



Ministry  
of Defence



DEFENCE EQUIPMENT & SUPPORT  
ANNUAL REPORT AND ACCOUNTS

**2022-23**

We equip our armed forces with the edge  
to protect the nation





**DEFENCE EQUIPMENT & SUPPORT**  
**ANNUAL REPORT AND ACCOUNTS**  
**2022-23**

**For the year ended 31 March 2023**

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## 2022-23 HIGHLIGHTS

This year has presented Defence Equipment & Support (DE&S) with an extraordinary and unique set of challenges which has been dominated by the continuing war in Ukraine, the fallout from the COVID-19 pandemic and the wider economic situation. We also embarked upon a major change programme, and together, these challenges have required our people to continually adapt to changing working practices across our sites, whilst effectively delivering at pace to our clients and stakeholders. Regardless of the challenges, DE&S has achieved many successes, a selection of which are highlighted below.

### SUPPORT TO CURRENT OPERATIONS

Supporting today's military operations on behalf of the UK and our allies remains our top priority, wherever these take place across the world. Ukraine has continued to be a focus and during 2022-23 we delivered over £1.3 billion worth of military equipment in support of our allies' objectives. This included complex weapons, innovative uncrewed systems, non-lethal aid, combat clothing (including stocks for the thousands of Ukrainian military personnel being trained in the UK) and sustainment packages to support UK-supplied vehicles.

In addition, DE&S played a pivotal role in delivering key battle-winning equipment from defence stocks, including hundreds of armoured vehicles and air defence systems, as well as dozens of towed and tracked artillery platforms, and tens of thousands of rounds of artillery ammunition.

Support to Ukraine is being coordinated by the newly established Operations Directorate<sup>1</sup> and now involves over 20 DE&S delivery teams working closely with partners across the Ministry of Defence (MOD), Strategic Command, Army Headquarters, industry, and military personnel deployed forward into Eastern Europe.

DE&S has also supported a plethora of wider, global military operations. We were part of the drawdown of UK military equipment from Mali, and when flooding

came to Pakistan we provided rescue boats, outboard motors, and field generators as part of the humanitarian response. We also supported the reinforcement of North Atlantic Treaty Organisation's (NATO) eastern flank, in particular the deployment of additional forces to the Baltic states, Poland, and Estonia.

Closer to home, our Logistics and Support Operating Centre and our Defence Munitions (DM) sites swiftly delivered ceremonial uniforms, equipment, and ammunition for the gun salutes for the funeral of Her Late Majesty Queen Elizabeth II.

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**During 2022-23 we delivered over £1.3 billion worth of military equipment in support of our allies' objectives.**

<sup>1</sup> The Operations Directorate was established at pace in December 2022 in response to the Ukraine crisis, building on and incorporating the DE&S Operations Team.



“ Supporting today’s military operations on behalf of the UK and our allies remains our top priority, wherever these take place across the world. ”

*DE&S hosts Ukraine’s deputy defence minister*



## IMPROVING OPERATIONAL OUTPUTS

Provision of support to ensure our armed forces can conduct operations and protect the UK and our allies is a pivotal aspect of the DE&S mission.

- We agreed the next five years of the Wildcat Integrated Support and Training contract, supporting 340 jobs at Leonardo Helicopters and ensuring RN and British Army Wildcats are kept in top condition for operations and training.
- Also working with Leonardo and its supply chain, we took delivery of the last of the 25 Mark (Mk) 3 and Mk 3a Merlin helicopters, being upgraded to Mk4/4a standard for the Commando Helicopter Force, extending the life of these crucial aircraft up to 2030.
- In-service support was secured for the RAF's Hawk T2 training aircraft and the Hawk T1 jets flown by the Red Arrows, thanks to the Hawk Integrated Support Solution signed with BAE Systems and Rolls Royce.
- The first wave of Large Capacity Aircraft Refuellers were refurbished and upgraded, helping to make them more easily deployable and improve the availability and flexibility of UK military aircraft.

## EQUIPMENT DELIVERY

Enhancing UK capability through the procurement of new equipment to ensure we are ready for tomorrow is equally important. In the last year DE&S delivered an extensive array of equipment, worth over £1.7 billion. The following examples are of particular note:

- The UK's fleet of Atlas A400M aircraft, designed as a tactical airlifter with strategic capabilities, grew to 21 following delivery of an additional aircraft to RAF Brize Norton. We also accepted ownership of the first two Protector aircraft, which will be deployed in wide-ranging intelligence, surveillance, targeting and reconnaissance operations.
- The new Multi Role Ocean Support ship that will become Royal Fleet Auxiliary (RFA) Proteus was purchased at a cost of around £64 million and delivered to Cammell Laird for modifications. RFA Proteus will be one of two ships dedicated to safeguarding critical seabed infrastructure.
- The world-leading Gladiator system and MODE 5 Identification Friend or Foe capability became operational. Gladiator will provide the ability for UK forces to trial, test, and practice tactics on various platforms in a secure synthetic environment, while

MODE 5 will support the positive identification of friendly military platforms in theatre.

- The first batch of Common Anti Air Modular Missile equipment was procured from MBDA and delivered to increase the stockpile available to UK Armed forces at sea and on land.
- The first 10 of 300 new generation bomb disposal and search vehicles were delivered to the British Army and became operational as part of a £60 million project called GASKET 3.

## SPINNING IN NEW TECHNOLOGY

The need to exploit cutting-edge technology and new ways of working to address the increased threat has never been clearer. Our response over this year included a range of exciting initiatives:

- Under TIQUILA, DE&S ordered more than 250 cutting edge Mini Uncrewed Aerial Systems (UAS) as part of a £129 million contract awarded to systems integrator Lockheed Martin UK. The mini drones are due to be operational by the end of 2024 and will be capable of locating and identifying targets far from troops on operations.
- Under Project Crenic, DE&S has agreed a five-year, £45 million, systems integration contract with Team Protect, a group of UK businesses. The project will develop new ways to protect soldiers, vehicles and military bases targeted by remote-controlled Improvised Explosive Devices (IED) by sourcing emerging technology and seeking innovative ideas.
- DE&S partnered with the British Army and industry to put swarming UAS to the test for the first time on Salisbury Plain. An event arranged by DE&S included a live demonstration which saw one military operator simultaneously control multiple drones as part of an integrated swarm, with each drone able to carry out a separate task. This has pushed technological boundaries and is a step forward in reducing operator burden and providing less risk to the soldier on the ground.
- As part of a £20 million contract secured by DE&S with Schiebel, the Royal Navy (RN) will have new uncrewed aerial technology to detect and track surface contacts at sea. From 2024, this new uncrewed air system, known as 'Peregrine', will be able to feed real-time images and radar data back to RN warships on the front-line.

## OUR PEOPLE PRIORITIES

Our people remain at the core of our business and their agility, specialist skills and selflessness have been at the heart of all we do, demonstrated so brilliantly in our response to the war in Ukraine. The publication of the first ever People Strategy in February 2022 underpinned our DE&S Strategy 2025 and laid out our intent 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.

In delivering that People Strategy this year, within the challenging context of the cost-of-living crisis, we have had some significant achievements and we have continued to work to deliver the best offer we can, to constantly look to develop the right culture and to be clear about our purpose and our values. As a result, we have seen increased applications for roles in DE&S, especially from women, improved scores across the majority of themes in our annual People Survey, and improved retention of our skilled and experienced people.

We have invested £8 million in learning and development for our workforce enabling functional upskilling as well as leadership development, which has included four programmes designed specifically for women with high potential to support their future progression. We are expanding this approach to include bespoke programmes for people with a declared disability or who are from an ethnic minority. The implementation of our online learning campus is the latest stage in the exploitation of our civilian Human Resources IT system, MyHR, enabling our people to access in

one place the functional, business effectiveness and leadership learning products they need to support their development and career progression.

In July 2022 we implemented our new reward framework which gives our people much greater clarity around their current and future pay opportunity and comparison with the wider MOD and Civil Service. The implementation of the reward review was seen by most staff as a hugely positive step-change for DE&S and followed wide-ranging engagement with our people. Alongside our new in-year recognition scheme, which allows all staff to nominate colleagues where they go above and beyond in demonstrating our DE&S Values, we believe our reward offer will strengthen us as an organisation and support the retention of valued, capable, and experienced people.

Our strong commitment to diversity and inclusion and our drive to create the right culture has been maintained throughout the year and we have sought to embed our values in all we do with our people. We held our second highly successful Race Conference in November and events to celebrate Disability History Month and National Inclusion Week generated serious, constructive debate from record attendances. All our Executives and senior leaders have led constructive 'Let's Talk About Behaviours' sessions with their teams to increase confidence in tackling poor behaviours and to drive a positive workplace culture. We are pleased to see that we are steadily increasing the proportion of women and other under-represented groups in DE&S, which will bring greater diversity of thought and innovation and mean that we can continue to be an employer of choice.



A 617 Sqn F-35B Lightning and 820 NAS Merlin on board HMS Queen Elizabeth.



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**“ We can only deliver these programmes because we have excellent people working across DE&S. ”**



*Bravo Company, 40 Commando Royal Marines having completed their final strike onto enemy positions during Exercise Olympus Warrior as part of LRG(X) at Cyprus.*





# CHAIR'S INTRODUCTION

MARK RUSSELL

I am delighted to introduce this report, which is the fourth during my tenure, and covers the ninth year of DE&S' operation as a Bespoke Trading Entity (BTE) and Executive Agency of the MOD. As outlined in the previous pages, we have achieved a great deal over the reporting period. We also welcomed a new Chief Executive Officer (CEO), Andy Start, who has already demonstrated how his breadth of experience can benefit our organisation.

The DE&S Board has continued to challenge and support the CEO and Executive Committee on key aspects of the organisation's business. Throughout the year, we have focussed on a number of organisational issues, including programme delivery, the strategic risks facing DE&S and in early 2023, launching the refresh of our Strategy 2025.

The environment in which DE&S operates has become increasingly challenging, with conflict, climate change, natural disasters and economic challenges becoming part of our daily lives. In spite of this, I am very proud of how our organisation continues to deliver complex projects and major support programmes for our armed forces. Of particular note is our response to the war in Ukraine, which has seen DE&S deliver over £1.3 billion worth of equipment over the last year with agility and at an extremely fast pace, to help the Armed Forces of Ukraine (AFU) defend against Russian aggression.

We can only deliver these programmes because we have excellent people working across DE&S. To ensure our organisation continues to grow and thrive, we have worked hard to retain skilled staff and attract new people with the right expertise. 2022-23 saw the delivery of a new reward framework, increased leadership visibility and further embedding of smarter working. Given the context of the last year, I'm pleased that our latest People Survey results reflect

these efforts, with an overall increase in our survey score and positive shifts across six of the nine key themes, including inclusion and fair treatment, and pay and benefits.

