reduced resilience, reduced safety, ineffective mission capability, loss of business services, financial impact and reputational damage	<ul style="list-style-type: none"> • Launch of Project Security Guide and awareness training to help embed the Project Security Framework, which encompasses policy, processes and guidance. • Security Infrastructure Improvement Programme launched to mitigate infrastructure risks on DE&S establishments. • Industry Personnel Security Assurance programme launched to improve personnel security and insider threat mitigation across defence industry. • DE&S senior leadership formally engaged with cross-defence security groups, including defence industry, ensuring a common approach to work needed in this area. • Full Operating Capability achieved for weapons movements technology solution, which enables mitigation of risks associated with movement of munitions by rail and improvement of the security standard for road moves. • Communications across the business to raise security awareness and improve the security culture.
Knowledge & Information Management (KIM)	Sub-optimal KIM practices within DE&S resulting in potential for reputational damage, substantial fines, safety related incident or imprisonment caused by non-compliance with legislation, regulation, or policy	<ul style="list-style-type: none"> • Improved, standardised information and records structures rolled out by the Microsoft Office 365 programme, delivering improved collaboration and ease of use, ensuring effective and compliant storing of information. • Delivery of circa 16,500 training sessions across a range of related KIM subjects. • Improved compliance with the Public Records Act and MOD policy by a review of paper records held within DE&S and at the Government's record storage facility, reducing the number of records held. • DIA audit of our Records Management concluded Substantial Assurance, recognising the forward-looking programme of work to address legacy information and records management issues. • Significant progress made towards compliance against the Air Safety Audit L1 Corrective Action Requirement raised by Military Aviation Authority for regulatory concerns on airworthiness and safety related information and records. • Improved controls and measures for knowledge retention to be delivered through a Knowledge Management strategy, currently being scoped for future implementation. • Transformation of the current Information Asset Owner network, including revised objectives and responsibilities.



847 NAS Commando Wildcat lifting a IRC (Inshore Raiding Craft) at Skibotn

UPDATE ON PRINCIPAL STRATEGIC RISKS EXTANT IN 2020-21

The previous table outlines the principal risks in the 2021-22 DE&S Strategic Register, which are the same as those reported against in 2020-21 apart from the addition of two new risks. KIM was identified in 2020-21 and agreed to be reported on from this FY. The other new risk identified is Protective Security.

Three risks have been renamed:

- 'Provision of safe to operate equipment' renamed as 'potential flaws within safety cases'
- 'DE&S people 2025 – defining, meeting and sustaining DE&S evolving SQEP requirements' has been renamed as 'People'
- 'Clients' has been renamed as 'Reputation'

PRINCIPAL INTERNAL CONTROLS

All DE&S people 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 people 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.

FINANCIAL

The DE&S Board monitors performance against our annual budget. We practise financial control through a system of financial delegation to senior people, 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 2021-22 we were exempt from certain Cabinet Office controls, which were advertising, marketing and communications, redundancy and compensation, learning and development and dispute disclosure. Additionally, we have an agreed approval threshold of £150 million for contracts, with sole source only being used in exceptional circumstances, and excluding contracts via Foreign Military Sales, NATO Agencies or other International Contracting Authorities. This threshold is higher than OGDs. During 2021-22 the Cabinet Office updated their controls in relation to external assistance (consultancy, professional services and contingent labour), with exceeded durations and thresholds now requiring approval from or reporting to the Cabinet Office. More 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 wider MOD quality policy laid down in Joint Service Publication 940, 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 ensure the right controls are in place to manage quality.

Our approach to quality, utilising a set of integrated and consistent processes within a documented Quality Management System (QMS), remains a key improvement driver. ISO 9001 is the international standard by which

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

organisations are measured to demonstrate their implementation of a sound QMS and is a requirement laid down by the MOD in our Framework Document. Following a sample audit programme over 21 days across multiple locations, we achieved certification to ISO 9001 in December 2021, which was awarded by a UK Accreditation Service third party Certification Body. DE&S will also be subject to 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 some recent programme failings, our Executive Committee have endorsed papers aimed at improving the quality of products and services supplied to the MOD and the attitude of suppliers towards quality. The resultant actions focus supplier attention onto quality planning and assurance, to maximise the benefit that can be obtained from 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:

- The use of QMS certification as a Technical Discriminator during the supplier selection process, plus the adoption of standard QM questions relating to the management of QMS nonconformity and top management engagement and commitment to customer focus.
- The introduction of an appropriate contractual incentive mechanism, to drive improved performance in the areas of planning for quality and its progressive assurance, linking this with contract KPIs and Contract Management Plans.
- The introduction of a MOD Quality Award for supplier quality improvement.
- Establishing an understanding of the lay-down of both QM and Quality Assurance (QA) SQEP resource across DE&S, to provide a more consistent approach across all programmes, and
- The use of a MOD Risk and Complexity Model to flag the requirement for QA support, combined with the adoption of lifecycle based capability assessments by

the Defence Quality Assurance Field Force to inform risk and future surveillance.

These initiatives are intended to improve supplier quality performance by:

- raising supplier awareness of the importance the MOD places on QMS planning and quality assurance.
- emphasising the importance the MOD places on the assurance provided by accredited third party QMS certification bodies.
- establishing a linkage between the performance of the supplier's quality management and payment, something that is currently missing in the MOD's contracting arrangements.
- identifying potential areas of risk, to inform the MOD's acquisition risk management and quality assurance, and
- providing increased visibility of non-value-added costs and risks through the ongoing reporting of quality metrics.

COMMERCIAL CAPABILITY AND CAPACITY

In order to meet our objectives and deliver for our clients, the investment in the recruitment, retention, development, and support of our commercial people continues. Alongside tackling the ongoing challenges from the pandemic and retaining our commercial function levels within our organisation.

We continue to develop new and accessible routes to training and guidance that supports our objective of continuous development of our people and smarter working. The following developments have been implemented:

- **Capacity** - We have run numerous commercial recruitment campaigns to support roles across the business. We continue to work with our commercial delivery support partner, Paragon, providing commercial capability resource and specialist skills and services.
- **Professionalism** - We have continued to make progress against the pan-MOD professional development target. We completed Trade Union (TU) consultation on licencing and delegations. To date over 70% of Levels 1 to 3 have passed the Practitioner Accreditation Panel and a quarter of people at

Level 4 and above have attended the Cabinet Office Assessment and Development Centre. Many commercial people have also achieved the required level (4 or 6) of Chartered Institute of Procurement and Supply certification.

- **Learning and Development** - The commercial training library was launched and continues to be updated. This year 132 virtual courses were delivered, with 2,640 places taken at the Defence Academy for commercial related courses. Over 50 commercial training videos covering 40 topics to support formal learning were published.
- **Structured Learning** - We are hosting and developing a number of Commercial Business Graduates, as well as Commercial Apprentices. A mid-point review of the Structured Learning Programme to develop our Level 1s in functional and core skills has been completed, having delivered 53 learning events to many participants.

COMMERCIAL OPERATIONS

In 2021-22 DE&S raised around 690 new contracts, with a combined total value of £7.7 billion and managed approximately 2600 contracts worth around £122 billion. We continued to apply the Single Source Contract Regulations and reinforced our professionalism in this unique area, with the development of a COE for single source pricing. The terms of trade with suppliers were also improved, with some long-standing difficulties with defence terms addressed and, in line with the DSIS, the introduction of 'limits of contractor liability' and Intellectual Property Rights strategies. This has contributed to a greater focus on overall value to defence in competitive and non-competitive procurement. The drive for value has included prosperity benefits, with several of our projects or initiatives involving export opportunities.

INFORMATION MANAGEMENT

Operating under the KIM strategic risk, progress has been made to improve the capture and management of records across our organisation. Our paper record holdings are reducing through the destruction of artifacts no longer required and the digitisation of those that need to be retained, leading to improved exploitation

and compliance. Over 16,500 information management training sessions have also been delivered across our business, covering a range of subjects that enables our people to better align to improved policies and processes.

Technology has played a big part in improving how we manage information. Through the Microsoft Office 365 programme, standardised information structures have been delivered, enabling improved collaboration and an increased ease of use for our people to manage information and records effectively and compliantly. In October 2021, a DIA audit of our Record Management and the KIM programme of work concluded with a rating of 'substantial assurance'. This recognises the forward-looking programme of work to address legacy information and records management issues.

QUALITY ASSURANCE OF ANALYTICAL MODELS

DE&S continues to implement the Macpherson report²⁶ recommendations and drive the actions needed to further strengthen our approach to QA. The project controls function conducted a QA review of the Business-Critical Models (BCMs) listed for 2021-22. Of the 30 BCMS declared, all but one was found to have conducted appropriate quality assurance, or have appropriate quality assurance planned. The one failure was due to an unassured model being used to support a business case submission, and actions are being implemented to prevent this from occurring again. The only impact of the unassured model being used was that the approval value sought for the project in question was slightly higher than it would have been if the model had been properly assured prior to submission. The review also identified six further instances of minor deviations from the prescribed processes, mainly relating to Senior Responsible Owner completion of training and objectives. These minor deviations are also being addressed. The overall conclusion confirmed satisfactory quality assurance exists in BCMS, satisfying HMT requirements and the Macpherson report recommendations. This is equivalent to the DIA 'Substantial' level of assurance given for the 2020-21 review, which is a step up from 'Satisfactory' due to our adoption of the assurance levels defined in the DE&S Approach to Internal Management System and Process Audits.

ANNUAL ASSESSMENT OF GOVERNANCE

The DE&S Audit, Risk and Assurance Committee have engaged with, and provided advice and support to our Governance and Control Framework, risk management structures, and internal controls. Our assurance-based Governance and Control Framework was developed two years ago to provide evidence that our strategic risks are being assured by appropriately evidenced internal and external sources. It is being used to support the DE&S AAR and continues to provide a robust structure for reviewing mitigation activities, whilst delivering the levels of assurance required to provide confidence and oversight.

As part of the AAR and aided by the Function Performance Committee, our functions make a judgement-based assessment to ensure compliance against our own, and wider MOD, functional policies and processes. There is no specific guidance from Defence Risk & Assurance (DRA) on how to do this, with our self-assessments judged as No, Partial or Full Compliance. Most of our functions have assessed themselves as Full Compliance this year, with Digital (part of the Information Management and IT function) having improved its assessment to Full, supported by a positive audit outcome. Two that assessed themselves as Partial were:

- Security and Resilience (part of the Corporate Services Group function), based on a need for renewals and repairs to aging security infrastructure, which will be addressed through the Security and Infrastructure Programme;
- Commercial where, without more detailed guidance, it was felt that the judgement-based opinion required a Partial assessment overall. MOD HO assess using different assurance definitions (No, Limited, Substantial and Full) and within that range, as part of the MoD Function assessment, DE&S Commercial were assessed as having Substantial Assurance. Rationalisation of the various compliance definitions is planned for next year as having two sets of definitions in use simultaneously in the Department is suboptimal.

Overall, the opinion provided by the Head of Internal Audit for DE&S is one of Substantial Assurance. Last year we agreed a three-year audit plan with DIA to run until 2024, which is aligned to our strategic risks and aspects of business where issues have been identified. We are also improving our engagement with DIA through a defined DE&S-wide engagement plan.

This year DIA noted effective control frameworks in a number of key business process areas, including Strategic Workforce Planning, Project Controls and Records Management, as well as affective governance and risk management in some areas of work linked to DE&S strategic risks, such as Equipment Safety and Continuity of Supply.

This year's results were largely positive, for example our OGSM performance management framework was found to be clearly defined, robust and well embedded achieving a full assurance opinion for the second year in a row. In a few areas, however, issues were highlighted for improvement including Contract Management and Inventory Disposals where instances were identified where stretched resources in Delivery Teams appeared to be impacting on consistent compliance with management controls; and the cross-cutting Patch Management review also highlighted exposure to some cyber risks relating to Departmental control processes.

We have Agreed Management Actions in place to provide a framework for improvement and further development in certain areas. The DIA also noted that DE&S continue to deliver actions, which address previous audit findings, in an effective manner and that we have performed well relative to the wider Department.

We also have in place an Assurance Plan to reflect a number of improvements across DE&S. This includes our work to streamline assurance activity across the business, our approach to the provision of SQEP through our People Strategy, and the further development of our Governance and Control Framework.



Lynx MK8 helicopter armed with two sea SKUA anti-surface missiles



CHAIR'S ASSESSMENT

MARK RUSSELL

DE&S continues to operate within a robust governance framework, as reflected by the substantial assurance opinion for the third consecutive year. There has also been good work to drive continuous improvement, not least in relation to the Assurance Framework, which has been expanded to cover all seven strategic risks.

Relations with DIA are positive and we have an agreed three-year audit plan in place, which is aligned to the strategic risks. In summary, I am satisfied that DE&S can deliver its outputs and objectives while complying with agreed standards as part of its delegated responsibilities.



— REMUNERATION AND STAFF REPORT

A member of DE&S staff

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 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 2021-22, nine²⁷ members of the DE&S Executive Committee were members of the SCS, one was an employee of the Government Commercial Organisation, and two²⁸ 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 agreed a set of Reward principles that support the application of these freedoms, including the ability to pay up to twenty-three civilian members of staff at or above the control threshold set out in HMT's Guidance for approval of senior pay, covering salary and allowances.

As at 31 March 2022 there were nine staff in this category. The Remuneration Committee Chair has confirmed they are content that DE&S pay freedoms are applied effectively and appropriately to meet business needs.



A member of DE&S staff

²⁷ Sir Simon Bollom, David Johnson, Chris Bushell, Adrian Baguley, Morag Stuart (succeeded by Andrew Forzani employed by the Government Commercial Organisation), Daniel Griffiths (succeeded by Katie Sloggett on an interim basis, and then Dr Jill Hatcher on a permanent basis), and Krishna Dhanak.

²⁸ VAdm Sir Chris Gardner, VAdm Rick Thompson.

PERFORMANCE AND REWARD

The 2021-22 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.

Our current reward framework, launched in 2017, established our reward offer as being market-informed and performance driven, was based on a new grading structure, and enabled us to implement a single, consistent approach to performance and reward across all levels of the organisation. All members of our SCS, including members of the Executive Committee, were aligned to the newly formed SLG, though they retained their shadow SCS pay band to support internal transfers with MOD and OGD and other processes such as talent management.

This year, we have reviewed our approach to reward to ensure it evolves to better meet our business needs, in line with our people strategy and reward principles, and to be able to address our people's concerns expressed through the annual People Survey and through Executive level and other engagement events. As well as helping improve retention and recruitment, a key aim of the review was to give our people much greater clarity around their current and future pay opportunity. The review, led jointly by DE&S and SDA CEOs, had input from a wide range of internal and external stakeholders – including MOD Head Office and our respective Remuneration Committees. The outcome was announced on 6 April 2022 following a significant period of consultation and negotiation with our Trades Union (TU) colleagues. Focused on civilian staff in our current levels one to five, the implementation of the reward review is a hugely positive step-change for DE&S and followed wide-ranging engagement with our people.

The key changes that will be implemented with effect from 1 April 2022 and that underpin the Pay 22 annual pay offer, are:

- a new structure of seven, narrower grades that enables roles with differing levels of responsibility to fall into separate grades, allows improved opportunities for promotion, and provides greater clarity over comparison with roles in the wider MOD and Civil Service;
- new, transparent pay ranges attached to each of the new grades, competitively set using both external and internal comparators and taking into consideration the total value of our reward package including pension and performance award opportunity; and
- the publication of new pay range minimum values, that address pay gaps between DE&S and comparator roles in MOD and wider Government and to which we will move our people in a phased approach over two annual pay rounds.

A final element to be developed is to use our new reward framework to encourage a learning mindset and to reward growth in individual capability. This will support our need, as a professional organisation requiring a vast array of expertise, to build and maintain a high level of skilled, qualified and experienced people, in order to deliver to best effect for Defence.

This year we have completed a standard end of year performance management process for all staff, recording end of year performance ratings and narrative statements on achievement against objectives and behaviours in the new MyHR management system, launched in February. The performance rating was given based on clear guidance for empowered managers on how to consider potential bias, due to protected characteristics or working pattern, and individual performance and behaviours in the context of wider team outputs.

Following the communication of the reward review, we announced the annual pay offer for all staff in June 2022. Statutory national living wage increases were implemented on 1 April 2022. Salary increases to bring level one to five staff to new pay range minimums (where applicable) and subsequent annual pay award salary increases for those eligible are to be backdated to the same date. For SLG a small pay review has been conducted, with the process and outcomes endorsed by our Remuneration Committee, that will see some of the

cohort receive salary increases to move them closer to their benchmark position, prior to any increase due to the annual pay award.

For all staff, performance awards are based on their individual performance rating for performance year 2021-22 and the DE&S corporate performance outcome. The SLG performance award outcome was abated by 5% to reflect that we missed our KPI target for employee engagement. For industrial and shop-floor staff, their performance award was based on the achievement of site KPIs. Following negotiation with TU and subsequent ballot processes, salary increases, including performance awards, are to be implemented in the July 2022 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 is 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.

SENIOR MANAGER CONTRACTS

The Constitutional Reform and Governance Act 2010 requires appointments to the Civil Service to be made on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify the circumstances when appointments may otherwise be made. Unless otherwise stated, the civilian officials covered by this report hold appointments which are open ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the work of the Civil Service Commission can be found here*.

The terms and conditions of the DE&S Chair and independent NEDs on the DE&S Board are determined by the MOD and set out in their individual appointment letters. Independent NEDs are appointed for a fixed term through a transparent recruitment and selection process, with appointment on merit, thus following the Office of the Commissioner of Public Appointment principles. They may be reappointed for a further fixed term 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.

Andrew Forzani assumed the appointment of Director General Commercial for the MOD on 26 July 2021. He is a Government Commercial Organisation employee funded by the MOD and DE&S and is a member of the DE&S Executive Committee. Andrew has a dual reporting line to CEO DE&S and to MOD Permanent Secretary.

Daniel Griffiths, Director HR, left DE&S on resignation on 23 April 2021 and was replaced by an interim Director HR, Katie Sloggett, who assumed the role on 26 April 2021 and left DE&S on resignation on 29 July 2021. Dr Jill Hatcher was appointed permanent DE&S HR Director on 9 August 2021.

The appointment of Andy Start as the new DE&S Chief Executive was announced on 21 April 2022 and he will take up his appointment on 5 September 2022. Sir Simon Bollom has been extended in post as Chief Executive to 31 July 2022 to support transition and leadership continuity, with Adrian Baguley acting as Interim Chief Executive during August 2022.

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.

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

DE&S Executive Directors	2021-22					2020-21				
	Salary ¹ £000	Annual ² Performance Award £000	Benefits in Kind to Nearest £100	Pension ³ Benefits £000	Total £000	Salary £000	Annual Performance Award £000	Benefits in Kind to Nearest £100	Pension Benefits £000	Total £000
Sir Simon Bollom	275-280	95-100	-	-	375-380	275-280	- ¹¹	-	-	275-280
David Johnson	155-160	30-35	-	25	210-215	155-160	40-45	-	123	315-320
Nick Elliott (to 31 May 2020)	-	-	-	-	-	45-50 [265-270]	10-15	-	-	55-60
Daniel Griffiths (to 23 April 2021) ⁴	10-15 [165-170]	-	-	4	15-20	165-170	-	-	64	225-230
Air Marshal Sir Julian Young (to 1 September 2020)	-	-	-	-	-	65-70 [165-170]	-	-	30	95-100
Adrian Baguley	155-160	45-50	-	22	220-225	155-160	30-35	-	79	265-270
Chris Bushell	225-230	30-35	-	34 ⁵	295-300	225-230	- ¹¹	-	34	260-265
Vice Admiral Sir Chris Gardner	150-155	-	-	128	280-285	145-150	-	-	133	280-285
Morag Stuart (to 26 July 2021) ⁶	60-65 [185-190]	10-15	-	22	95-100	155-160 [180-185]	25-30	-	71	255-260
Krishna Dhanak	90-95	10-15	-	32	135-140	75-80 [90-95]	10-15	-	127	215-220
Vice Admiral Richard Thompson	140-145	-	-	85	225-230	80-85 [135-140]	-	-	104	185-190
Katie Sloggett (26 April 2021 to 29 July 2021) ⁷	30-35 [105-110]	-	-	13	40-45	-	-	-	-	-
Dr Jill Hatcher (from 9 August 2021) ⁸	75-80 [115-120]	10-15	-	12	100-105	-	-	-	-	-
Andrew Forzani (from 26 July 2021) ⁹	75-80 [105-110]	-	-	-	75-80	-	-	-	-	-

Notes:

- Salary includes gross salary, overtime, reserved rights to London Weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation. Figures in brackets reflect the annual equivalent salary for members who have joined or left the Executive Committee during the year.
- Performance awards are based on performance levels attained and are made as part of the appraisals process. The performance awards reported in 2021-22 and the comparative figures reported for 2020-21 relate to that performance year. Military terms and conditions do not include provision for a performance award. Performance awards for Morag Stuart and Dr Jill Hatcher are pro-rated to reflect time served on the Executive Committee during the year.
- 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.
- Daniel Griffiths left the role of Director HR on 23 April 2021. His salary and pension costs reflect the actual remuneration received during the appointment. The figures in brackets reflect the annual equivalent salary.
- Pension costs for Chris Bushell reflect contributions made to his partnership pension account.
- Morag Stuart left the role of DG Commercial on 26 July 2021. Her salary and pension costs reflect the actual remuneration received during the appointment. The figures in brackets reflect the annual equivalent salary.
- Katie Sloggett assumed the role of Director HR on 26 April 2021 until 29 July 2021. Her salary and pension costs reflect the actual remuneration received during the appointment. The figures in brackets reflect the annual equivalent salary.
- Dr Jill Hatcher assumed the role of Director HR on 9 August 2021. Her salary and pension costs reflect the actual remuneration received during the appointment. The figures in brackets reflect the annual equivalent salary.
- Andrew Forzani assumed the role of DG Commercial on 26 July 2021. Andrew is currently employed by GCO Cabinet Office and the remuneration is in relation to DE&S contribution to his salary.
- Nick Elliott and Air Marshal Sir Julian Young left DE&S during 2020 and therefore did not receive any remuneration in 2021-22.
- 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 2020-21 performance award in the range of £30,000-35,000. Both waived all rights to a performance award for 2020-21.

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

DE&S Non-Executive Directors ¹	2021-22 ² £000	2020-21 £000
Air Marshal Richard Knighton CB³	-	-
James Dorrian⁴	5-10 [25-30]	25-30
Dr Ros Rivaz	25-30	25-30
Iain Lanaghan	25-30	25-30
Dr Ilona Blue⁵	-	-
Andy Lord	25-30	25-30
Mark Russell	145-150	145-150
Henry Lloyd⁶	-	-
Angela Williams⁷	25-30	-
Claire Hawkings⁸	25-30	-
Anthony Meggs⁹	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 ARAC.

4 Mr Dorrian resigned from his position on the DE&S Board on 31 July 2021.

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

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

7 Mrs Williams joined the DE&S Board on 1 April 2021.

8 Ms Hawkings joined the DE&S Board on 1 April 2021.

9 Mr Meggs joined the DE&S Board on 1 April 2021.

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 2022 [£000]	Real increase in pension [and related lump sum] in 2021-22 [£000]	Cash Equivalent Transfer Value (CETV) ² as at 31 March 2022 or cessation of employment if earlier [£000]	CETV as at 31 March 2021 or date of appointment if later [£000]	Real Increase in CETV ³ [£000]
Daniel Griffiths (to 23 April 2021)	10-15	0-2.5(0)	172	168	4
David Johnson	70-75(145-150)	0-2.5(0)	1,397	1,316	3
Dr Jill Hatcher (from 9 August 2021)	40-45	0-2.5	555	525	-1
Andrew Forzani (from 26 July 2021)	-	-	-	-	-
Adrian Baguley	70-75(160-165)	0-2.5(0)	1,477	1,392	0
VAdm Sir Chris Gardner	80-85 (245-250)	5-7.5(15-17.5)	2,071	1,960	102
Morag Stuart (to 23 July 2021)	15-20	0-2.5	176	160	10
Krishna Dhanak	30-35(60-65)	0-2.5(0)	519	476	13
VAdm Richard Thompson	55-60(180-185)	2.5-5(10-12.5)	1,529	1,449	72
Katie Sloggett (26 April 2021 to 31 July 2021)	10-15	0-2.5	95	88	5

The real increase in the value of the accrued pension compared to the 2020-21 value, is shown in italics (in bands of £2,500) in the first column of the above table.

1. Sir Simon Bollom 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. Morag Stuart's pension contribution reflect her time as DG Commercial to 26 July 2021. Daniel Griffiths's pension contribution reflect his time as D HR to 23 April 2021. Dr Jill Hatcher's pension contributions reflect her time as Director HR from 9 August 2021. Katie Sloggett's pension contributions reflect her time as Director HR for the period 26 April to 31 July 2021. Andrew Forzani is not a member of any DE&S pension scheme and no pension contributions have been made by DE&S.

2. 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.

3. 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.

FAIR PAY DISCLOSURES (SUBJECT TO AUDIT)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce. Remuneration of the highest paid directors is based on annual equivalents which include salary, performance related pay and benefits-in-kind. It does not include severance payments, employer pension contributions or the cash equivalent transfer value of pensions. A separate multiple has been calculated for the Armed Forces – comparing the highest paid military director to the military pay median, lower and upper quartiles. The civilian multiple uses a figure based on civil service pay i.e. it excludes staff who are paid under arrangements outside the Department's control, for example: medical personnel, fire fighters, police and teachers; it also excludes locally employed civilians overseas and agency staff covering permanent posts.

The midpoint of the banded remuneration of the highest paid military director in DE&S during 2021-22 was £157,500. This was 2.98 (2020-21 2.83) times the median remuneration of the military workforce, which was £52,768 (2020-21 £52,113). The military remuneration ratio is higher in 2021-22 due to the salary increase of the highest paid military director. The median remuneration of the military workforce has increased slightly in 2021-22 due to experience and grade mix.

The midpoint of the banded remuneration of the highest paid civilian director in DE&S during 2021-22 was £377,500. This was 10.79 (2020-21 7.86) times the median remuneration of the civilian workforce, which was £34,874 (2020-21 £35,323). This increase in remuneration ratio is largely driven by the inclusion of the civilian directors' performance award received this year, in contrast to the previous year where the director waived his right to a performance award. The civilian workforce median decreased in 2021-22, this was caused by a different grade mix within the staff population, driven mainly by an increase in graduates, apprentices and admin specialist grades and a reduction in professional and senior professional grades.

In 2021-22, zero (2020-21, zero) employees received remuneration in excess of the highest-paid director.

Military remuneration ranged from £22,411 to £157,500 (2020-21 £20,400 to £147,500). Civilian remuneration ranged from £17,143 to £377,500 (2020-21 £16,777 to £277,500).

Percentage change in total salary & allowances and performance pay for the highest paid directors and the staff average

Pay Changes	2021-22	2021-22
	Military	Civilian
Salary & Allowances		
Highest paid director	6.78%	0%
Staff average	0.70%	-1.07%
Performance Pay		
Highest paid director	N/A ¹	- ²
Staff average	N/A ¹	-9.08%

Ratio between the highest paid directors' total remuneration and the lower quartile, median and upper quartile for staff pay

	Military			Civilian		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
2021-22	3.42	2.98	2.44	13.80	10.79	8.39
2020-21	3.23	2.83	2.28	10.19	7.86	6.17

¹ Military salaries do not attract performance pay.

² In financial year 2020-21 the highest paid director waived his right to a performance award.

Lower quartile, median and upper quartile for staff pay for salaries and total pay and benefits

Military

	Lower Quartile		Median		Upper Quartile	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Salary £	46,005	45,584	52,768	52,113	64,642	64,642
Total Pay & Benefits £	46,005	45,584	52,768	52,113	64,642	64,642

Civilian

	Lower Quartile		Median		Upper Quartile	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Salary £	26,594	26,618	33,795	35,323	43,000	43,312
Total Pay & Benefits £	27,277	27,472	34,874	35,323	44,846	45,350

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	2021-22	2020-21
Band 1	87	86
Band 2	18	18
Band 3 and above	4	3
Total	109	107

The SCS head count as at 31 March 2022 has increased slightly since 2020-21. However, the figures shown include six DE&S SLG who were on loan to wider MOD or OGD or on extended special unpaid leave on 31 March 2022 and two who left the organisation on that date.

The increase in Band 3 and above staff from 3 to 4 reflects the appointment of Andrew Forzani as DG Commercial replacing Morag Stuart who was a temporary appointment as a substantive Band 2. A regular scrutiny of posts required by DE&S at SLG level is undertaken 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 117.

	2021-22	2020-21
Permanent Staff	11,318	11,437
Contingent Labour²⁹	657	699
Total	11,975	12,136

The 2020-21 average figures in the above table include the Waterguard staff who transferred out of DE&S on 1 April 2021. When excluding these, DE&S permanent staff numbers have a real decrease of 95³⁰ (0.8%).

This decrease in permanent staff numbers is mirrored by a decrease in contingent labour, reflecting the competitive recruitment market. Staff turnover³¹ for 2021-22 (reflecting all leavers from DE&S) was 10.7% compared with 6.7% for 2020-21, a year of artificially low staff movements as a result of COVID-19.

²⁹ 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 117.

³⁰ 11,437 permanent staff per the average FTE table, less the 24 Waterguard staff transferred out on 1 April 2021 gives a revised 2020-21 figure of 11,413. This has decreased in 2021-22 by 95 to 11,318.

³¹ Staff turnover reflects those who have left DE&S due to resignation, early retirement, transfer to MOD or OGD, retirement at normal pension age, ill-health retirement, dismissals, reorganisations, or fixed-term appointees who leave for any reason. Staff turnover percentages are not subject to audit.

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

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

	2021-22			2020-21		
Staff costs comprise:	Permanently employed staff £000	Contingent labour £000	Total £000	Permanently employed staff £000	Contingent labour £000	Total £000
Salaries and wages	464,097	95,780	559,877	474,984	99,650	574,634
Social security costs	47,202	-	47,202	48,575	-	48,575
Other pension costs	140,877	-	140,877	141,488	-	141,488
Total	652,176	95,780	747,956	665,047	99,650	764,697

2020-21 costs include staff costs of £1.2 million for Waterguard staff who have now transferred out. After taking this into account, costs for permanently employed staff, including salary, social security and pension costs, have decreased by £11.7 million in line with the corresponding decrease in permanent staff numbers during the year. The reduction in contingent labour (£3.9 million) reflects the decrease in the number of workforce substitutes in the business.

For the year ended 31 March 2022, of the total pension contributions for DE&S in the table above:

- £101.1 million (2020-21, £100.7 million) were payable in respect of the various schemes in which civilian staff were members and;
- £39.8 million (2020-21, £40.8 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 (2020-21, £1.3 million) to the relevant pension providers. This is included within the £101.1 million of civilian pension costs above.

PRINCIPAL CIVIL SERVICE PENSION SCHEME

The Principal Civil Service Pension Scheme (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 was completed on 31 March 2016 and can be found [*here](#).