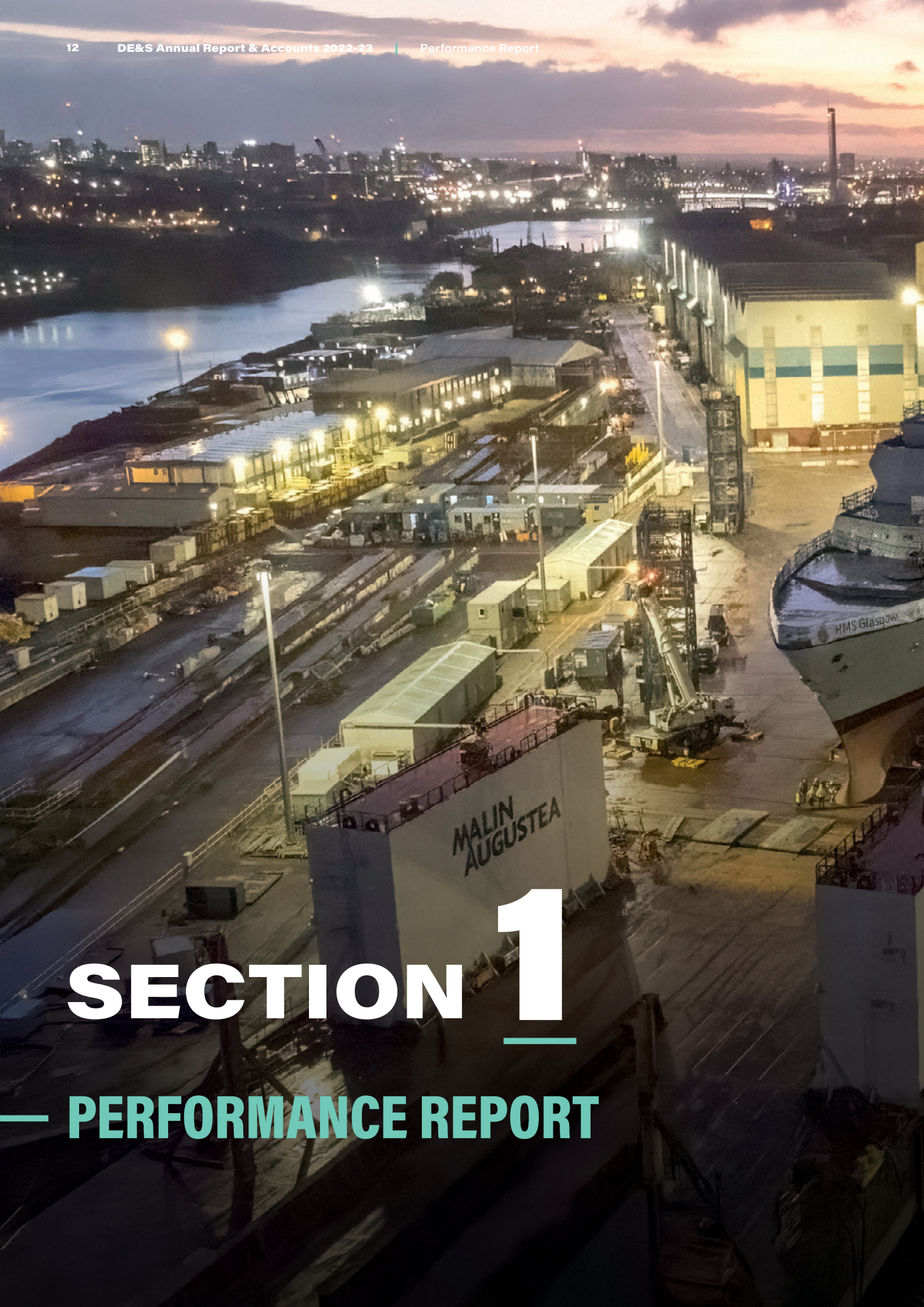
I'm also pleased with the progress we have made against our DE&S 2025 Strategy, which we launched in 2021 in response to the Integrated Review and Defence and Security Industrial Strategy (DSIS). The defence landscape has clearly changed dramatically since then, and we have had to adapt quickly to reflect that. Key to our response is refreshing our strategy, which will allow us to further optimise the DE&S operating model, unlock capacity and deliver our mission to equip and support the armed forces with the edge to protect the nation.

I recognise that there is still room for improvement and, as part of our commitment to transparency and accountability, it's important that we acknowledge when we don't get things right, learn the lessons and apply them to our future procurement and support activities. The recent publication of the Sheldon report on Ajax<sup>2</sup> is a good case in point. Although many of the recommendations the report makes are already in place, we need to learn more broadly from its findings. In particular, the need to foster an organisational culture where concerns of staff are encouraged to be voiced, and where our people feel confident to flag issues to an appropriate level whilst also being empowered and enabled to take decisions and solve problems for themselves.

On behalf of the entire Board, I would like to express my appreciation for the part played by all DE&S people in delivering our results throughout 2022-23. I invite you to read more about our work and the vital role we play in supporting our armed forces to protect the UK and its allies.

<sup>2</sup> <https://www.gov.uk/government/publications/the-ajax-lessons-learned-review>





# SECTION 1

## — PERFORMANCE REPORT





*HMS Glasgow under construction in Glasgow.*



“ I am honoured to be leading an organisation so clearly focused on delivering for defence and supporting the nation. ”

## OVERVIEW





## CHIEF EXECUTIVE OFFICER (CEO) STATEMENT

This is the first Annual Report and Accounts (ARAC) to be published since I joined DE&S as CEO in September 2022. I am honoured to be leading an organisation so clearly focused on delivering for defence and supporting the nation. I have been inspired by the dedication and professionalism of my new colleagues, as well as their honesty and drive to improve. I have witnessed countless examples of DE&S people living our values of collaboration, excellence, inclusivity, and integrity, and I have heard first-hand about what our delivery means to the UK's armed forces and our allies.

Over the past year, our nation has faced multiple challenges to its security and prosperity. First and foremost, DE&S, enables current operations. We have been required to respond to Russia's illegal war in Ukraine, a global economic downturn, rising inflation and the worsening impacts of climate change, all of which have severely tested our supply chains and industrial base. Our people have remained impressively resolute. In particular, the pace and scale of our support to Ukraine has been incredible, and I am proud that we have enabled the rapid procurement, movement and largest delivery of equipment and ammunition since the Second World War.

Alongside this, we have continued to deliver the 2,600-plus contracts and 500-plus live programmes. The vast majority of delivery performance across our key programmes is good. Our teams ensured that 91% of our annual strategic milestones<sup>3</sup> were delivered to agreed time and cost parameters and we delivered over £820 million of efficiencies over the ten-year planning period.

While this represents strong performance, particularly in the context of the prevailing economic headwinds, there is room for improvement in performance, process and culture. The recent Sheldon Report into

Ajax highlighted specific areas of concern and we take its findings extremely seriously. Whilst many improvements have already been made, particularly around psychological safety and reporting culture, we will ensure the recommendations of the report are implemented with urgency.

More broadly, our new Project Delivery function is already unlocking opportunities to improve our delivery and we have continued to pursue greater digitisation, innovation and agility. While the priorities and actions we set ourselves as part of DE&S Strategy 2025 remain important, we recognised that the pace of change had been insufficient to match the emerging threat and the huge geopolitical shifts witnessed over the past year. As a result, we have updated our mission statement and have refreshed our strategy to ensure that we secure the best possible operational and technological edge over our adversaries. We are well underway with implementing our strategy, and whilst there is much to do, the changes to the scale of collaboration and use of digital toolsets is already visible to many across the defence enterprise.

We have also continued to work in close collaboration with our partners, clients and stakeholders, ensuring a galvanised One Defence mindset to our work. Through spaces like the Defence Suppliers Forum, we have been able to enhance engagement with industry to better share our needs, understand their concerns and work together to drive forward innovation and efficiency. I have also been able to discuss our collective response to the current security challenges with NATO colleagues, most helpfully through my role as the UK's National Armaments Director, which provides an important mechanism for collaboration, sharing insights and aligning priorities.

DE&S has played a pivotal role in implementing the Defence and Security Industrial Strategy, which

<sup>3</sup> These milestones are key to the measure of a project's success with each delivery date agreed with our clients.

provides the framework to drive investment and prosperity across the Union. The way we work and the manner in which we leverage the £12 billion spent each year with suppliers, impacts and shapes how 148,000 people in the UK's Defence Industrial Base operate and perform. This can be seen in the £4.2 billion contract awarded this year for the final five Type 26 frigates which by itself, will support 4,000 jobs over the next decade, through at least 120 UK suppliers.

I have reviewed the 2022-23 report and accounts and am satisfied that this document accurately

reflects the financial status and corporate position of DE&S for the reporting period. We have remained within our operating and infrastructure budgets and have delivered a vast array of projects for the armed services. I am also delighted to report our achievement of an unqualified opinion by the NAO for the sixth consecutive year.



**Andy Start**, CEO and Accounting Officer  
18 July 2023



*An F-35B from 617 Sqn prepares for night flying training exercises whilst on Operation Achillean and deployed on HMS Queen Elizabeth.*



# CHIEF FINANCIAL OFFICER (CFO) STATEMENT

DAVID JOHNSON, FINANCE DIRECTOR



2022-23 is our ninth year of operation as an Executive Agency within the MOD, and our sixth consecutive year with unqualified accounts. It has been dominated by the challenges of providing rapid support to Ukraine in addition to the normal business of delivering the Equipment Plan outputs to our own armed forces. As an organisation we have absorbed these additional challenges without additional operating resources, through the dedication and commitment of our people. Looking forward, we need to ensure that we have the resources to sustain this effort.

## THE EQUIPMENT PLAN

This year we spent £12.919 billion on behalf of the Armed Forces to deliver against an in-year Equipment Plan budget of £13.411 billion, 3.7% under budget. We delivered 826 new assets with a Gross Book Value of £2.062 billion, of which the largest were three Lightning aircraft valued at £85 million each.

We outturned 3.7% under the overall in-year budget of £13.411 billion. Global supply chain challenges, reflecting the wider security and economic environment, manifested themselves in schedule delays to a number of our programmes. The most material example was the Mechanised Infantry Vehicle (MIV) programme, where the global scarcity of key components delayed progress and meant that significant expenditure has been deferred into future years.

Looking at the longer term, the projected ten-year costs of the Equipment Plan from 23-24 to 32-33 to be delivered by DE&S increased by £16.135 billion (16%) from £99.898 billion to £116.033 billion. This increase was driven largely by programme scope enhancements requested from our customers (£11.642 billion) and by the impact of inflation (£3.548 billion). The remaining increase comprises the sum of a number of smaller movements. We have however, continued to deliver a reduction in the underlying cost of the programme. This reduction has been driven by the identification of £820

million additional efficiencies identified over the 10 year plan which have resulted in us exceeding our 10 year target for efficiency delivery. This efficiency delivery success has been replicated in-year where the in-year target has also been exceeded.

Alongside our core equipment programme, DE&S has supported granting in kind to help equip the Ukrainian armed forces, both through grants from our existing stores and through additional rapid procurement activity totalling £1.356 billion. In Year, overall support to Ukraine, including equipment support costs and the UK contribution to the International Fund, amounted to £1.969 billion. This in turn will drive significant activity in the coming years to replenish our stocks.

## OPERATING EXPENDITURE

In every year since we became an Executive Agency, we have operated within the budget we have been given. DE&S' core operating costs for 2022-23 totalled £1.230 billion against a final budget of £1.253 billion (1.8% under budget). The primary reason for underspending was a delay in the construction of a new storage facility at Longtown due to complications in ground conditions that have impacted the planning stage.

## INFRASTRUCTURE AND ENVIRONMENTAL ACTIVITY

Our Infrastructure Plan, which is delegated to DE&S and delivered by the Defence Infrastructure Organisation, outturned at £126 million, £30 million under the final budget of £156 million.

**|| In every year since we became an Executive Agency, we have operated within the budget we have been given. ||**

We have two major capital projects in progress this year, the new storage facility at DM Longtown and a project to sustain power at DM Glen Douglas. Across the remainder of our sites, we continue to invest to maintain safety, security and operational capability. We have also continued refurbishment works to modernise our office accommodation and create a more flexible workspace within the context of a hybrid working model. To support the DE&S 2025 Environmental Strategy, we have invested in environmental site surveys and electric vehicle infrastructure, begun the design phase of solar installation for four MOD sites, and will be starting delivery of two Net Zero pilot sites in Financial Year (FY) 23-24.

### **FINANCE FUNCTION - CONTINUOUS IMPROVEMENT**

Throughout 2022-23 we continued to develop the skills and capabilities of our people with a mixture of mandatory, core and functional training, driving professionalism within our organisation. All finance roles which mandate a professional accountancy qualification are filled by qualified people, some with many years of experience. We continuously collaborate with the Department to improve project accounting and other aspects of finance. This year, we launched a Finance Diversity and Inclusion network actively supporting all cultures and faiths. We are actively pursuing process improvements by training individuals in Lean Six Sigma<sup>4</sup> and embedding continuous improvement in our activities. Additionally, some of our staff have undertaken training in forensic accounting, and others have participated in Government Finance Function development programmes.

### **GOVERNANCE AND COUNTER FRAUD ACTIVITY**

We continue to develop our counter fraud activities under the oversight of the DE&S Fraud Board, whose membership has recently been augmented by two additional director-level representatives. We are pursuing automation of key control processes (such as declarations of interest, and gifts and hospitality registers) to streamline completion, improve compliance and Management Information (MI), and reduce paper bureaucracy. Some of this automation has been

incorporated into MOD-wide developments. 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.

### **PROCESS AUTOMATION & ARTIFICIAL INTELLIGENCE**

As part of DE&S' Digital Strategy we have a well-developed Automation and Artificial Intelligence (AI) capability within the organisation. The recently released Citizen Developer process empowers the wider business to take advantage of local process automation, with enabling support from DE&S Digital. We currently operate 109 live automation processes, using robotic process automation, optical character recognition and Office 365 approval and workflow automation. To date, we have delivered over 2,800,000 automated transactions, saving our workforce over 370,000 hours of automated benefit through transactional or workflow processing. We aim to keep building on this progress.

DE&S is pursuing the use of AI, Machine Learning and Large Language Modelling to solve complex business problems and improve equipment readiness and availability for our armed forces. Significant progress has already been made on predictive maintenance and scheduling in the Land and Air environments, and to substantially reduce the time taken for problem identification and classification activity on Salvage and Marine Operations.

### **OUTLOOK**

Looking ahead to 2023-24, support to Ukraine will remain our highest priority. We will also be focussed on completing and implementing the review of our operating model and supporting similar defence-wide activity. This will take place in the context of continuing economic challenges including pressure on internal budgets. The pursuit of efficiency will be as important as ever, both to control the costs of the Equipment Plan and to maximise our own ability to deliver within the resources available to us.





*RAF AS1 (Photographer) at work on the flight deck of HMS Queen Elizabeth.*

# ABOUT DE&S

## OUR MISSION

Our mission is to equip our armed forces with the edge to protect the nation. 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 Head Office (HO) and Other Government Departments (OGDs), to deliver a large, and 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.

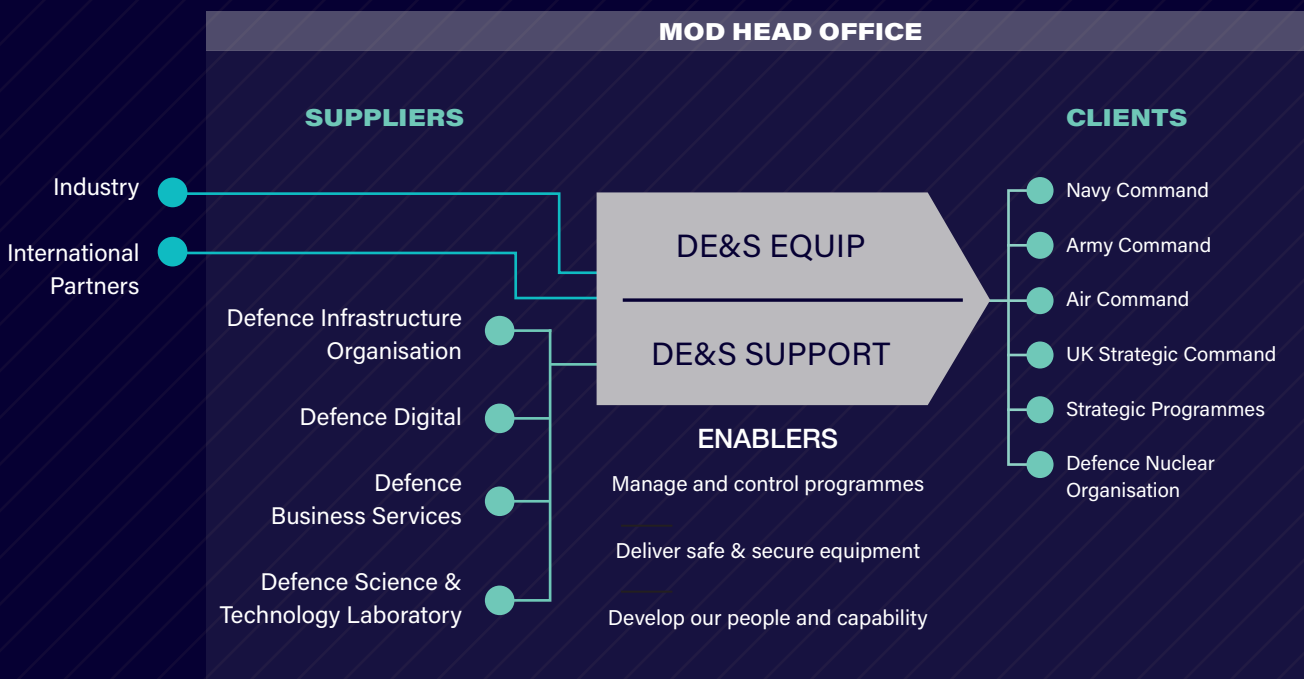
Our headquarters is in Bristol, with numerous locations across the UK and overseas, including in support of military operations.

## WHAT WE DO

We procure equipment to meet the full spectrum of defence needs, from small drones through to carriers. We work with our clients in the Front Line Commands (FLCs), 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 as well as MOD HO and the Submarine Delivery Agency (SDA), which is separate from DE&S.

## HOW WE OPERATE

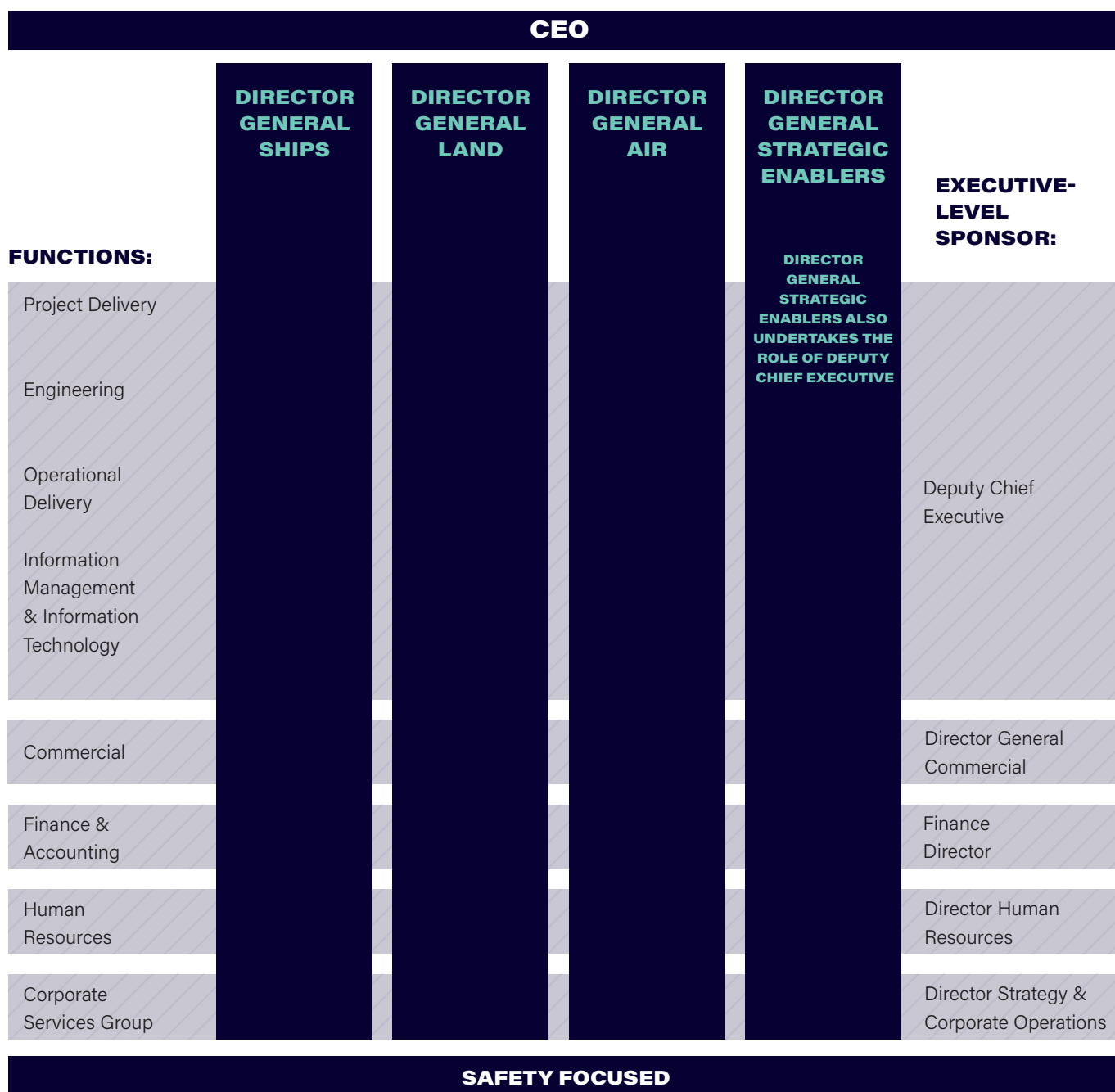




## HOW WE ARE ORGANISED

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. Delivery of our business requires a range of specialist skills and is supported by eight functions. Each one supports its own vital strand of the organisation, has an executive-level sponsor, and supports the balanced matrix within which we operate. This is designed to ensure the right people are in the right place with the right skills at the right time.

## DE&S MANAGEMENT STRUCTURE AS AT 31 MARCH 2023



## OUR BUDGET

The MOD delegates the bulk of the equipment and support budget to the FLCs, 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<sup>5</sup> and other programme costs and capital additions. In addition, we 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 three 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 His 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 a BTE 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.



*Lightning jets land on the flight deck of HMS Queen Elizabeth at night.*

<sup>5</sup> Private sector support 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. This is explained in more detail on page 110.



# PROGRESS AGAINST DE&S STRATEGY 2025

In 2021, we released our DE&S Strategy 2025 which centred around five key strategic priorities and included measurable actions to show what we intend to do differently over the four-year period. Since then, we have been working hard towards achieving these actions, whilst ensuring they are underpinned by our values below:



Throughout 2022-23 we have continued to deliver our strategy across the business. This has helped ensure that we can continue to deliver safe, secure, and innovative solutions for our clients, with greater pace, agility and certainty.

We have routinely tracked progress against each of our five strategic priorities, some of which are detailed below:

PACE & AGILITY FOR OUR CLIENTS	VALUE TO THE TAXPAYER & SOCIETY	DELIVERY THROUGH PEOPLE	ACCELERATED DIGITAL SOLUTIONS	DELIVERY THROUGH PARTNERS
<p><b>Accelerating acquisition</b></p> <p>Considerable progress made implementing the defence-wide approvals streamlining initiative which is expected to increase pace and robustness of decision making and significantly reduce approval times.</p>	<p><b>Increasing social value</b></p> <p>DE&amp;S delivered economic, prosperity, environmental and social benefits through our contracts by adopting the Government’s social value model. A minimum of 10% of tender evaluations is allocated to social value objectives for new contracts.</p>	<p><b>Valuing our people</b></p> <p>Our new reward framework for senior professionals and below was implemented to provide a new grade structure to support clearer career development. Transparent, competitive pay ranges were also introduced to give greater clarity to staff on current and future pay opportunities.</p>	<p><b>Applying and using data science and AI</b></p> <p>We successfully piloted a roadmap allowing AI and data science tools to be exploited, demonstrating techniques regarding predictive maintenance and increased availability.</p>	<p><b>Strategic partnering</b></p> <p>DE&amp;S worked with industry partners to implement a new command and control system (Guardian) to protect the UK from aerial threats, including the establishment of a new RAF Control Reporting Centre.</p>
<p><b>Increasing availability</b></p> <p>The Internal Technical Services for Support (ITSS) comprising of equipment support and logistic specialists was implemented to deliver task-based services directly to delivery teams. Multiple teams have been upskilled generating savings of £2.1 million.</p>	<p><b>Achieving Net Zero operations</b></p> <p>DE&amp;S, the RAF and industry, delivered RAF Voyager, powered by 100% sustainable aviation fuel, a first for any aircraft type in the UK.</p>	<p><b>Investing in leadership</b></p> <p>New modules were added to our Catalyst leadership interventions for Professional Is and Senior Professionals<sup>6</sup>. New development programmes were also launched to support people with a declared disabilities or from an ethnic minority.</p>	<p><b>Pulling through technology</b></p> <p>DE&amp;S awarded a £41 million contract to provide next-generation digital protection for military specialists who dispose of suspected IEDs.</p>	<p><b>International Collaboration</b></p> <p>DE&amp;S secured 60 new amphibious vehicles under a £140 million contract with Sweden and Germany. This highlights our continued collaboration with European nations to support UK prosperity through the manufacture of Collaborative All-Terrain Vehicle engines in the UK.</p>

6 DE&S civilian grades below the Senior Leadership Group.

Whilst these priorities and actions remain important, the pace of change has been insufficient to match the emerging threat and the huge geopolitical shifts witnessed over the past year. It is for this reason we have updated the DE&S Mission and we are refreshing the DE&S 2025 Strategy. Our new mission is 'to equip our armed forces with the edge to protect our nation' which reflects the critical role we play with the wider defence mission of protecting the nation and helping it prosper.

The new mission provides DE&S with a strong common purpose which reflects the wider strategic context and focuses the organisation on delivering maximum capability and technological advantage to the armed forces within the available funding envelope.



*DE&S Board meeting in progress.*



# REFRESHING OUR DE&S STRATEGY

To deliver our mission, to equip our armed forces with the edge to protect the nation, a refreshed strategy was launched in 2023 which will set out three strategic outcomes:

## TODAY

- **Delivering the output our armed forces need today.** We put the right people in place to ensure our armed forces colleagues have lifesaving, battle-winning capabilities. We get the right kit into their hands quicker, with more availability, when and where they need it.

## TOMORROW

- **Sharpening Defence's edge for tomorrow.** We will exploit innovative technology and new ways of working to better deliver our mission. We will pioneer integration across DE&S and UK Defence. We will be an intelligent, market-informed supplier, maximising the use of our professional expertise to better inform Defence's upfront decision-making.

## TOGETHER

- **Driving efficiency and competitiveness together.** We will do all of this as part of a One Defence team, driving excellence across UK Defence, to face down the threats we can see clearly and those yet to emerge.