Contributions to the PCSPS in 2021-22 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 2021-22 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 2021-22 period was aligned to those from 2020-21 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/your-pension/2015-remedy/>

* <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 2021-22, the employer's contribution rates remained unchanged from 2020-21 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.

WELLBEING AND SICKNESS ABSENCE

We are committed to the health and wellbeing of our people and have a comprehensive sickness absence policy. During 2021-22 the average number of days for sickness absence was 5.0 days per employee, compared with 3.7 days per employee in 2020-21. For 2021-22, and reflecting the end of COVID-19 restrictions, there was an overall increase of 40% in absence days across all sickness types. The total absence was 27% lower than the pre-COVID year 2019-20. The largest cause of sickness absence as recorded by employees was anxiety, depression or stress. In 2021-22 this was 28% of all recorded sickness absence, the same as 2020-21. There were 7929 absence days recorded for confirmed COVID-19, 14.5% of all sickness absence. DE&S' average sickness absence rate compares favourably with the MOD average of 5.23 days.

We have continued to formally monitor 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 continued 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 implemented smoke-free sites from December 2021, with the cessation of vaping on sites to take place by December 2022. We launched new Menopause Guidance to support colleagues experiencing menopause at work in October 2021 as part of a week of events to mark World Menopause Day.

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

OUR PEOPLE

PEOPLE STRATEGY

In February we launched our first ever DE&S People Strategy – Delivery through People. This clearly laid out how we will work together to attract, retain and develop all of our people to meet the challenges ahead and represents the Executive commitment to growing DE&S as an inclusive organisation at the forefront of great delivery.

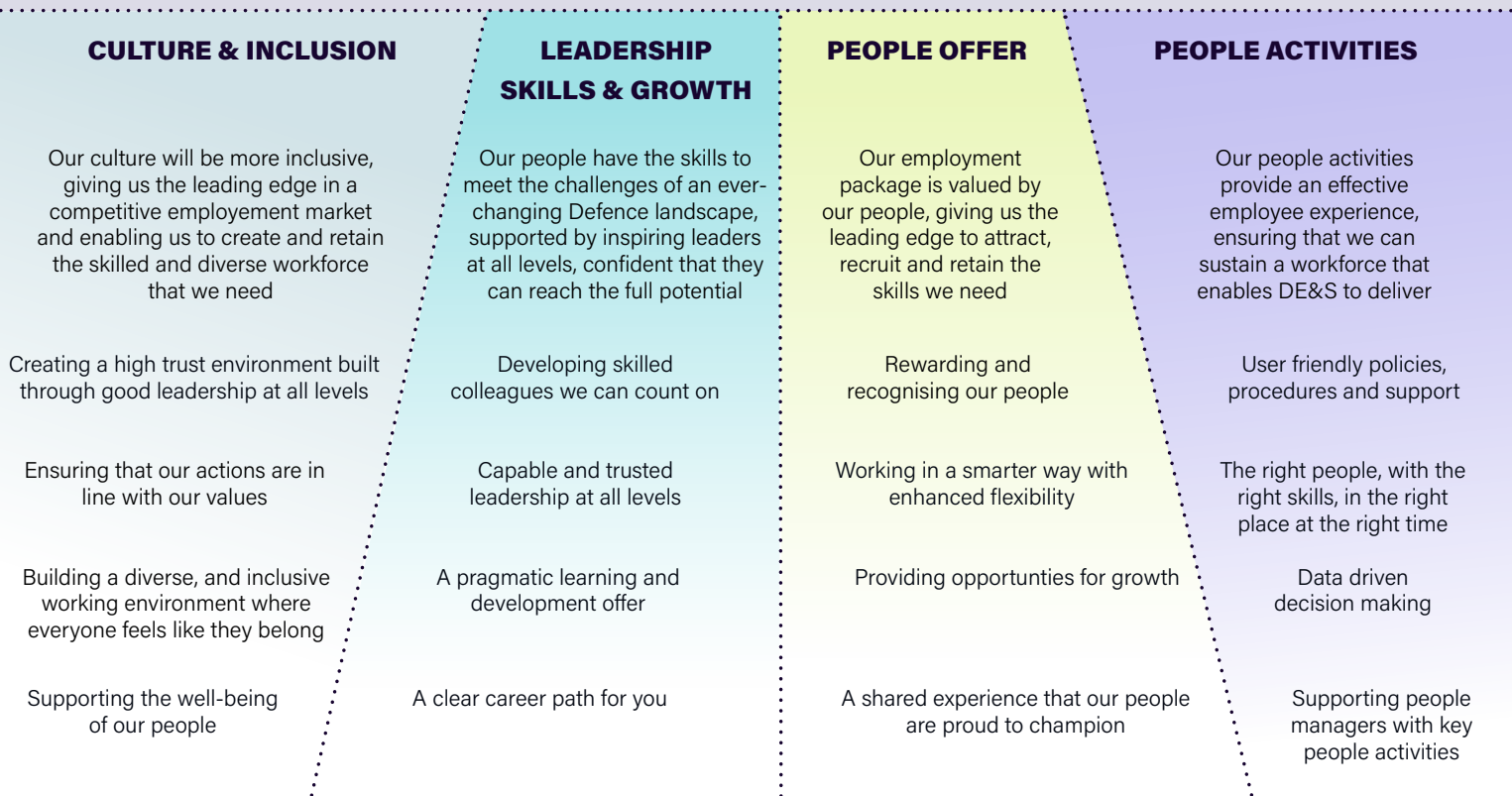
The People Strategy is complementary to the DE&S 2025 Strategy published earlier in the year and reflects that our people, values and culture are central to our ability to deliver that strategy. Underpinned by the Equality, Diversity, Inclusion and Wellbeing Strategy, published in October 2020, it aligns our corporate objectives with the people workstreams that will deliver the organisation we want for our people and that enable us to confidently deliver for our Armed Forces.

The Strategy was broken down into four key pillars: Culture and Inclusion; Leadership, Skills and Growth; People Offer; and People Activities. It outlines what we will do and where we expect to be in Spring 2023 and 2024. By design and necessity it is a collaboration between functions, domains, senior leaders, managers at all levels, Trade Unions and all DE&S staff regardless of grade or military rank, and whether civil servant, military, or contingent labour. It sets a high bar in recognising the importance of being able to provide rewarding career opportunities, advanced leadership training at all levels and the investment in the skills we need, and has been fully embraced by functional directors.

The Strategy was briefed to all DE&S people through the series of Executive Connect events held across DE&S sites in March. A detailed people programme, which will be overseen by the People Committee, has been developed since the Strategy launch. Outcomes will be measured through OGSM KPIs and measures over the coming three years, as well as progress being assessed through engagement with our people, by senior leaders and through the annual People Survey.

DELIVERY THROUGH PEOPLE:

Create an inclusive environment where skilled people are engaged, empowered and inspired to be the best they can be to deliver the DE&S vision and mission



INSPIRING CONFIDENT AND EMPOWERING LEADERS

INVESTING IN TALENT

This year we invested £5.7m in the continued development of our skilled workforce and to ensure we have the capabilities, thought leadership and professionalism demanded by our clients. This is achieved through both corporate leadership development, professional upskilling and functional (i.e. technical) learning.

Following a successful pilot last year, 100% of our SLG have participated in 'Everyday Excellence' development sessions this year, to examine and practice effective leadership behaviours, and to start to develop an action plan for building stronger leadership in their team. Over 1300 of our Level 4/5 attended at least one of our 'Catalyst' development modules covering how to lead virtually, adapting to constant change, and the leader as coach. Feedback from attendees was extremely positive, with 92% saying the workshops enabled them to be more effective at leading their team and 87% saying they would be able to manage change more effectively. These programmes will continue to provide a key leadership offering for our L4/5 populations throughout 2022-23.

This year we commenced a high potential development programme, named 'Becoming', aimed at women who are Level 3/4, and who show the aptitude to develop into broader leadership roles. There are 50 places available on this six month programme and it comprises of workshops, coaching circles, speaker events and online learning.

To support functional learning, career pathways and learning prospectuses, to help individuals to improve capability across the organisation, have been updated. Functional interventions this year have included:

- The IM&IT function investing £65,000 in 39 colleagues from IM&IT and Engineering to attend three US National Institute of Standards and Technology Bootcamps to comply with a MOD requirement to be able to conduct audits of Cyber Security Maturity
- The HR function investing £26,100 to enable twelve DE&S people to achieve various levels of professional accreditation with the Chartered Institute of Professional Development.
- The project delivery function have invested £45,000 to create a Leadership Post Graduate Certificate course with the University of the West of England to develop

our Project Professionals and eleven DE&S people are in the current cohort, which also has people from external organisations to enable enhanced learning and sharing of ideas.

- The engineering function invested £438k to enable 123 people to upskill their professional expertise in key technical disciplines by studying for academic qualifications ranging from Higher National Certificate (HNC) to Doctor of Philosophy (PhD).
- Following a skills review for business support service personnel, the corporate services function has utilised in-house training provision and alignment with the Institute of Administrative Management, to boost skills growth and to provide recognised technical qualifications.

Throughout 2021-22, we have recruited 293 graduate and apprentice starters across 15 schemes in six functional areas (Finance, Project Professional covering Programme Management and Project Controls, Engineering, Integrated Logistics, Corporate Services Group and, new this year, IT including cyber). We currently have over 700 graduates and apprentices, and during 2021-22, 331 graduated and were assigned roles across DE&S. 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.

The Entry Talent Centre of Expertise has been recognised nationally, including by the Institute of Apprenticeships and the Chartered Institute of Personnel Development, for its management of DE&S' direct entry graduate and apprenticeship schemes and for implementing a range of initiatives to support this key cohort. These include a diversity and inclusion council and a learner voice forum allowing our talented apprentices and graduates to engage with senior leaders, gaining valuable experience.

We also support existing DE&S people 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. Led by graduate and apprentice volunteers we piloted a new outreach programme with a local Bristol school to inspire children educated within areas of limited social mobility to consider DE&S as their future employer and which will continue next year.

Our People Strategy pillar on Leadership, Skills and Growth lays out our intent over the next three years to ensure our people have the skills to achieve our DE&S 2025 Strategy, through defining our capability needs and supporting people to develop in their functions and professions, through accessible, high-quality and relevant learning, and through continued investment in leadership.

ENGAGEMENT

In October 2021 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. 74% of staff (8,868) completed the survey.

At the headline level, our Employee Engagement remained relatively stable, moving down slightly from 60% in 2020 to 59%. This small change in our score reflects the challenging year faced and was replicated across wider MOD. We also saw small decreases across most themes and questions (-1% in most cases). Pay remained a real frustration for many staff but, since the Survey, we have been able to communicate our plans for the new reward framework which we believe will go a long way to addressing staff concerns on reward. We will be continuing to ensure we embed our DE&S 2025 Strategy across the organisation.

In January 2022, the Executive reviewed the detailed results and have published twelve organisational-level commitments for 2022-23 to our people, aligned to the four pillars of the People Strategy. The commitments

include specific outcomes such as implementing a new approach to in-year recognition; continuing to celebrate success; improving leadership visibility; implementing our 'digital capability for all' programme; exploiting our new HR system to enable a step-change in workforce management and capability development; and embedding smarter working through infrastructure changes at Abbey Wood and through pilots at some of our other sites. Regular updates on progress are discussed at the People Committee and communicated with to our people.

DIVERSITY AND INCLUSION

At DE&S we believe that a diverse and inclusive working environment brings greater creativity, innovation and productivity, enabling us to deliver against our strategic objectives in an efficient and cost-effective way. Harnessing the diverse talent that our workforce brings, regardless of belief, disability, sexuality, background or identity, supports DE&S in becoming an employer of choice.

Equally, managing the diversity of our workforce is important and we are committed to creating an inclusive working environment where everyone can thrive and contribute to their full potential. Throughout extended lockdowns, we ensured that most employees could continue to be productive by working remotely with more effective 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

2021 PEOPLE SURVEY COMPLETION SCORE



ORGANISATIONAL COMMITMENTS:

- REWARD & RECOGNITION**
- LEADERSHIP & MANAGING CHANGE**
- DEVELOPING OUR CAPABILITY**
- CREATING OUR DE&S CULTURE (INCLUDING OUR SMARTER WORKING ENVIRONMENT)**

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, many with Executive and Senior Leadership involvement and sponsorship. Highlights include:

- Piloted Diverse Assessors across various recruitment campaigns to ensure that decision making during the recruitment process is fair and equitable;
- Implemented the recommendations from the Bullying, Harassment and Discrimination review, including the launch of a new Managing Unacceptable Behaviours policy and supporting resources;
- Piloted an Autism Hiring Programme in collaboration with the National Autistic Society within the Engineering Function resulting in three successful candidates being recruited;
- Revised and launched a new Reasonable Adjustment policy and procedure putting disabled employees at the centre of our consideration, simplifying processes and removing barriers to ensure provision can be in place quicker and more effectively;
- Revised the Equality Impact Assessment process to ensure compliance with Equality Act 2010 and Public Sector Equality Duty and created a supporting toolkit and workshops to enable more inclusive decision-making;
- Review and revised the DE&S Diversity and Inclusion policy aligning it to the Equality, Diversity, Inclusion and Wellbeing Strategy 2025;
- Developed and launched a new leadership objective for senior leaders to role model and evidence positive behaviours and inclusive leadership;
- Developed and delivered a "Let's Talk About Behaviours" series of workshops to support ongoing activity to embed positive workplace culture;
- Delivered a significant programme of activities to celebrate National Inclusion Week and other celebratory events and awareness raising; and
- Hosted DE&S' first Race Conference during Black History Month.

With an increased level of activity across the organisation we have seen rising levels of engagement through employee Networks and function and domain leads. We are committed to keep this momentum going and have published our 2022-23 Equality, Diversity, Inclusion and Wellbeing (EDIW) action plan, which forms a key element of Pillar Two of our People Strategy (Culture & Inclusion). This coming year's activities will continue the proactive approach we have taken to implementing our ambitions from our EDIW Strategy 2025 through further evidence-based and data informed programmes and projects.



Members of DE&S staff

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

STAFF BREAKDOWN

	31 March 2022	31 March 2021
Civilian total headcount	10,743	10,701
Gender		
Female	3,718	3,652
Ethnicity		
Black, Asian and Minority Ethnic	734	734
Disability		
Declared a disability	1,055	1,089
Sexual orientation		
Lesbian, gay, bisexual	291	277
Religion or belief		
Non Christian religion	433	429
Secular	4,148	3,980
Christian	4,054	4,071

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 2022	31 March 2021
Total DE&S Board and Executive Committee	18	16
Female	5	3
Male	13	13

Three new NEDs were appointed on 1 April 2021, two of whom are female. These new NEDs are reflected in the above table.

During the reporting year, we appointed one new female Executive member, Dr Jill Hatcher (Director HR). Morag Stuart (Interim DG Commercial) was replaced by a new permanent DG Commercial, who is male.

GENDER BREAKDOWN AT SCS LEVEL

	31 March 2022	31 March 2021
Total DE&S SLG (SCS)	109	107
Female	27	26
Male	82	81

The data shown in the above table includes six DE&S SLG who were on loan to wider MOD or OGD or on extended special unpaid leave until on 31 March 2022, and two who left the organisation on 31 March 2022. Only one of these eight were female.

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 TUs ³² 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 2021-22 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 2021 to 31 March 2022:

RELEVANT UNION OFFICIALS

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
28	27.6

PERCENTAGE OF TIME SPENT ON FACILITY TIME

Percentage of time	Number of employees
0%	10
1-50%	18
51-99%	0
100%	0

PERCENTAGE OF PAY BILL SPENT ON FACILITY TIME

Total cost of facility time	£ 41,130
Total annual civilian pay bill	£ 629,294,000
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% ³³
--	---------------------

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*.

³² 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).

³³ 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)

Redundancy and other departure costs are 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 2021-22 or 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 2021-22 or 2020-21.

EXPENDITURE ON EXTERNAL ASSISTANCE

The DE&S operating cost envelope includes the engagement of external assistance, principally made up of contingent labour and PSS.

Contingent labour relates to individuals who are engaged by DE&S on a demand basis to fill vacancies within the organisation. 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 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.



Members 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 2020-21 when we reported 631 existing engagements as at 31 March 2021 and 770 new engagements during the year. This year's increase in temporary workforce is due to the challenges in recruiting permanent staff due to the current market conditions.

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.

Table 1: Highly paid off-payroll worker engagements as at 31 March 2022, earning £245 per day or greater.

Defence Equipment & Support Bespoke Trading Entity	Total
No. of existing engagements as of 31 March 2022	829
Of which...	
No. that have existed for less than one year at time of reporting.	615
No. that have existed for between one and two years at time of reporting.	134
No. that have existed for between two and three years at time of reporting.	60
No. that have existed for between three and four years at time of reporting.	18
No. that have existed for four or more years at time of reporting.	2

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: All highly paid off-payroll workers engaged at any point during the year ended 31 March 2022, earning £245 per day or greater.

Defence Equipment & Support Bespoke Trading Entity	Total
No. of engagements, between 1 April 2021 and 31 March 2022	1,150
Of which...	
Not subject to off-payroll legislation	1,037
Subject to off-payroll legislation and determined as in-scope of IR35	39
Subject to off-payroll legislation and determined as out-of-scope of IR35	74
No. of engagements reassessed for compliance or assurance purposes during the year	844
Of which: no. of engagements that saw a change to IR35 status following review.	1

Table 3: Off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 April 2021 and 31 March 2022.

Defence Equipment & Support Bespoke Trading Entity	Total
Total number of individuals, on payroll and off-payroll, that have been deemed "board members and/or senior officials with significant financial responsibility" during the financial year.	2

There have been no off-payroll engagements of board members and/or senior officials with significant financial responsibility during the financial year: the disclosure above relates to on-payroll engagements only. We have considered those with 'significant financial responsibility' within DE&S to be the Chief Executive Officer and the Chief Finance Officer.



— PARLIAMANTARY ACCOUNTABILITY AND AUDIT REPORT

PARLIAMENTARY ACCOUNTABILITY

In 2021-22 we responded to 340 written Parliamentary questions and 199 pieces of Ministerial and Treat Official correspondence from Members of Parliament, Peers and the public, reflecting a very busy year and exceeding our departmental targets for on-time delivery. Particular areas of interest included the Ajax, P-8A Poseidon, F-35 Lightning and shipbuilding programmes. We also supported a range of Parliamentary Committee business including oral evidence sessions with the House of Commons Defence Committee on the Ajax programme and the RN: Purpose and Procurement, and with the PAC on Improving the Performance of Major Equipment Contracts, the MOD Equipment Plan 2021 and the Ajax programme.

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 458 requests during the year, again exceeding our departmental target for on-time delivery. Interest in DE&S' activities remains high and requests covered DE&S business across all domains, with a particular focus on contracts activity, the National Flagship, surplus vehicles and DE&S salaries and bonus payments.

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 the 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 2021-22 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 £211,000, which represents a reduction of £68,000 from 2020-21. The larger loss values in 2021-22 relate to expired VAT reclaims from Her Majesty's Revenue and Customs (HMRC). While the volume of expired claims has reduced from 2020-21, we are continuing to work to drive them down further through increased and targeted training.

Of the total losses reported in 2021-22, 50 payments totalling £40,500 were reported as being due to the impact of COVID-19.

LOSSES STATEMENT

Total Cases	2021-22	2020-21
Fruitless Payments (volume of cases)	163	261
Fruitless Payments (value £000)	179	278
Minor Equipment Losses (volume of cases)	5	4
Minor Equipment Losses (value £000)	1	1
Claims Waived or Abandoned (volume of cases)	1	-
Claims Waived or Abandoned (value £000)	19	-
Constructive Loss (volume of cases)	1	-
Constructive Loss (value £000)	12	-
Total Losses (volume of cases)	170	265
Total Losses (value £000)	211	279
Details of closed cases over £300,000	2021-22	2020-21
Volume of cases	-	-
Value £000	-	-

SPECIAL PAYMENTS

Special payments made in 2021-22 and 2020-21 principally related to severance payments; details of these cases are confidential and so no further information can be provided.

Special Payments	2021-22	2020-21
Total Number of Special Payments	1	6
Total Value of Special Payments (£000)	16	173

2020-21 special payments: maximum £135,000, median £8,138 and minimum £20

LONG TERM EXPENDITURE TREND BY CATEGORY³⁴

Total Departmental Expenditure Limit DE&S Bespoke Trading Entity (BTE) (£M)	
Outturn 2020-21	1,062
Outturn 2021-22	1,050
Estimate 2022-23	1,324
Estimate 2023-24	1,181
Estimate 2024-25	1,058
Estimate 2025-26	1,014
Estimate 2026-27	1,003



Sir Simon Bollom - Accounting Officer

14 July 2022

³⁴ The DE&S budget comprises both revenue and capital expenditure. The figures in this table show the Total DEL outturn position, and include the RDEL position (£10.9M) captured as Direct Programme Costs in the SoCNE (pg 106) and CDEL position (£10.9m) as captured in the Fixed Asset Additions in notes 9 and 10 (pg 120)

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 & Support for the year ended 31 March 2022 under the Government Resources and Accounts Act 2000.