To achieve these new priorities, we will:



### Operating model

- **Optimise the DE&S operating model and refocus the organisation.** We know our roles, we know DE&S, and we will interrogate our organisation's design, systems, and behaviours, and determine what needs to change, what has not worked in the past, and what needs to be different this time. We must look at how we work; cut through bureaucracy, balance risk, and work smarter with the resources we have, to create a more effective DE&S.



### Prioritise sprints

- **Prioritise sprints: Toolset to help eliminate waste.** By simplifying and accelerating internal initiatives we will reduce waste and create a compelling offer where our people are nurtured, trusted, and developed. Our teams will be empowered to challenge norms, release their time and energy, and create innovative solutions.



### Control Centres

- **Make the problems visible by creating three Control Centres.** As part of the Digital Transformation for Defence programme, there will be three control centres that will show; where the big issues are for equipment availability; where end-to-end defence systems integrate to deliver effect; and how by using digital twins and acquisition, we can accelerate the innovation cycle.

Through these changes DE&S will seek to become a more agile organisation, able to perform to schedule and prioritise its tasking, with the tools and ability to continue to optimise and to deliver.



*Graduation of the trainee gunners.*



# OBJECTIVES GOALS STRATEGIES AND MEASURES (OGSM) 2022-23

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

## DELIVERY THROUGH PEOPLE

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

### CHANGE AND CONTINUOUS IMPROVEMENT

Throughout 2022-23, we have further embedded and evolved the control and management of change activities across the organisation. Some key change portfolio initiatives have completed in-year and been formally reviewed for closure after recording and evidencing benefits. We have also consolidated change resources, establishing a change task force that complements the existing portfolio team to simplify and accelerate change. Initial steps have been made to improve agility so that the delivery of change in DE&S will increase our productivity further, whilst enhancing value for our clients and our people.

We have continued to develop our approach to business planning such that it delivers additional value to the organisation and our clients. It brings together the 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.

### STRATEGIC PARTNERING PROGRAMME (SPP)

Having strong and effective relationships with our strategic suppliers is critical to delivering the complex projects we are responsible for. The MOD SPP works with some of our strategic suppliers using a structured programme improvement initiative and the DE&S Supplier Management and Resilience Team (SM&RT) are now upscaling relationships with a broader range of DE&S' strategic and critical suppliers. Collectively, 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 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, working collaboratively with the DE&S SM&RT, is already demonstrating success in terms of collaborative behaviours and creating opportunities to mitigate project risks and add value beyond that already contracted.



*RAF A400M Atlas cockpit, taken at night whilst on a training exercise in France.*



## MANAGEMENT INFORMATION STRATEGY

Our MI Strategy is 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.

## COMMERCIAL IMPROVEMENTS

Following on from the appointment of DG Commercial in 2021, the creation of the Director Commercial Change role has enabled the consolidation and rationalisation of change projects across the MOD commercial function, including DE&S. Existing centres of expertise have continued to drive up capability in key areas such as single source pricing, tender evaluation and social value, while projects to support commercial aspects of MOD's Private Finance Initiative and Simplification (driving for efficiency opportunities) have been initiated. There has been considerable success for the Social Value team, who participated in the Social Value in Defence hackathon, hosted by Microsoft, with participating teams also including Babcock, Northrop Grumman, BAE Systems, whatimpact, Plymouth County Council and the University of Plymouth. This cross-industry collaboration is creating a blueprint for sustainable data-driven social value projects and won the first 'Data for Social Good' award. This was presented as part of the inaugural analysts awards from the Institute of Analytics, the global professional body for analytics and data science professionals, launched to celebrate data's positive impact on business and society.

The MOD-wide Supply Chain Resilience (SCR) and DE&S' Supplier Management (SM) programmes continue to move at pace as they seek to optimise management of the Defence supply chain. SCR is already delivering better visibility of our supply chains through an 'in house' innovative solution designed, developed, and delivered in collaboration between our SCR and Digital programmes which will be implemented MOD wide during 2023-24. This solution has generated considerable interest from OGDs, as well as several of our key suppliers and international allies. In addition, the SM programme is driving improved, cohered relationships with our strategic and critical suppliers through a joined-up strategy approach as 'one customer', as well as being integral to the success of the Defence

Strategic Partnering Programme. Together the SCR and SM programmes provide the consistent frameworks, methodologies, and MI to drive innovation, mitigate risk, promote cost avoidance, and deliver value for money across DE&S delivery teams. The synergies between the two programmes have also played a key role in supporting MOD's response to the crisis in Ukraine, as well as providing smart supply chain and supplier intelligence to DE&S.

## DELIVERING FOR OUR CLIENTS: OUR PERFORMANCE, RISKS AND ISSUES

Corporate performance for 2022-23 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. We also hold regular CASP performance reviews with each of our clients.

More information on our governance structures and activity for 2022-23, 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

*127 Battery of the eFP Battlegroup conduct live fire of the 155mm AS90 in Tapa, Estonia.*



Equipping and supporting our armed forces remains our key priority and during the year we continually measured our performance using KPIs. Our KPIs are categorised under four headings: finance, equipment acquisition, equipment support, and people.

This year we made adjustments to our OGSM 4 People KPIs to better reflect the four pillars of our People Strategy which we published in February 2022 (Culture & Inclusion; Leadership, Skills and Growth; People Offer; and People Activities). We retained a sub-KPI (KPI 4.1) focussed on diversity representation but shifted it towards two sub-targets relevant to each of our eight functions, rather than a generic whole-of-DE&S target, to better incentivise and drive more meaningful outcomes.

A new sub-KPI (KPI 4.2) was also introduced to underpin our drive to ensure our people have the skills we need to deliver for Defence. Each function set sub-targets based on their need for Suitably Qualified and Experienced Persons (SQEP) and was required to demonstrate by year-end an uplift in technical competence against these requirements.

We retained our sub-KPI (KPI 4.3) on employee engagement, measured through the headline result from our annual People Survey. Rather than focussing on a single aspect of effective and sustainable workforce resourcing (attrition) as in previous years, we introduced a second new sub-KPI (KPI 4.4) measuring our ability to minimise our workforce gaps against funded requirements decided through a collaborative business planning process.

This year we have continued to deliver within our Operating Expenditure target (KPI 1.1), with expenditure out-turning at £1,356 million, £53 million under budget. The primary drivers of the underspend were delays on infrastructure projects.

We spent £12,919 million on behalf of the armed forces to deliver against an in-year equipment plan budget of £13,411 million, 3.7% under budget. This underspend was largely attributable to global supply chain challenges, including shortages of skilled personnel, materials and components, causing several projects to be reprofiled. For Air Command and UK Strategic Command, we continued to deliver forecasts within the KPI 1.2 parameters of between +0% and -1.5% of the budget.

During the year, the underlying cost of the 10-year Equipment Plan (KPI 1.3) managed by DE&S reduced by £789 million, continuing the trend of reduction over the past few years. As in previous years, this reduction was primarily driven by the delivery of efficiencies. The overall 10-year cost of the Equipment Plan grew significantly, due mainly to the introduction of additional scope and the impacts of inflation.

We have continued to drive a culture of efficiency across the organisation through the setting of our in-year and 10-year efficiency targets. Subject to assurance, we realised £169 million of in-year efficiencies, exceeding our efficiency target by £48 million (KPI 1.4). Over the 10-year planning period, again subject to assurance, we delivered £820 million of efficiencies, exceeding our KPI 1.5 target of £776 million.

Introduced in 2021-22, our Earned Value Management (EVM) KPI 2.1 measures the value we are earning against the schedule and cost performance baseline. This year cost and schedule performance has been scored separately against each project within the EVM population, instead of together, along with a change to the KPI threshold so as not to penalise those projects that are ahead of schedule or on track to deliver under budget. This year's score against KPI 2.1 was 85%, with the majority of projects within both the cost and schedule performance index thresholds.

This year we performed well against the Equipment Procurement Plan (EPP) CASP strategic milestones (KPI 2.2) which were agreed in advance with our colleagues in the Commands. We achieved 29 out of 33 milestones (88%) early or on time, exceeding our target of 85%. The four milestones that were missed were due to a combination of software performance and integrity issues, global supply chain challenges and shortages in skilled personnel.

On the control of major project costs post Full Business Case (FBC)<sup>7</sup> (KPI 2.3), four out of five CASPs reported overall cost growth (Navy, Army, Air Command and Strategic Programmes.). The increased costs were attributable primarily to global supply issues and software integration delays.

<sup>7</sup> The FBC is the Main Investment Decision point before projects enter the Demonstration and Manufacture phase.

For major projects post Outline Business Case (OBC)<sup>8</sup> (KPI 2.4), two CASPs reported cost growth (Navy and Army). The increased costs in Navy were attributable to COVID-19 market recovery and inflation. The cost growth in Army was largely due to integration challenges requiring additional support. Against the Equipment Delivery Date (EDD) targets, two out of five CASPs (Army and Air) reported schedule slippage for projects post FBC (KPI 2.5). For projects post OBC (KPI 2.6) the Army CASP reported schedule slippage due to integration challenges requiring additional support.

We have improved delivery against our equipment support targets. This has included exceeding our Equipment Support Plan (ESP) CASP strategic milestone target of 85%, achieving all 14 milestones early or on time

(KPI 3.1). In addition, all CASPs met the Inventory target of 90% (KPI 3.2) and we met all our Availability, Reliability and Sustainability targets across all five CASPs and met four out of five of our Safety Administration targets.

We successfully exceeded two of our targets relating to delivery through people (KPI 4), in relation to SQEP improvement (KPI 4.2) and workforce resourcing (KPI 4.4). We missed our new target for diverse representation across our functions (KPI 4.1) with only seven function sub-targets met out of 16 and, whilst we improved on our Employee Engagement Index (KPI 4.3) from 59% to 60%, we missed our target of 62%.

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



*Guided Multiple Launch Rocket System (GMLRS) firing at Kirkcudbright Ranges.*

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



## KPI 1 – FINANCE

Our Finance KPIs measure how we operate 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 the ten-year planning period (FY23-24 to FY32-33). We also measure the delivery of efficiencies, both in-year (KPI 1.4) and across the ten-year planning period (KPI 1.5), tracked against targets agreed at the start of the FY.

### KPI 1.1 OPERATING EXPENDITURE BUDGETARY CONTROL

DE&S <b>-£53M</b>	<b>Metric</b> Green ≤ budget Red > budget
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The table above includes the Infrastructure Plan.

For 2022-23, DE&S continued to live within its means in relation to its Operating Expenditure budget, with expenditure out turning at £1,356 million, £53 million under budget. However, our underspend was higher than we would have wished, primarily due to slower than expected progress across a range of infrastructure projects. A significant factor was the discovery of ground conditions that impacted the planning stage of a major new storage facility in the Defence munitions site at Longtown.

### KPI 1.2 IN-YEAR EQUIPMENT PLAN BUDGETARY CONTROL

Navy <b>-£96M</b> -2.9%	Army <b>-£320M</b> -10.4%	Air <b>-£49M</b> -1.1%	<b>Metric</b> Overspend: Red Underspend: Green <0% ≥-1.5% Amber <-1.5% ≥-2% Red <-2%
UK Strategic Command <b>-£5M</b> -0.4%	Strategic Programmes <b>-£26M</b> -1.6%		

Overall, the Equipment Plan outturn was £12,919 million against a budget of £13,411 million, -3.7% under budget. The Army underspend was driven primarily by the reprofiling of the MIV programme due to global supply chain challenges (particularly shortages of key components), and by the work required to remedy the noise and vibration issues experienced on the Ajax programme. The Navy underspend was driven primarily by the reprofiling of Type 26 Govan yard investment costs, RN Personnel Clothing System and Sensor Support Optimisation programmes due to global supply chain issues impacting the manufacturing process and resource constraints.

The Strategic Programmes portfolio saw an underspend of -£26 million due to manufacturing issues causing a one-year delay to production for Sea Viper ASTER and a combination of smaller movements driven by global supply chain issues.

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

Navy <b>-£44M</b>	Army <b>-£659M</b>	Air <b>-£300M</b>	<b>Metric</b> Green ≤ 0% Red > 0%
UK Strategic Command <b>£83M</b>	Strategic Programmes <b>£131M</b>		

DE&S ten-year Equipment Plan saw a decrease to underlying costs of -£789 million<sup>9</sup>, with cost reductions across Navy, Army, and Air. The significant cost reduction for Army was driven primarily by a detailed review of the general munitions programme. The reduction in Air was attributable to the delivery of £424 million of efficiencies, notably in Hawk from the successful negotiation of the new 11 year service support contract (-£257 million). The cost growth in Strategic Programmes was driven primarily by a more accurate understanding of support costs for Land Ceptor (£46 million) and of contractor performance on Spear Cap 3 (£38 million).

**KPI 1.4 REALISE IN-YEAR EP EFFICIENCY TARGETS FOR 2022-23**

DE&S <b>£169M</b> target of £121M	<b>Metric</b> Green ≥ target Red < target
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Subject to assurance, DE&S has realised £169 million of in-year efficiencies, exceeding our efficiency targets by £48 million.

**KPI 1.5 REALISE IN-YEAR EP EFFICIENCY TARGETS ABC PERIOD**

DE&S <b>£820M</b> against target of £776M	<b>Metric</b> Green ≥ target Red < target
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Subject to assurance, DE&S has exceeded its in-year KPI 1.4 efficiency target by £48 million and achieved its efficiency target over the ten-year planning period under KPI 1.5, realising £820 million of efficiencies.

<sup>9</sup> This figure excludes variations which are outside DE&S control, such as requirement/scope changes etc



## KPI 2 - EQUIPMENT ACQUISITION

This KPI monitors delivery performance of all procurement projects. Cost and schedule performance is measured against our top acquisition projects within an EVM tolerance within KPI 2.1. Every year each CASP sets up to 12 strategic milestones (split between Acquisition and Support) which are due to be delivered in-year and agreed with our clients as a measure of a project's success. KPI 2.2 measures performance against the Acquisition 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 major (over £20 million) Outline Business Case and Full Case Business Projects.

### KPI 2.1 EARNED VALUE MANAGEMENT

DE&S <b>85%</b>	<b>Metric</b> Green $\geq 85\%$ Amber $\geq 70\% < 85\%$ Red $< 70\%$
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The KPI looks at our top acquisition projects and measures the value we are earning against the Schedule and Cost performance baseline. For 2022-23 we modified this KPI to be more representative of current rather than historic performance. Projects are measured against the cumulative total rather than a rolling 12-month view and KPI tolerances were changed to allow more latitude for projects performing ahead of schedule or under budget. Projects are required to be within the Cost Performance Index (CPI) or Schedule Performance Index (SPI) tolerance of 0.9 – 1.3 by the end of the reporting year to score Green. Out of 24 projects, 19 were within tolerance for both CPI and SPI. 22 projects were within tolerance for CPI and 19 projects were within tolerance for SPI, resulting in a score of 85%. Four projects reported outside tolerance, predominantly due to global supply chain delays and project integration issues.

### KPI 2.2 CASP STRATEGIC MILESTONES (EPP)

DE&S overall <b>88%</b>	<b>Metric</b> Green $\geq 85\%$ Amber $\geq 75\% < 85\%$ Red $< 75\%$
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DE&S delivered 29 out of 33 Procurement CASP Strategic milestones either early (13) or on time (16) during the year, resulting in us achieving 88%, exceeding our target. Out of the four<sup>10</sup> remaining milestones, the milestone in Defence Operational Training Capability (Air) Core System and Services was missed and achieved one month late due to software performance issues when integrating different products; E-7 Wedgetail's milestone was missed predominantly due to resource constraints within the aviation supply chain that have been driven by global events, generating critical shortages in skilled personnel, materials, and parts. Brimstone 3A missed its milestone due to software integration issues.

<sup>10</sup> For security classification reasons only three of the four projects have been named.

**KPI 2.3 FULL BUSINESS CASE PROJECT COST**

Navy	Army	Air	<b>Metric</b> Green ≤ 0% Red > 0%
<b>£52M</b> 1%	<b>£32M</b> 0%	<b>£18M</b> 0%	
UK Strategic Command	Strategic Programmes		
<b>-£7M</b> -1%	<b>£55M</b> 2%		

KPI 2.3 tracks cost variances of FBC projects and shows how much the forecast cost to complete this phase of work changed over the year. Four out of five CASPs saw their forecast cost increase during the year. The significant cost increase in Strategic Programmes was primarily driven by Brimstone 3A reporting £50 million of cost growth which was primarily attributable to software integration delays.

Navy Command’s £52 million cost increase was driven by the impact of COVID-19 on schedule and global supply shortages of steel for Type 31 Frigate.

Army Command cost growth was largely due to Apache AH-64E Procurement Programme reporting a £16 million cost increase attributed to additional test and evaluation work caused by a technical fault and provision for UK required certification and qualification activities on Tactical Engagement Simulation System and Manned-Unmanned Teaming.

Air Command’s £18 million cost increase was predominantly attributed to E-7 Wedgetail due to inflationary pressures on infrastructure projects and the cost of materials and resources within the aviation supply chain that have been driven by global events.

**KPI 2.4 OUTLINE BUSINESS CASE PROJECT COST**

Navy	Army	Air	<b>Metric</b> Green ≤ 0% Red > 0%
<b>£9M</b> 2%	<b>£1M</b> 2%	<b>£0M</b> 0%	
UK Strategic Command	Strategic Programmes		
<b>-£1M</b> -3%	<b>£0M</b> 0%		

Three out of five CASPs were within the aggregate in-year cost variance target for projects in the OBC phase (KPI 2.4).

Navy Command reported £20 million cost growth in Mine Hunting Capability Block 1 due to changes in the commercial shipping market post COVID-19 and inflation impacts from the war in Ukraine. This was offset due to Fleet Solid Support reporting -£11 million of savings due to competitions ending earlier than anticipated and using less Private Sector Support than expected due to better utilising internal resource.

Army Command saw £1 million of cost growth attributed to Active Protection Systems (APS) due to additional resource being required and integration activities causing contractor and sub-contractor prices to be higher than originally estimated.



**KPI 2.5 FULL BUSINESS CASE PROJECT TIME**

Navy <b>0 months</b> Avg mths: 0	Army <b>15 months</b> Avg mths: 0.9	Air <b>64 months</b> Avg mths: 3.4	<b>Metric</b> Green ≤ 0 Red >0
UK Strategic Command <b>-1 months</b> Avg mths: -0.1	Strategic Programmes <b>-55 months</b> Avg mths: -6.1		

This KPI tracks in-year time variances to achieving the Equipment Delivery Date (EDD) against the baseline agreed in the CASP, with two out of five CASPs reporting aggregated in-year time variance to the approved FBC duration. Air reported 64 months schedule slippage. 25 months of these delays were directly attributed to ongoing global supply chain issues with shortages of materials, parts, and resources (9 months E7 and 16 months Aircraft Refueler). The remaining months spanned the Typhoon Future Synthetic Training contract and two capability upgrade packages for the aircraft, with software integration issues being the major contributor to the delays.

In the Army CASP a 15-month variation was reported primarily as a result of Ajax reporting 14-month slip due to noise and vibration issues. Resolution of these issues and a complete review of the schedule resulted in submission of a further Review Note which redefined the Initial Operating Capability (IOC) to better reflect the operational demands of the Army. The variation recorded here represents performance against the previous definition of IOC, which was achieved in May 2023. Going forward, we will report performance against the revised (more demanding) definition of IOC, including in the Department's annual Equipment Plan publication.

**KPI 2.6 OUTLINE BUSINESS CASE PROJECT TIME**

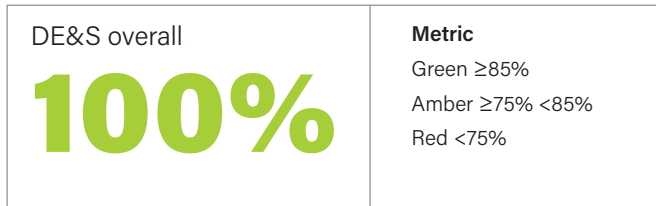
Navy <b>-6 months</b> Avg mths: -0.2	Army <b>13 months</b> Avg mths: 2.6	Air <b>0 months</b> Avg mths: 0	<b>Metric</b> Green ≤ 2 mths Amber >2 mths ≤3 mths Red >3 mths
UK Strategic Command <b>-2 month</b> Avg mths: -0.2	Strategic Programmes <b>0 months</b> Avg mths: 0		

Four out of five 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 two months' delay per project. Army saw a 11-month variation in Active Protection Systems due to integration challenges requiring additional support to overcome.

### KPI 3 EQUIPMENT SUPPORT

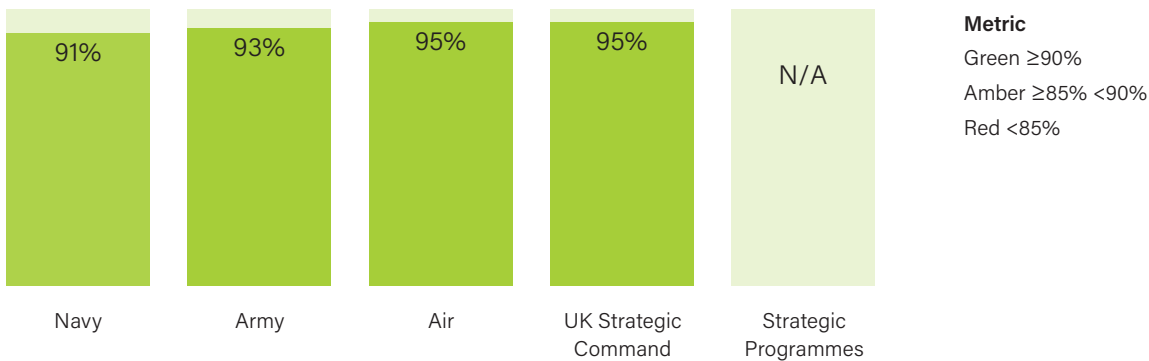
DE&S measures how well we support in-service equipment against the performance measures set individually in each CASP. KPI 3.1 measures performance against ESP strategic milestones that are due to be delivered in-year. Inventory (KPI 3.2) measures stock available to satisfy common and predictable demands. We also take into account Availability, Reliability and Sustainability (KPI 3.3-3.5). KPI 3.6 measures how well we administer safety processes.

#### KPI 3.1 CASP ESP STRATEGIC MILESTONES



In total DE&S delivered all 14 Support CASP Strategic milestones, resulting in 100% of the CASP Strategic milestones being delivered early or on time. Eight milestones were achieved early and six were achieved on time.

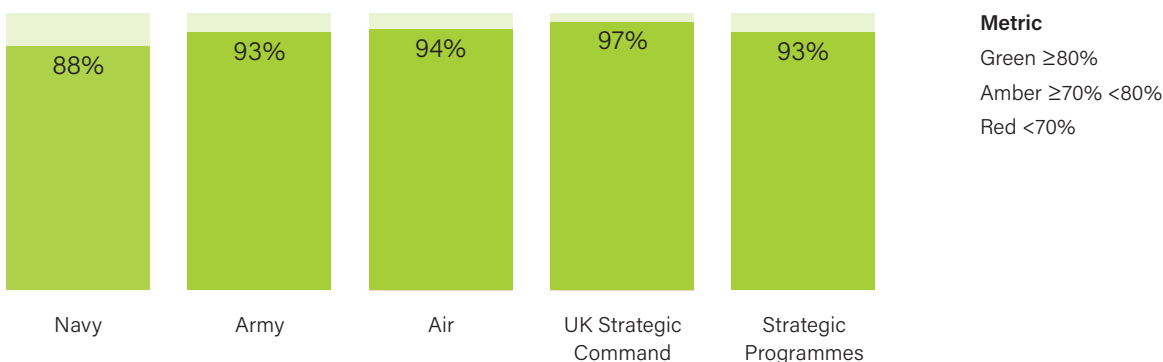
#### KPI 3.2 INVENTORY (ON-TIME ISSUES)



KPI 3.2 measures the percentage of demands which can be allocated from available stock (by an issue voucher) within 24 hours. For all four Commands we exceeded the 90% target.