The financial statements comprise: Defence Equipment & Support's:

- Statement of Financial Position as at 31 March 2022;
- Statement of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Defence Equipment & Support financial statements is applicable law and UK adopted international accounting standards.

In my opinion, the financial statements:

- give a true and fair view of the state of Defence Equipment & Support's affairs as at 31 March 2022 and its total 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 (UK) (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 the Defence Equipment & 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 & 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 & 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 & Support is adopted in consideration of the requirements set out in HM Treasury's 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 financial statements nor 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 the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000:

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- 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 and is in accordance with the applicable legal requirements.

MATTERS ON WHICH I REPORT BY EXCEPTION

In the light of the knowledge and understanding of Defence Equipment & 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:

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by Defence Equipment & Support 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 subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; 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 Chief Executive as Accounting Officer is responsible for:

- maintaining proper accounting records;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial

reporting framework and for being satisfied that they give a true and fair view;

- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;
- internal controls as the Chief Executive as 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 & 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 Chief Executive as Accounting Officer anticipates that the services provided by Defence Equipment & 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.

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING NON-COMPLIANCE WITH LAWS AND REGULATIONS INCLUDING FRAUD

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

IDENTIFYING AND ASSESSING POTENTIAL RISKS RELATED TO NON-COMPLIANCE WITH LAWS AND REGULATIONS, INCLUDING FRAUD

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of Defence Equipment & Support's accounting policies, key performance indicators and performance incentives.

- inquiring of management, Defence Equipment & Support's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Defence Equipment & 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 & Support's controls relating to Defence Equipment & Support's compliance with the 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 a result of these procedures, I considered the opportunities and incentives that may exist within Defence Equipment & Support for fraud and identified the greatest potential for fraud in the following areas: posting of unusual journals, complex transactions, and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the Defence Equipment & Support's framework of authority as well as other legal and regulatory frameworks in which the Defence Equipment & Support operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Defence Equipment & Support. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Managing Public Money, employment law, tax legislation and health and safety legislation. In addition, I considered:

- the results of analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reviews of internal audit reports; and
- knowledge gained through enquiries of the Defence Safety Authority to understand the governance and control processes relating to compliance with laws and regulations and key investigations undertaken during the year.

AUDIT RESPONSE TO IDENTIFIED RISK

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Audit and Risk Assurance Committee concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- 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 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.

OTHER AUDITOR'S RESPONSIBILITIES

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

I have no observations to make on these financial statements.

Gareth Davies

Gareth Davies
Comptroller and Auditor General
 National Audit Office
 157-197 Buckingham Palace Road
 Victoria
 London
 SW1W 9SP

July 2022



SECTION 3
— **THE FINANCIAL STATEMENTS**



HMS Northumberland and RFA Tideforce homecoming.

ACCOUNTING INFORMATION

STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2022

	Note	2021-22 £000	2020-21 £000
Expenditure – Direct Programme Costs			
Direct Staff Costs	3	747,956	764,697
Private Sector Support Costs	4	236,643	230,753
Other Programme Costs	5	82,383	73,469
Total Direct Programme Costs		1,066,982	1,068,919
Income – Direct Programme	6	(27,701)	(13,279)
Net Direct Programme Expenditure		1,039,281	1,055,640
Expenditure – Non-Cash Items			
Communicated Costs from other MOD Organisations	7	103,118	97,828
Auditors Remuneration	8	162	160
Asset write off, disposals and impairment ³⁵	9&10	-	-
Depreciation	9&10	3,423	5,070
Movement on provision	13	(1,252)	825
		105,451	103,883
Total Net Operating Expenditure		1,144,732	1,159,523
Non-operating gain on transfer by absorption ³⁶	2	(66)	(663)
Total Net Expenditure for the year		1,144,666	1,158,860
Other Comprehensive Net Expenditure			
Net (gain)/loss on revaluation of property, plant and equipment	9	(88)	(68)
Net (gain)/loss on revaluation of intangible assets	10	(30)	(317)
Total Comprehensive Net Expenditure		1,144,548	1,158,475

The Notes on pages 110-125 form part of these accounts. The 2020-21 comparatives include the Waterguard function costs.

³⁵ There were no write offs or impairments in 2021-22. Impairments in 2020-21 were under £1,000 when rounded and therefore show as £nil in the above table.

³⁶ See note 2 to the accounts. Gain on transfer by absorption in 2021-22 reflects benefit to DE&S from having transferred out liabilities totalling £0.07 million to UK Strategic Command as part of Waterguard Transfer of Function. Equivalent figures in 2020-21 represent transfer out of liabilities to UK Strategic Command as part of Defence Support Chain Operations and Movements (DSCOM) Transfer of Function

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2022

	Note	2021-22 £000	2020-21 £000
Non-current assets			
Property, plant & equipment	9	11,019	6,011
Intangible assets	10	14,862	12,256
Total non-current assets		25,881	18,267
Current assets			
Trade and other receivables	11	4,152	3,654
Total current assets		4,152	3,654
Total assets		30,033	21,921
Current liabilities			
Trade and other payables	12	(138,184)	(123,203)
Provisions	13	(627)	(2,089)
Total current liabilities		(138,811)	(125,292)
Total assets less total liabilities		(108,778)	(103,371)
Taxpayers equity and other reserves			
Revaluation Reserve	Statement of Changes in Taxpayers Equity (SOCiTE)	1,545	1,427
General Fund	SOCiTE	(110,323)	(104,798)
Total Reserves		(108,778)	(103,371)

The Notes on pages 110-125 form part of these accounts. The 2020-21 comparatives include the Waterguard function costs.



Sir Simon Bollom - Accounting Officer

14 July 2022

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2022

	Note	2021-22 £000	2020-21 £000
Cash flows from operating activities			
Total net operating expenditure		(1,144,732)	(1,159,523)
Adjustments for non- cash transactions			
Communicated costs	7	103,118	97,828
Auditors remuneration	8	162	160
Amortisation/depreciation, impairment, write off/on and disposal	9&10	3,423	5,070
Movement in provision	13	(1,252)	825
(Increase) / Decrease in trade and other receivables	11	(498)	3,330
Increase / (Decrease) in trade and other payables	12	14,981	(1,293)
Adjustment for movements in payables relating to items not passing through operating costs		(3,398)	(960)
Gain on transfer by absorption		66	663
Use of provisions	13	(210)	(53)
Net cashflow outflow from operating activities		(1,028,340)	(1,053,953)
Cash flows from investing activities			
Purchase of property, plant and equipment ¹	9	(897)	(1,214)
Purchase of intangible assets ²	10	(6,624)	(3,960)
Net cash outflow from investing activities		(7,521)	(5,174)
Cash flows from financing activities			
Net Parliamentary Funding – drawn down		1,035,861	1,059,127
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 £6,228K capital additions (as per Note 9) plus cash payments to discharge opening liabilities of £692K less closing liabilities of £6,023K.

2. Investing cashflow figure for purchase of intangible assets is calculated as £4,691K capital additions (as per Note 10), plus cash payments to discharge opening liabilities of £2,038K, less closing liabilities of £105K.

The Notes on pages 110-125 form part of these accounts. The 2020-21 comparatives include the Waterguard function costs.

1 Investing cashflow figure for purchase of property, plant and equipment is calculated as £6,228K capital additions (as per Note 9) plus cash payments to discharge opening liabilities of £692K less closing liabilities of £6,023K.

2 Investing cashflow figure for purchase of intangible assets is calculated as £4,691 capital additions (as per Note 10), plus cash payments to discharge opening liabilities of £2,038K, less closing liabilities of £105K.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2022

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2020		(103,053)	1,042	(102,011)
Gain on transfer of function		663	-	663
Total net operating expenditure		(1,159,523)	-	(1,159,523)
Net Parliamentary Funding – drawn down		1,059,127	-	1,059,127
Non-cash charges – Auditors Remuneration		160	-	160
Non-cash charges – Communicated Costs		97,828	-	97,828
Net (loss)/gain on revaluation of property, plant & equipment		-	68	68
Net (loss)/gain on revaluation of intangible assets		-	317	317
Transfer between reserves		-	-	-
Balance at 31 March 2021		(104,798)	1,427	(103,371)
Gain on transfer of function	SoCNE	66	-	66
Total net operating expenditure	SoCNE	(1,144,732)	-	(1,144,732)
Net Parliamentary Funding – drawn down	Statement of Cash Flows	1,035,861	-	1,035,861
Non-cash charges – Auditors Remuneration	8	162	-	162
Non-cash charges – Communicated Costs	7	103,118	-	103,118
Net (loss)/gain on revaluation of property, plant & equipment	9	-	88	88
Net (loss)/gain on revaluation of intangible assets	10	-	30	30
Transfer between reserves	SoCNE	-	-	-
Balance at 31 March 2022		(110,323)	1,545	(108,778)

The Notes on pages 110-125 form part of these accounts. The 2020-21 comparatives include the Waterguard function costs.

NOTES TO THE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements contained within the ARAC relate to the FY 1 April 2021 to 31 March 2022 (2021-22) with comparative analysis for the prior year 2020-21. They have been prepared in accordance with the Accounts Direction given by HMT under Section 7 of the Government Resources and Accounts Act 2000 and in accordance with HMT guidance as set out in the FReM.

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

DE&S is classified as an Executive Agency which operates as a BTE in line with Chapter 7 of Managing Public Money. The 2021-22 financial statements are the eighth set of published accounts for DE&S.

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

1.1 ACCOUNTING CONVENTION

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

1.2 BASIS OF PREPARATION OF ANNUAL ACCOUNTS – ACCOUNTING BOUNDARY

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

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

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

1.3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

When preparing the DE&S Annual Accounts, judgement and estimation is applied in establishing the value of DE&S receivables and payables and likewise the amount of revenue and expenditure to be reported during the Accounting Period (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 External Assistance Steering Group (EASG), which is chaired by a senior finance manager, providing a forum for 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 2021-22, a guideline materiality threshold of £10,000 (2020-21 £10,000) has been applied in the recognition of payables and receivables.
- Consideration of the Impact of COVID-19 – There has been no material impact on the Accounts, however if relevant, any minimal impact has been disclosed in the notes to the accounts below.