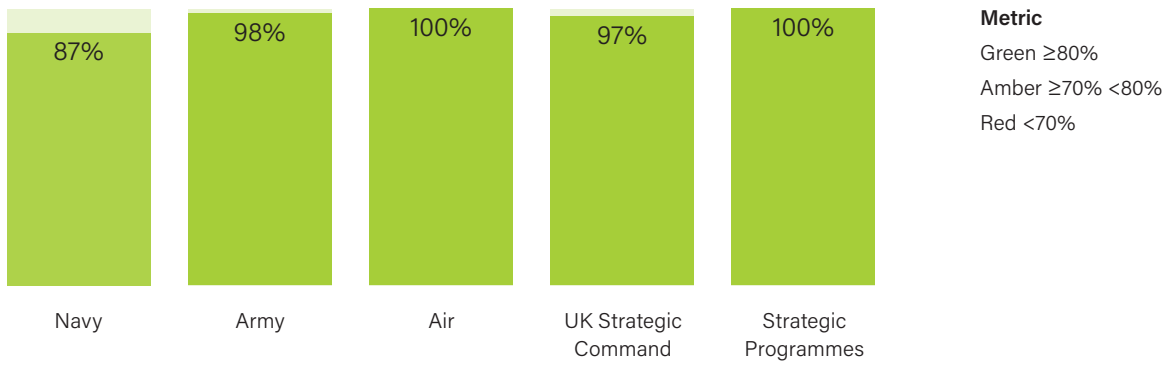
### EQUIPMENT SUPPORT PERFORMANCE

#### KPI 3.3 AVAILABILITY

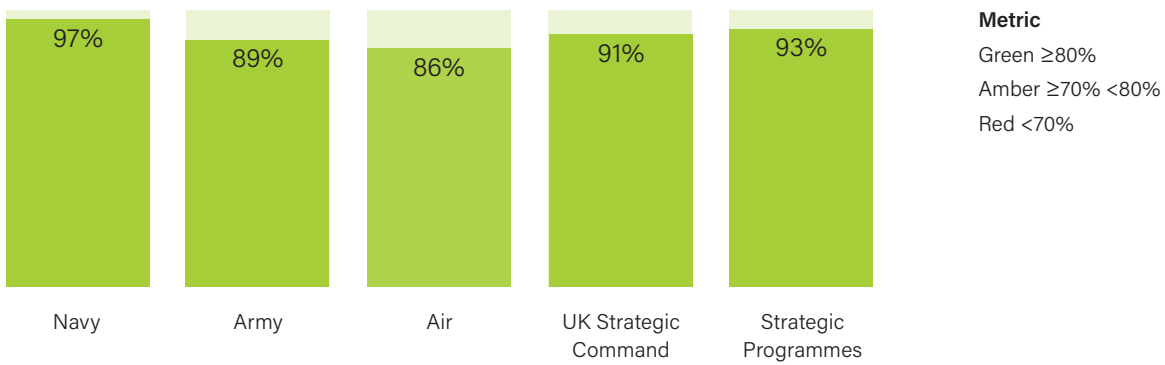




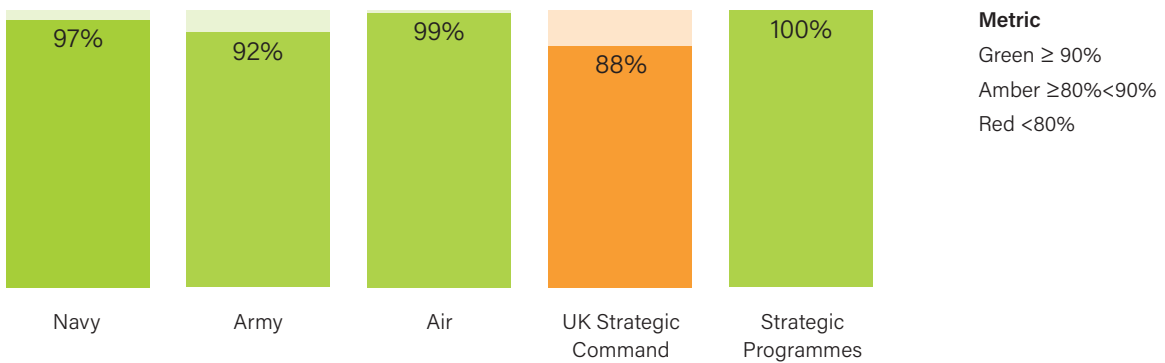
**KPI 3.4 RELIABILITY**



**KPI 3.5 SUSTAINABILITY**



**KPI 3.6 SAFETY**



The support metrics for Availability, Reliability and Sustainability were achieved across all Commands. Four out of five commands achieved the safety support metric with UK Strategic Command falling short, achieving 88%. This was primarily caused by two Safety Cases being out of their review period for 10 months of the reporting period. The issue has been resolved and there was no operational impact.

**KPI 4 - PEOPLE**

KPI 4 comprises four of the people metrics listed within OGSM 4 (Delivery through People). These metrics cover diversity representation at function level (KPI 4.1), improvement in skills against SQEP requirements set by functions (KPI 4.2), employee engagement based on the 2022 People Survey headline result (KPI 4.3), and effective workforce resourcing against agreed and funded demands (KPI 4.4).

**KPI 4.1 CULTURE AND INCLUSION**

<p>DE&amp;S</p> <p style="font-size: 2em; color: red; font-weight: bold;">7</p> <p>Of 16 sub-targets</p>	<p><b>Metric</b></p> <p>Green ≥ 12 - 16</p> <p>Amber ≥ 8 &lt; 12</p> <p>Red ≤ 7</p>
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This KPI reflects the strategic intent to make DE&S increasingly representative of society, adjusted this year from a whole-of-DE&S measure to a KPI based on sub-targets set by each of our eight functions for two protected characteristics relevant to that function. Seven out of the 16 sub-targets were achieved. The sub-targets varied, covering representation of females as well as people with a declared ethnic minority, disability, or non-heterosexual orientation, either across the whole function or for specific cohorts by grade. The outcome is disappointing given the effort made by functions within an organisation-wide diversity programme, with a range of interventions aimed at improving diversity through recruitment and retention. However, this was the first year of function targets and it proved challenging to set realistic, yet ambitious targets, based on past data, in part due to the implementation of our new MyHR IT system just prior to the start of the FY. Lessons have been learned in setting targets for 2023-24.

**KPI 4.2 - LEADERSHIP, SKILLS AND GROWTH**

<p>DE&amp;S</p> <p style="font-size: 2em; color: green; font-weight: bold;">7</p> <p>Of eight functions</p>	<p><b>Metric</b></p> <p>Green ≥ 6 - 8</p> <p>Amber ≥ 4 &lt; 6</p> <p>Red ≤ 3</p>
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KPI 4.2 supports pillar two of the People Strategy and aims to ensure our people have the skills to meet the challenges of an ever-changing Defence landscape. Using a mix of self-assessment against job role Success Profiles, validated by managers, and qualifications / certifications achieved, all eight functions reported improvement in technical competence against SQEP requirements, with only one function missing one sub-target.



**KPI 4.3 EMPLOYEE ENGAGEMENT**

DE&S <b>60%</b>	<b>Metric</b> Target 62%
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The annual survey of our people in autumn 2022 (over 9,000 respondents) recorded an increase in our Employee Engagement Index from 59% to 60%, which was pleasing given the external context, notably the cost-of-living crisis, but we missed our KPI target of 62%. 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 revised strategy, as well as all parts of DE&S addressing survey outcomes at a local level.

**KPI 4.4 - PEOPLE ACTIVITIES**

DE&S <b>1.8%</b>	<b>Metric</b> Green ≤ 3% Amber > 3% < 5% Red > 5%
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This new KPI measured average workforce gapping (of civil servants, fixed term appointees, workforce substitutes and military personnel) against a realistic achievable workforce, reflecting affordability, recruitment and retention factors, derived from a collaborative business planning process. On average through the FY the resource gap was 1.8%, demonstrating effective workforce supply processes including talent acquisition and deployment, as well as improved retention.



*A member of DE&S staff.*

**PERFORMANCE ANALYSIS – CLIENT 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 for 2021-22. 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. The DE&S Board takes a critical interest in both these areas, enabling intervention where necessary to ensure they remain at utmost priority. A summary of performance against these two areas can be found below.

**CLIENT SATISFACTION**

The annual DE&S Client Satisfaction Survey is the only formal mechanism to capture and benchmark metrical feedback from clients, enabling DE&S to demonstrate that it is a client focused organisation that listens and responds to client needs and issues. The survey provides an annual assessment of DE&S’ delivery to clients across nine thematic areas.

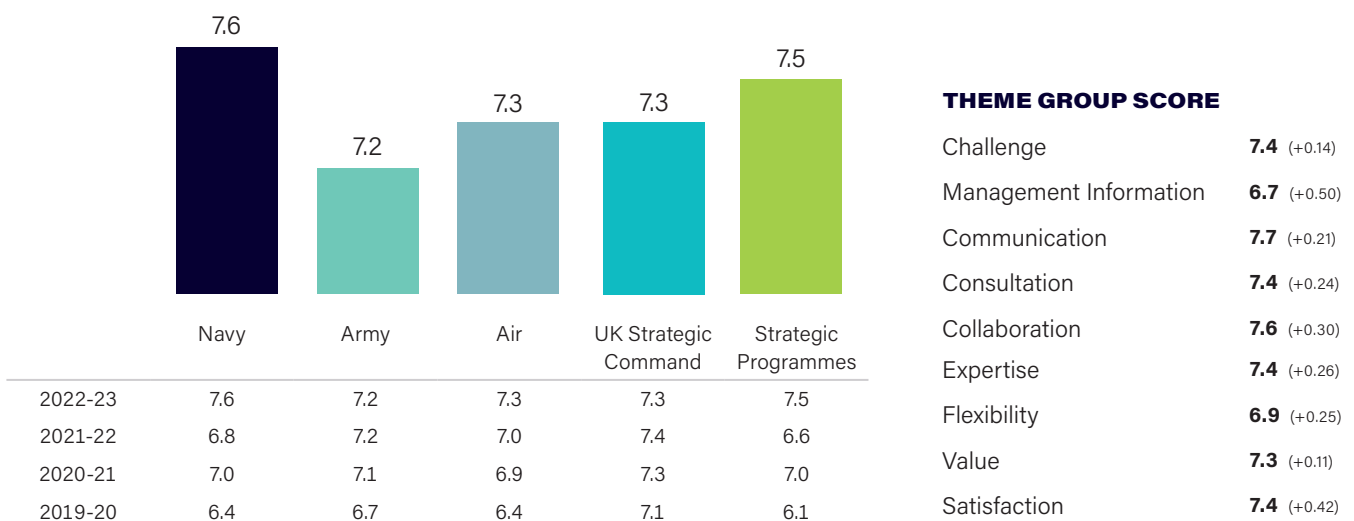
Following feedback on last year’s survey, key changes were implemented to enable both a numerical scoring as well as written feedback for the relevant operating centres against each of the nine theme areas<sup>11</sup>. This year, the survey was extended to a wider set of senior clients, raising the invited participants by 30 to 183, of which 106 completed responses were received<sup>12</sup>.

Examples of key findings and analysis include:

- Overall, DE&S achieved a Client Confidence Index (CCI) score<sup>13</sup> of 7.3 against an in-year target of 7.2, which represents an increase of 0.27 on the 2021-22 score.
- All scores remained above the in-year target. The largest improvements were seen in Strategic Programmes and Navy Command where the individual client score increased by 0.9 and 0.8 respectively. Strategic Command saw the only decrease, down by 0.1.
- Whilst scores rose against all nine themes, the two lowest scoring remained MI and Flexibility. The results are being reviewed across the organisation with action plans being created by client-facing delivery teams.

A breakdown of the scores by client and overall theme scores are below.

**2022-23 CUSTOMER CONFIDENCE INDEX BY CLIENT**



**CLIENT CONFIDENCE SCORE**

**7.3** 2022-23 Score      **7.1** 2021-22 Score      **0.27** variance

<sup>11</sup> The theme 'Programme Management' was removed from this years' survey.  
<sup>12</sup> There was a lower engagement rate this year due to a range of factors. In addition, 19 partial responses were excluded from the scored results. If completed, these would have brought the number of responses received in line with last year.  
<sup>13</sup> The CCI is a score derived from numerical responses to themes in the suite of questions, against a one to ten scale where one is the most negative and ten the most positive.



### KEY THEMES FOR IMPROVEMENT

- Management Information: Following the previous survey, a new MI dashboard was launched to provide a single version of the truth to clients. The comments this year were positive that MI was improving, however, it was noted that the timeliness of MI and the metrics used need further improvement and access should be granted to all relevant clients.
- Flexibility: Comments received mentioned a lack of resourcing and increased pressure on project teams. Respondents identified a need for more of a shift towards agile resourcing and the ability to flex process. Several participants noted that DE&S is seen as risk-averse, process driven and constrained.

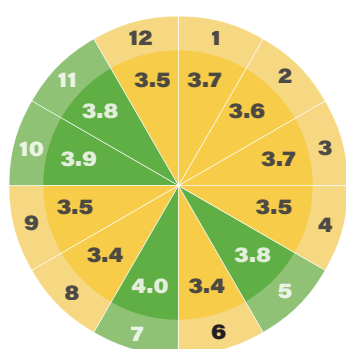
The findings of the survey will now be used to inform action plans to address the issues identified. The Executive Committee has also endorsed a number of actions to address the findings of the survey with the intention of incorporating these into the DE&S Strategy 2025 as part of the refresh.

### HEALTH, SAFETY & ENVIRONMENTAL PROTECTION

In 2022-23, the Health Safety and Environmental Protection assessment was measured by applying the Defence Safety Management System (SMS) Element Framework referenced in Joint Service Publication (JSP) 815<sup>14</sup>. A full assessment of DE&S' performance has been provided in the 2022-23 DE&S Annual Assurance Report (AAR) which concluded that the organisation remains at Substantial Assurance<sup>15</sup> despite some 'Minor Weaknesses'. DE&S remains committed to achieving Full Assurance and has implemented a number of initiatives and strategies during 2022-23 to ensure we remain on this path (see Pathway to Full Assurance below).

DE&S assessments for Occupational Health, Safety & Environment (OHSE) and Acquisition Safety & Environment (ASE) are calculated using a defined scoring methodology and are endorsed by the DE&S Safety, Health, and Environmental Committee (SHEC). Combined safety assessments against each of the 12 SMS elements are shown in the diagram below.

### 2022-23 OHSE AND ASE PERFORMANCE (COMBINED VIEW)



- Leadership, Governance and Culture
- Organisation and Dependencies
- Legislation, Regulation, Policy and Guidance
- Risk Assessments and Safety Cases
- Supervision, Contracting and Control of Activities
- Personnel, Competence, Resource and Training
- Equipment Design, Manufacture and Maintenance
- Infrastructure Design, Build and Maintenance
- Performance, Management Information and Reporting
- Incident Management and Continuous Improvement
- Communications and Stakeholder Engagement
- Assurance

Score <sup>16</sup>	Assurance Level	Description
>=3.8	Full assurance	System of internal control established and operating effectively.
2.8 -3.8	Substantial Assurance	System of internal control established and operating effectively with some minor weaknesses.
1.8 -2.8	Limited Assurance	System of internal control established and operating effectively except for some areas where significant weaknesses have been identified.
<1.8	No Assurance	System of internal control poorly developed or non-existent or major levels of non-compliance identified.

14 JSP 815 superseded JSP DSA 01.1, for safety management reporting this year, which has resulted in the number of elements reported against during 2022-23 increasing from 11 to 12.  
 15 Substantial Assurance: System of internal control established and operating effectively with some minor weaknesses.  
 16 Score boundaries are to be revised in 2023 to better align with the new JSP815 scoring.

## **PATHWAY TO FULL ASSURANCE**

DE&S has made progress in many areas; however, we recognise there are further improvements required in ASE and OHSE performance. As a result, we have continued to work hard on implementing our DE&S Safety Strategy published in 2022, which aims to deliver the significant and enduring improvements required in the way safety is managed and delivered across all aspects of the business.

In addition to the delivery of the strategy, DE&S has reviewed the results of the annual safety culture survey and evidence from across the business, including specific surveys of key safety roles. Whilst the scores in the safety survey have shown slight improvement, these reviews have presented two key findings that will need to be addressed to achieve a Full Assurance. The first is that DE&S faces challenges under the current operating model regarding delivery of FLC requirements with insufficient resource. DE&S is prioritising work but this issue will remain challenging until the new operating model is in place or resource funding matched to demand. The second key finding is that the end-to-end acquisition process is complex and highly variable. These issues have been recognised and are being addressed as part of the work to refresh our strategy, which began in 2023.









# SAFETY, SUSTAINABILITY AND SECURITY

*Soldiers from C Company working alongside the Infantry Trials and Development Unit (ITDU) on Project Convergence 22.*

## SAFETY AND ENVIRONMENTAL PROTECTION

DE&S is committed to providing safe equipment to the armed forces and protecting the environment in which our equipment operates. We are also committed to reducing the risk of harm to people as much as is reasonably practicable, minimising the impact on the environment from our business activities, and providing our people with a safe place to work. Oversight of these areas is provided by the DE&S (SHEC), with performance reported to the Executive and Performance Committees, and the DE&S Board. This oversight helps drive our continuous improvement in these areas. Work to deliver the 2022 environmental and safety strategies continues at pace, with the aim of achieving ISO 45001 Occupation Health and Safety Management Standard and ISO14001 Environmental Management certification by 2025.

Delivering a range of safety related events throughout the year has also helped us promote a strong safety culture, which has been supported by learning from experience sessions, master classes and communication campaigns to raise awareness of new policies and guidance. We continue to assess our safety culture through an annual survey which employs the Patrick Hudson scale<sup>17</sup>. Overall, this showed a slight improvement over last year's score and re-affirms the Defence Internal Audit (DIA)<sup>18</sup> assessment that the DE&S safety culture is at 'Substantial Assurance'. We recognise that further improvements are required to ensure we can achieve the pro-active level assessment and will look to realise this through implementation of our Safety Strategy. This will help ensure we become an organisation that looks forward and proactively manages safety.

## ACQUISITION SAFETY

DE&S is responsible for procuring and supporting the wide range of products, systems and services used by the UK's armed forces. These must be fit for purpose to maximise capability and also be safe for FLCs to use and maintain. To that end, DE&S has implemented measures to ensure our projects achieve and maintain through life full compliance with safety and environmental requirements. In DE&S, this has been achieved through the mandatory application of the Acquisition Safety and Environmental Management System (ASEMS).

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 Safety Strategy continues to deliver these enduring improvements, based on the following nine goals, and underpinned by some key milestones:

- 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.

Some of the deliverables to help ensure we remain on track to achieve our goals include:

- Publication of a new Acquisition Safety Policy. This has defined the roles and responsibilities and SQEP for those individuals who hold Letters of Delegation, reinforcing the responsibility for safety decisions.
- Continued improvements to safety tools to support better decision making.
- Developing a new suite of safety courses to support people directly and indirectly involved in safety. These are intended to improve their learning experience and reduce training overlap between core and regulator driven training.

The development of a safety case maturity tool and safety dashboard has also allowed DE&S to baseline the safety artefacts across major projects for the first time. This maturity tool has provided DE&S delivery teams with a robust framework for building and maintaining their safety cases to a common high standard and improvements in safety case quality are already being seen. The assessments form part of the MI used to inform the Executive Committee and provide assurance that DE&S products are safe.

<sup>17</sup> 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>

<sup>18</sup> In April 2023, Defence Internal Audit (DIA) transferred into the Government Internal Audit Agency (GIAA) which provides consistent assurance and insight right across government.



Recent land vehicle safety occurrences investigated by the Health and Safety Executive have correctly recognised that DE&S is dependent on the FLC sponsoring our proposed safety improvements. However, DE&S recognises that it must ensure all risks are presented to FLCs for consideration with suitable independent advice and options where appropriate. DE&S takes this responsibility very seriously and is engaged with the FLCs and the regulator to improve the end-to-end acquisition process.

## **OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENT**

The shift to flexible ways of working for most DE&S employees is now business as usual. This change has required us to ensure that our duty of care legal obligations continue to be met, but some weakness in aspects of delivery manager oversight of staff working remotely remains. New policy has been introduced this year to clarify the requirements and a Training Needs Analysis undertaken to identify future training requirements to resolve this issue and will be an area of focus during 2023-24. The perennial challenge around infrastructure condition and associated risk continues, albeit showing signs of improvement during the year, but an emerging issue regarding the completion of statutory inspections did arise. DE&S Heads of Establishment take these concerns seriously and have taken mitigation activity to address compliance issues as and when required.

The DE&S Chief Environmental and Safety Officer provides competent advice, guidance, and support to help us meet legal, defence regulation, and policy responsibilities. Our incident notification cell provides an accident and incident reporting system that satisfies both statutory and MOD policy requirements, with monthly performance report briefings to the DE&S Executive Committee. The broader MOD reporting system, Defence Unified Reporting and Lessons System (DURALS) is expected to be adopted by DE&S during 2024. DURALS will provide further opportunities to enhance our reporting capability and drive improvement in incident investigation and learning from experience.

DE&S' approach to psychological health remains a major success story and the OHSE management system continues to be improved and refined through better engagement with industry, to share good practice and

deliver more focussed and accessible information and guidance. DE&S will seek to certification to ISO 45001 for Health and Safety and 14001 for Environment in 2024, with work to inform this being undertaken throughout 2023.

DE&S World Environment and Safety Day events are now firmly established in the annual calendar, improving awareness, and helping to reinforce continual improvement, as directed by our recently revised safety and environment strategies. A pilot 'mock health and safety prosecution trial' event using real lawyers was held last year with extremely encouraging feedback. We intend to include this as part of our future calendar of events and to continue actively encouraging our people to engage in helping the organisation improve.

Further embedding OHSE compliance into routine day to day business, whilst ensuring a consistent and coherent approach, across all sites and activities remains our ongoing objective. We will continue to ensure the correct accountability and responsibility for OHSE performance and bolster its governance. The three lines of defence<sup>19</sup> assurance model has been established and will be developed throughout 2023, to deliver further improvement and increase confidence that DE&S remains OHSE compliant across all aspects of its operations.

## **ENVIRONMENTAL PROTECTION AND SUSTAINABLE PROCUREMENT**

Following the release of the DE&S 2025 Environmental Strategy (ES) last year, implementation planning continues to align with the work to refresh our strategy. A cross-cutting domain approach has been adopted across a suite of value streams aimed at delivering the Environmental Strategy. The areas being considered are:

- Establishing high-level environmental objectives and targets.
- Legislation and compliance management.
- Defining a standard laydown of responsibilities and delegation for environmental protection and sustainability.
- Hazardous materials management, including horizon scanning for legal changes.
- Embedding the principle of circular economy.
- Undertaking a gap analysis of ISO 14001 requirements.

<sup>19</sup> The three lines of defence model is a framework that outlines internal audit's role in assuring the effective management of risk, and the importance for delivering this of its position and function in the corporate governance structure.

Net zero is a core component of DE&S 2025, the engineering function strategy and our Environmental Strategy. It cuts across all levels of our organisation. DE&S has baselined the carbon footprint of our operations and infrastructure and will endeavour to reduce our greenhouse gas emissions through the implementation of the Greenhouse Gas Emissions Management Hierarchy.

Emissions reductions will be considered in all facets of business decision making. This will be supported by a comprehensive and consistent emissions reporting system and culture, which will inform the Annual Net Zero Review.

To support the DE&S 2025 Environmental Strategy during 2022-23, we have invested in environmental site surveys and electric vehicle infrastructure, begun the design phase of solar installation for four MOD sites, and will be starting delivery of two Net Zero pilot sites in 2023-24.

DE&S has now mandated a tailorable Defence Standard 00-051 which relates to the mandatory environmental management requirement for all new contracts. This will ensure that our contracts use the correct environmental and sustainability clauses.

Basic environmental and sustainability training remains an area for further development. A pilot e-learning course for carbon literacy was launched, and further off the shelf learning approaches are being explored. A

particular success is the creation of the Environmental Community of Interest, promoting self-learning and establishing best practice across the domains' practitioners.

We have robust arrangements in place for the management of hazardous materials through the DE&S Hazardous Materials Strategy. Having successfully reached full compliance for the management of all known asbestos in September 2021, we have continued to improve the management of other hazardous and restricted materials across the business by developing a series of upskilling events, training, and improved guidance, policy, and assurance activities.

A gap analysis against ISO14001 will drive further development of the Environmental Strategy implementation. Going forward, a key enabler will be to define the responsibility and accountability for environmental decisions. To support this, several domains have already stood up Environmental Centres of Excellence, either resourced within the domain or by utilising ITSS.

DE&S continues to improve our culture and raise awareness of environmental protection and sustainable procurement through multiple events and communication routes. A fourth World Environment Day event was held in June 2022, as was an inaugural environment professionals networking event in November 2022, with guest speakers from Cranfield University and the Institute of Environmental Management Assessment.



*HMS Protector carries out hydrographic survey operations in Antarctica.*



## SECURITY

Focus remains on the delivery of equipment and support which meets the security risk demands 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 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.

The Principal Security Advisor (PSyA) team continues to refine our suite of security and resilience processes. These are designed to make it easier for teams to manage security and resilience risks against our clients' risk appetites, 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 the parts of the defence estate that we manage, as well as the acquisition and support projects that we deliver to the UK armed forces. Our Executive Committee continues to affirm our commitment in this area through the DE&S Protective Security Strategic Risk and associated risk response plan, which covers a broad scope including security governance, culture and awareness, supply chain security, and infrastructure.

We strengthened our means to prioritise how our most critical, sensitive, and vulnerable assets are protected from compromise. A new process for reporting security vulnerabilities at our sites has improved our understanding of our strategic risk. This has helped the Senior Leadership Group (SLG) balance the need to invest in security with the need to spend public money, to deliver the best possible value. This has led the Executive Committee to establish a programme of improvements to security infrastructure across much of our estate. The first phase of this programme is intended to focus on the protection of lethal assets that are most attractive to organised criminal groups and terrorists, placing wider public safety as a matter of great importance.

Our processes enshrine the principle that systems must be secure-by-design to build resilience into defence capabilities. Through-life cyber risk management is the foundation that makes this real across our portfolio. We have a clear view of the DE&S Cyber Strategic Risk and effective governance mechanisms to manage the risk. The DE&S Digital team continues to deliver internal information assurance, and to monitor and support the application of defence information assurance mechanisms across the supply chain. In addition, our Equipment Cyber Resilience (ECR) team continues to support delivery teams with the development of the Security Case, which enables the military capability owner to understand residual risk and make informed cyber related decisions.