1.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

CHANGES IMPACTING THE PREPARATION OF THESE ANNUAL ACCOUNTS

TRANSFER OF FUNCTIONS

As at 1 April 2021 the Waterguard 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 £0.07 million relating to Waterguard 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 Waterguard function on the 2020-21 comparators.

NEW ACCOUNTING STANDARDS

2021-22

There are no new accounting standards or significant changes to the 2021-22 FReM affecting the preparation of the accounts. The implementation of IFRS 16, which was due to be adopted in 2021-22 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 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 (SOFP).

DE&S is in the process of measuring lease liabilities and associated right-of-use assets for leases currently classified as 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 £1.4 million.

2023-24

IFRS 17 Insurance Contracts was issued in May 2017 replacing IFRS 4 Insurance Contracts. IFRS 17 was due to be effective in the public sector for AP beginning on or after 1 January 2023, however this has now been delayed, with an anticipated mandatory implementation date of no earlier than 1 April 2024. 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 SOFP represents a timing difference that will be offset by future net parliamentary funding from the MOD.

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

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.

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.

1.10 NON-CURRENT ASSETS

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

Where assets are purchased for the sole benefit of DE&S and funded through our Operating Cost Expenditure budget, these are considered for capitalisation where they meet the recognition threshold of £15,000 and are intended for use for a period of over 12 months. Given the relatively low volume and value of assets purchased specifically for DE&S use, it is not our current policy to pool assets. We re-visit this policy annually to ensure that we are not omitting any material assets from our Non-Current Asset Register.

1.11 PROPERTY, PLANT AND EQUIPMENT (PPE)

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

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

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

1.12 INTANGIBLE NON-CURRENT ASSETS

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

Software and their associated licences are capitalised as intangible assets in accordance with IAS38, where they 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.

1.13 DEPRECIATION

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

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

Main category	Sub category	UEL
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.

1.14 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.

1.15 CASH AND CASH EQUIVALENTS

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

1.16 INVENTORIES

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

1.17 FINANCIAL INSTRUMENTS – RECEIVABLES AND LIABILITIES

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

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

1.18 EMPLOYEE BENEFITS

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

The 2021-22 value of employee performance awards reflected within the SoCNE reflects those earned for performance in 2021-22.

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

1.19 IFRS8 SEGMENTAL REPORTING

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

1.20 RESERVES

The Revaluation Reserve reflects the unrealised 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).

1.21 PROVISIONS FOR LIABILITIES AND CHARGES

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

The provisions and contingent liabilities included within these accounts relate to legal claims. Contingent liabilities relating to Equipment Programme projects are not DE&S liabilities; they are governed and approved separately, and reported within the wider MOD accounts.

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).

1.22 LEASED ASSETS

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

2. TRANSFER OF FUNCTIONS ON 1 APRIL 2021

The transfer of the Waterguard function on 1 April 2021 involved the transfer of 24 full-time equivalent staff (all civilian) from DE&S to UK Strategic Command. In addition, liabilities of £0.07 million were transferred. Waterguard did not hold any current or non-current assets. The associated revenue and expenditure for Waterguard is reflected in the BTE SoCNE up to the transfer on 1 April 2021, and thereafter treated as revenue and expenditure in MOD and not DE&S accounts. The 2020-21 related expenditure was £4.9 million, of which £1.2 million related to staff costs, £3.7 million PSS and £0.02 million other programme costs.

3. STAFF NUMBERS AND RELATED COSTS

3.1 STAFF COSTS COMPRISE:

	2021-22			2020-21		
	Permanently Employed Staff £000	Contingent Labour £000	Total £000	Permanently Employed Staff £000	Contingent Labour £000	Total £000
Salaries and Wages	464,097	95,780	559,877	474,984	99,650	574,634
Social Security Costs	47,202	-	47,202	48,575	-	48,575
Other Pension Costs	140,877	-	140,877	141,488	-	141,488
Total	652,176	95,780	747,956	665,047	99,650	764,697
Paid to:						
Armed Forces	112,315	-	112,315	119,129	-	119,129
Civilian	539,861	-	539,861	545,918	-	545,918
Contingent Labour	-	95,780	95,780	-	99,650	99,650

2020-21 costs include costs of £1.2 million for Waterguard staff who have now transferred out. After taking this into account, costs for permanently employed staff, including salary, social security and pension costs, have decreased by £11.7 million in line with the corresponding decrease in permanent staff numbers during the year. The reduction in contingent labour (£3.9 million) reflects the decrease in the number of workforce substitutes in the business.

3.2 AVERAGE NUMBER OF FULL-TIME EQUIVALENT STAFF EMPLOYED:

	2021-22			2020-21		
	Permanently Employed Staff	Contingent Labour	Total	Permanently Employed Staff	Contingent Labour	Total
Employed by DE&S	11,318	657	11,975	11,437	699	12,136
Of which:						
Armed Forces	1,046	-	1,046	1,089	-	1,089
Civilian Personnel	10,272	-	10,272	10,348	-	10,348
Contingent Labour	-	657	657	-	699	699

The 2020-21 average figures in the above table include the 24 Waterguard staff who transferred out of DE&S on 1 April 2021. When excluding these, DE&S permanent staff numbers have a real decrease of 95³⁷ (0.8%).

This decrease in permanent staff numbers is mirrored by a decrease in contingent labour, reflecting the competitive recruitment market.

4. PRIVATE SECTOR SUPPORT

	2021-22 £000	2020-21 £000
PSS Contractor Support - Other	154,089	138,296
PSS for programmes in concept and assessment phases	3,983	5,621
PSS for programmes in demonstration and manufacture phases	26,013	31,623
PSS for programmes in in-service support and disposal phase	44,109	47,961
Consultancy Support (Project management, organisation design, finance & legal)	8,449	7,252
Total	236,643	230,753

2020-21 comparators include £3.7 million of PSS relating to Waterguard. Once adjusted, DE&S PSS has increased by £9.6 million.

There have been a number of increases and decreases across the project portfolio. The most significant movements are an increase in PSS Contractor Support and a decrease in PSS for programmes in demonstration and manufacture phases.

The increase in PSS Contractor Support is driven by increased engineering and technical support to several new programmes including Project Renown which is looking at increasing ship availability (£3.3 million), New Medium Helicopters (£1.6 million), the Futures Lab contract, partnering with Industry and Academia to accelerate innovative solutions to Defence Challenges (£2.8 million), an Electronic Wiring Interconnection System project to support aircraft (£2.6 million) and a number of new Business Change and Improvement programmes (£2.8 million). Technical support has also increased for the contracting of the Hawk Future Support (£2.4 million) and the review of the future of Joint Asset Management and Engineering Solutions logistics software (£1.3 million).

This is offset by a decrease in PSS for programmes in demonstration and manufacture phases driven by a £3.2 million decrease in A400M costs due to trial delays and reprogramming of work and a £2.4 million reduction in Merlin Helicopters costs as the programme is moving out of this phase.

37 11,437 permanent staff per the average FTE table, less the 24 Waterguard staff transferred out on 1 April 2021 gives a revised 2020-21 figure of 11,413. This has decreased in 2021-22 by 95 to 11,318.

5. OTHER PROGRAMME COSTS (OPC)

	2021-22 £000	2020-21 £000
Staff travel and subsistence costs	8,145	3,461
IT and telecommunications	31,022	28,145
Other infrastructure expenditure	8,420	6,729
Staff training costs	5,924	5,738
Rentals	2,605	1,407
Regulatory safety costs	1,678	1,359
OPC Defence Science & Technologies Laboratories (DSTL)	15,735	18,775
Other costs	8,854	7,855
Total	82,383	73,469

2020-21 comparators include £0.02 million of OPC relating to Waterguard. Once adjusted, DE&S OPC has increased by £8.9 million.

The most significant movement is in staff travel and subsistence and vehicle rentals (an increase of £5.9 million), driven by the initial relaxation in COVID-19 travel restrictions. IT and telecommunications costs have increased in 2021-22 (by £2.9 million); the most significant element of this is an increase of £0.8 million relating to Release 4 of the Project, Programme and Portfolio management (P3M) software which moved into the next phase towards the end of 2020-21. 2021-22 also saw increased infrastructure costs relating to the new Smarter Working project (£0.8 million) and the creation of the Innovation Bridge (£0.4 million), a purpose built technologically equipped collaborative meeting area. There have been other small increases across a number of OPC categories, offset by a decrease in DSTL costs (£3 million), due to reduced activity on the Shadow UCR programme and cancellation of the Warrior WCSP project.

6. PROGRAMME INCOME

	2021-22 £000	2020-21 £000
Defence Munitions commercial revenue	6,241	8,177
Logistics Commodities Services Revenue (Including British Forces Postal Office)	1,084	1,151
DE&S BTE corporate receipts	18,824	2,021
Other Programme Income	1,552	1,930
Total	27,701	13,279

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

There has been a significant increase in income generated by post-costing activities undertaken by DE&S during the year (£16.8 million). Post-costing activity 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.

Another key source of revenue is from 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 further in 2021-22 as a result of contracts ending (£1.1 million) and a change in contracting strategy for Storm Shadow support (£0.8 million).

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	2021-22 £000	2020-21 £000
UK Strategic Command	Defence Digital Information systems and communication services	Number of DE&S users relative to MOD users	52,135	49,034
Defence Infrastructure Organisation	Infrastructure and facilities management costs	Cost per employee at DE&S headquarters extrapolated to DE&S total head count	23,311	18,120
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	1,638	5,098
Defence Infrastructure Organisation	MOD Guard Service	Costs of main DE&S geographical locations extrapolated across total DE&S headcount	14,223	13,489
Defence Business Services	Personnel and Payroll Services	Number of DE&S employees relative to total MOD employees	10,894	11,239
HO and Corporate Services	Various	Based on actuals	917	848
Total			103,118	97,828

Overall, communicated costs have increased by £5.3 million. This variance is driven by Defence Infrastructure Organisation activity in relation to facilities management costs across DE&S sites. Several new programmes to improve local infrastructure and facilities have begun, taking advantage of a quieter site during COVID and preparing for a return to the office. These include installing LED lighting to all floorplates as part of the Public Sector Decarbonisation Scheme, the refurbishment of the pedestrian footbridge, and gas network upgrades following a review against gas safety standards.

An increase in Defence Digital costs (£3.1 million) due to increased spend on the Service Centre and Office 365 Licences and Support has been offset by decreases in UK Strategic Command costs (£3.5 million), relating to a reduction in DE&S students and therefore training days.

8. AUDITOR'S REMUNERATION

DE&S is audited by the Comptroller and Auditor General. The £162,000 charge reflects the costs incurred by the auditor in respect of the audit of the DE&S 2021-22 ARAC. 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 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)	-
At 31 March 2021	2,241	3,636	2,344	8,221
Additions	44	-	6,184	6,228
Disposals	-	-	-	-
Impairments & Adjustments	-	-	-	-
Revaluations	8	130	-	138
Reclassifications	-	2,532	(2,532)	-
Balance as at 31 March 2022	2,293	6,298	5,996	14,587
Depreciation				
Balance 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)
Charged In Year	(357)	(951)	-	(1,308)
Disposals	-	-	-	-
Impairments	-	-	-	-
Revaluations	(1)	(49)	-	(50)
Reclassifications	-	-	-	-
At 31 March 2022	(1,517)	(2,051)	-	(3,568)
Net Book Value				
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
Balance at 31 March 2022	776	4,247	5,996	11,019

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 movements principally relate to Solar Panels procured in accordance with our Net Zero strategy (£5.1 million) which are awaiting installation on DE&S sites, as well as the completion of manufacture (£0.2 million AUC addition) and subsequent delivery into service (£2.5 million reclassification to plant and machinery) of a Resonant Acoustic Mixer which is to be used for generating evidence necessary for safety qualification and certification of munitions.

10. INTANGIBLE NON-CURRENT ASSETS

	Software £000	AUC (Development Costs) £000	Total £000
Cost or Valuation			
Balance 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
Additions	142	4,549	4,691
Disposals	-	-	-
Impairments/Adjustments	-	-	-
Revaluations	49	-	49
Reclassifications	9,831	(9,831)	-
At 31 March 2022	29,457	1,246	30,703
Amortisation			
Balance 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)
Charged In Year	(2,115)	-	(2,115)
Disposals	-	-	-
Impairments	-	-	-
Revaluations	(19)	-	(19)
Reclassifications	-	-	-
At 31 March 2021	(15,841)	-	(15,841)
Net Book Value			
Balance at 31 March 2020	8,419	2,867	11,286
Balance at 31 March 2021	5,728	6,528	12,256
Balance at 31 March 2022	13,616	1,246	14,862

Software values include licenses for the P3M Release 4 suite of Oracle tools (£2.2 million NBV) and a DOSG ricochet assessment software tool (£1.6 million NBV). In-year additions primarily relate to the development (£3.3 million) and subsequent delivery into service (£9.8 million reclassification from AUC to software) of the future HR system.

11. TRADE AND OTHER RECEIVABLES

	2021-22 £000	2020-21 £000
Amounts falling due within one year		
Accrued Income	1,097	1,129
Other Receivables	805	566
Trade Receivables	358	-
Prepayments	1,788	1,364
Staff Loans and advances	104	595
Total Current Receivables	4,152	3,654
Amounts falling due after more than one year	-	-

Receivables are not impacted by the transfer of Waterguard as none of the 2020-21 balances related to this function. DE&S income is not linear and therefore the receivables balance is expected to fluctuate across financial years depending on timing of payments from customers.

12. TRADE AND OTHER PAYABLES

	2021-22 £000	2020-21 £000
Amounts falling due within one year		
PSS accruals	(54,139)	(45,938)
Direct staff accruals	(67,682)	(65,982)
Other liabilities	(16,363)	(11,283)
Total Current Liabilities	(138,184)	(123,203)
Amounts falling due after more than one year	-	-

2020-21 comparators include £0.6 million of liabilities relating to Waterguard. Once adjusted, there has been an increase in liabilities of £15.6 million. Payables balances fluctuate throughout the year depending on the timing of payments to suppliers.

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.

	2021-22 £000	2020-21 £000	Analysis of expected timing of discounted cash flows:		
	2021-22 £000	2020-21 £000	2021-22 £000	2020-21 £000	
At 1 April	2,089	1,317			
Increase (Decrease) in Provision	(1,267)	843			
Provisions used	(210)	(53)			
Unwinding Discount	15	(18)			
Balance at 31 March	627	2,089			
			488	1,474	Due within one year
			139	615	Due over one year and less than five years
			-	-	Due over five years
			627	2,089	Balance at 31 March

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 2021 £000	Increase/ Decrease In Year £000	Liabilities Crystallised In Year £000	Obligation Expired In Year £000	31 March 2022 £000
Legal Claims (personal)	215	17	(48)	(65)	119
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. FINANCIAL AND CAPITAL COMMITMENTS

In addition to the liabilities listed in the Statement of Financial Position the Department, DE&S has entered into undertakings for future capital expenditure which, when the liability is incurred, will be recorded in future financial statements. The following future capital commitments are not yet accounted for in the financial statements:

	31 March 2022 £000	31 March 2021 £000
Property, plant and equipment	121	-
Total	121	-

DE&S has also entered into non-cancellable contracts which are not leases, PFI contracts or related to future capital expenditure. Details of the payments to which DE&S is committed are disclosed below, analysed by the period during which the commitment expires. These commitments cover over 100 contracts including contracts related to external assistance support.

	31 March 2022 £000	31 March 2021 £000
Not later than 1 year	27,435	29,758
Later than 1 year but not later than 5 years	2,991	5,215
Later than 5 years	-	-
Total	30,426	34,973

16. OPERATING LEASES

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

Operating Lease - Phoenix	2021-2022 £000	2020-2021 £000
Less than 1 Year	517	535
1-5 Years	877	1,181
Greater than 5 Years	60	126

During 2021-22, DE&S incurred £0.6 million in relation to operating lease payments for this lease. These are reflected in the SoCNE under OPC – rentals.

17. RELATED PARTY TRANSACTIONS

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

DSTL is a related party and DE&S incurred costs of £15.7 million during 2021-22 undertaking business activities with DSTL (2020-21, £18.8 million). All contracts with DSTL are charged at cost, with no profit.

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 2021-22 this was £8.3 million (2020-21, £6.4 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 2022.

David Johnson, Finance Director, is a member of the Army FLC Audit Committee and Sir Simon Bollom, DE&S CEO, is a NED on the SDA board. In addition, a close relation of Chris Bushell, DG (Land), is employed by Turner & Townsend (consultants). A close relation of Andrew Forzani, DG (Commercial), is employed by KPMG and another close relation is employed by Babcock. Adequate arrangements have been implemented to avoid any potential conflicts of interests.

18. 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 2021-22 this was £1,079 million, however our outturn position for the year was £1,050 million, a reduction against budget of £29 million.

The net revenue outturn position of £1,039.3 million is captured in the SoCNE and is made up of Direct Staff Costs, PSS Costs and OPC of £1,067.0 million offset by the income generated by DE&S in 2021-22 of £27.7 million.

The capital outturn position of £10.9 million represents continued investment in software assets including the future HR system and the purchase of solar panels, procured in accordance with our Net Zero strategy; these are highlighted in the PPE and Intangible Asset Notes.

19. EVENTS AFTER THE REPORTING DATE

Following the disestablishment of the PR&R in May 2022, the Department exercises its oversight of DE&S principally through the DE&S Board which the PUS will now join on a regular basis.

A number of Board and Executive personnel changes have taken place as follows:

- Sir Simon Bollom's tenure as DE&S CEO ended in July 2022. The new CEO, Andy Start, has been appointed and will start in early September 2022.
- Lt Gen Rob Magowan joined the board as Deputy Chief of Defence Staff (Military Capability) in May 2022, replacing Air Marshal Richard Knighton CB.

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	IT	Information Technology
AFPS	Armed Forces Pension Scheme	ITS	Internal Technical Support
AI	Artificial Intelligence	KIM	Knowledge and Information Management
ALB	Arm's Length Body	KPI	Key Performance Indicator
AMA	Agreed Management Action	LGBT+	Lesbian, gay, bisexual and transgender plus
AP	Accounting Period	LSOC	Logistics and Support Operating Centre
ARAC	Annual Report and Accounts	MI	Management Information
ASE	Acquisition Safety and Environmental	MIV	Mechanised Infantry Vehicle
ASEP	Acquisition Safety and Environmental Protection	MOD	Ministry of Defence
AUC	Assets Under Construction	NAO	National Audit Office
BC	Business Continuity	NED	Non-Executive Director
BCM	Business-Critical Models	OBC	Outline Business Case
BTE	Bespoke Trading Entity	OC	Operating Centre
BDUK	Boeing Defence UK	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	OIL	Open Innovation Laboratory
CFO	Chief Financial Officer	PIP	Power Improvement Project
COE	Centres of Expertise	P&RR	Performance and Risk Review
CPI	Cost Performance Indicator	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	PPE	Personal Protective Equipment
DG	Director General	PRC	Programme Review Committee
DIA	Defence Internal Audit	PSS	Private Sector Support
DM	Defence Munitions	PSyA	Principal Security Advisor
DOSG	Defence Ordnance Safety Group	QM	Quality Management
DRC	Depreciated Replacement Cost	RAF	Royal Air Force
DSCOM	Defence Support Chain Operations and Movements	RN	Royal Navy
DSIS	Defence and Security Industrial Strategy	SCS	Senior Civil Service
DSTL	Defence Science and Technology Laboratories	SDA	Submarine Delivery Agency
EDD	Equipment Delivery Date	SE	Strategic Enablers
EDI	Equality, Diversity, Inclusion	SLG	Senior Leadership Group
EDP	Early Departure Payment	SOCITE	Statement of Changes in Taxpayers Equity
EPP	Equipment Procurement Plan	SoCNE	Statement of Comprehensive Net Expenditure
EU	European Union	SOFP	Statement of Financial Position
FBC	Full Business Case	SPI	Schedule Performance Indicator
FLC	Front-Line Command	SPP	Strategic Partnering Programme
FReM	Financial Reporting Manual	SQEP	Suitably Qualified and Experienced Personnel
FY	Financial Year	SR	Safety Responsible
GFA	Government Furnished Assets	SSR	Senior Safety Responsible
HMRC	Her Majesty's Revenue and Customs	TU	Trade Union
HMT	Her Majesty's Treasury	UAS	Uncrewed Aircraft Systems
HO	Head Office	UEL	Useful Economic Lives
HR	Human Resource	UKGI	UK Government Investments
IAS	International Accounting Standards	VAdm	Vice Admiral
IFRS	International Financial Reporting Standard	VAT	Value Added Tax
IR	Integrated Review		



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