To overcome the challenges associated with the global shortage of cyber security specialists, our Integrated Technical Services (ITS) team have established a new ITS-Security service offering delivery teams access to cyber and security specialists, through a single streamlined process. These specialists help teams to understand and apply the most appropriate security frameworks for their projects, including the National Institute of Standards and Technology Cybersecurity Framework. We have also defined a Cyber Training Pathway to increase specialist capability across all parts of DE&S.

Our PSyA team continues to deliver the Industry Security Assurance Centre (ISAC) and associated industry facing services. This is a challenging and large-scale portfolio, which has expanded significantly in recent years. The ISAC is one of five Cabinet Office sponsored Security Centres of Excellence that includes: the Facility Security Clearance programme, providing security assurance for sensitive industry facilities in the defence supply chain; the Industry Personnel Security Assurance programme, empowering defence companies to manage the vetting and aftercare for their staff and bolster their insider threat mitigation; and the Defence Industry Warning Advice and Reporting Point, providing industry partners with critical advice and support with security breach and incident management. These services continue to increase the security of our defence industry partners, who play such a vital role in supporting the MOD to protect and defend the UK.

We continue to innovate in our efforts to deliver the best possible security effects at value for money. We have employed modern mobile sensor and communication technologies that give us more agile security systems to better protect the movement and long-term storage of items that are attractive to criminals and terrorist organisations. These systems provide more accurate time-sensitive information that helps us work better with our own site security forces and Police forces across the country to mitigate the threats we face. The PSyA team continues to develop a new IT system to manage its wide-ranging portfolio of services, the first module of which has launched to support the control of international visits between defence industry partners. The system will improve team efficiency and provide better MI and opportunities to work with others more effectively across our organisation, the wider MOD, industry and OGDs.

Travel constraints during the COVID-19 pandemic significantly impacted elements of our establishment assurance programme. Having mitigated the consequential assurance gap with a bespoke programme of physical security reviews across the DM and Logistics Support estates, we are now implementing an ambitious programme to return to a comprehensive assurance coverage of the DE&S estate during 2023.

DE&S corporate IT was recertified against the ISO27001 information security standard in September 2022. This helps to further improve our organisational governance, enhancing management of risk and protection of information assets. 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 allows security professionals across the business to deliver appropriate assurance to our risk owners. We continue to actively support the development of the Government Security Profession, launched in early 2020, by sharing our knowledge and expertise.



*British Royal Marines with 45 Commando assault an objective while conducting the Urban Field Exercise, carrying next-generation Light Anti-tank Weapon*





## LOOKING FORWARD

The year ahead presents DE&S with a great many opportunities and challenges. The world in which we operate has become increasingly competitive, complex, and threatening. In the context of increased global tensions, the UK increasingly must work with democratic and like-minded allies, in particular as part of NATO, to increase the level of deterrent against those wishing to disrupt recognised international borders, civilised norms and our very way of life.

To deliver this increased deterrent, the UK will continue to play a leading role in ensuring that, alongside our allies, we can maximise the readiness of our forces, securing their ability to integrate operationally and digitally. We will respond to the themes from the Defence Command Paper, focused on the need to develop our capabilities at greater speed than our potential adversaries and deliver our mission to equip our armed forces with the edge to protect the nation. Underpinning all of this is the availability, capability and quantity of our defence systems, together with the resilience of the Defence industrial base on which they depend. Challenges in the global supply chain, skills shortages and global inflationary pressure will continue to test us all. There will also be difficult questions to answer around the balance of investment for equipment and resources noting the increasing outputs demanded of us, not least in our urgent support of Ukraine. DE&S will not shy away from the task and we will seek to accelerate the pace of change in these key areas, while meeting the challenge of operating within an environment where budgets are under increasing and continual pressure.

DE&S is focused on ensuring readiness for whatever the future holds. We are experts at defence procurement and support, a statement underpinned by the fact that over the last five years, we have delivered over 4,600 assets to our clients worth around £23 billion. We know how to get results, having made significant improvements in recent years. Equally, we know that our continued success and

performance improvement depends on thinking and doing business in new ways.

In the year ahead we will strive to increase the outputs from existing defence platforms and will work towards our 2025 target of increasing availability of existing equipment by up to 50%. This will be achieved using a combination of digital analytics to identify key items impacting availability; employing new manufacturing techniques such as 3D printing to reduce repair cycles; working with supply chains to introduce innovative commercial models; and rebalancing funding to ensure operational availability is a priority. Large scale collaborative exercises will help ensure readiness is deliverable in practice as well as on paper.

We will ensure our professional capabilities keep up with technological change and will drive forward digital solutions like never before. Three new DE&S control centres will use transformative digital capabilities to catalyse better data-sharing, speed up project delivery timescales and ensure the equipment we procure is interoperable by default. Our growing use of digital platforms will ultimately allow us to work at speeds never seen before, building capacity across Defence and its UK industrial base to digitally specify, acquire, create, and link directly to the digital "factory of the future." Of course, we recognise that with each step into cyberspace, we are more at threat from malicious actors, so we will increase our efforts to ensure DE&S and its supply chains are as secure as possible.

Much of the change in how we work will be supported by our refreshed DE&S Strategy which, aligned to the Government's Integrated Review, provides a roadmap for DE&S, together with our industry partners, to deliver the outputs our armed forces need today and the innovation we need for tomorrow. Our new operating model will provide an opportunity to embed increased efficiency, agility and cooperation in our structure. There is much

work to do, but ultimately, we are building momentum and have confidence that the new model will improve our ability to respond quickly to changing defence priorities and emerging threats and work more effectively with the whole defence enterprise. It will also allow us to address some of the issues we have had in ensuring that everyone in DE&S feels connected to our mission.

Our response to the war in Ukraine demonstrated that in moments of crisis DE&S absolutely excels. In the year ahead we will grow our new Operations Directorate, using their proven skills in rapid procurement and logistics to ensure our armed forces have the timely battle-winning capabilities they need. We will do this in lock step with providing safe, effective equipment and vital support to myriad military operations.

We will look to further improve our approach to safety through our updated Safety Strategy and continue to assess our safety culture through an annual survey, ensuring the equipment and support we provide is safe. Although the survey score showed a slight improvement over last year, there is further room for improvement and we will embrace the findings from the recent Sheldon report and embed learning across the organisation. In particular, we must foster a culture where our people feel safe to raise concerns early, and ensure mechanisms are in place to make that easy to do.

We will strengthen even further our partnerships with strategic and critical suppliers and our whole supply chain, including through the use of 360 degree feedback. We will work in collaboration across the Defence enterprise to support the resilience of our UK supply chain to assure the longer term capabilities available to us. And we will mature our use of the Social Value model to ensure our programmes deliver positive social, environmental and economic impacts for communities throughout the UK.

We will also work closely with our front-line and industry partners, delivering our mission with a One Defence Enterprise mindset. As we become more lean and agile, we will encourage industry partners in their pursuit of becoming more globally competitive, mindful of their need to improve productivity and exports, which in turn will support the drive to put the UK Defence Enterprise

ahead in the race against our adversaries.

Everyone in Team Defence matters and a key theme of the DE&S People Strategy is "having the right person, in the right role, at the right time." To help make this happen, DE&S will remain committed to making the organisation a truly inclusive workplace for everyone and will continue to be involved in numerous business-wide community and network activities. We are committed to further improving our recruitment processes through diversity training for our recruiters and in maturing our employee networks framework and our successful reverse mentoring programme. We will be investing £9 million in learning including further upskilling of our people in lean, agile and commercial awareness through our new online campus. This will take place alongside function-specific professional growth and increased leadership development, including for under-represented groups. And finally, but importantly, we recognise that the cost-of-living is a challenge for our people and this year we will be looking at options for more flexible benefits and exploring how we can enhance last year's launch of a new in-year recognition scheme.

The forward look for DE&S has clear challenges, but we have embarked upon an exciting programme of increased delivery, support, improvement and change. Our people are enthusiastic and committed at all levels and - today, tomorrow, together - I am confident we will succeed.



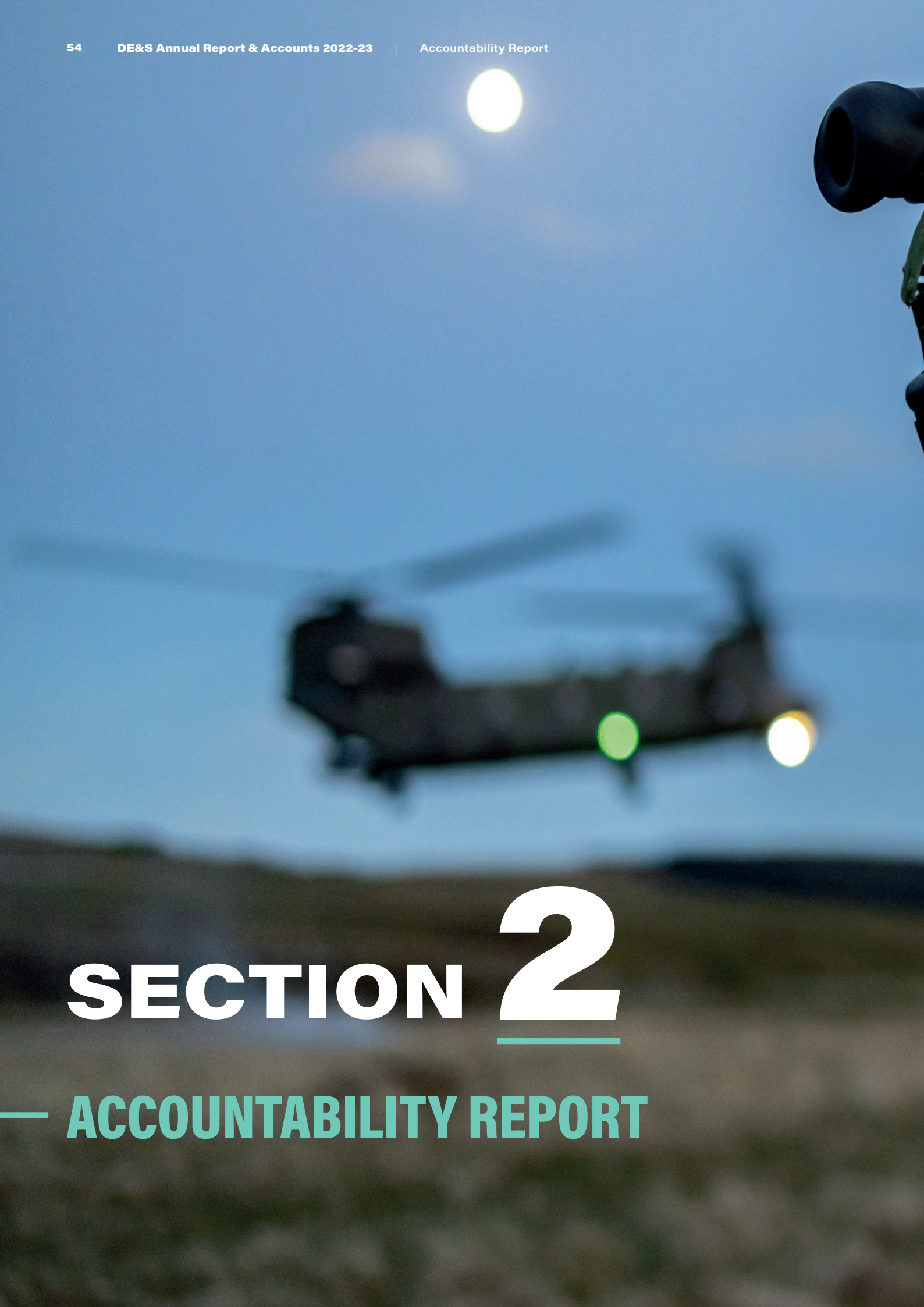
**Andy Start**, Chief Executive Officer and Accounting Officer

18 July 2023

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**DE&S is focused on ensuring readiness for whatever the future holds.**





# SECTION 2

## — ACCOUNTABILITY REPORT





*40 Commando Royal Marines conducting strikes during Ex Green Dragon.*





# CORPORATE GOVERNANCE REPORT

*The Pathfinders' "First Man in the Door" leaps from a C-17 Globemaster during their high altitude low opening (HALO) jump into Northern Macedonia.*



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 automated live processes in place to enable the declaration and management of outside interests which might present a perceived, potential, or actual conflict. As a minimum, all staff need to confirm on an annual basis that their declarations are up to date (including any nil returns). An assessment of the potential for conflict is then made and action taken as necessary to mitigate any real or potential risk. 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 which may conflict with their official duties.

No conflicts have arisen (or have been perceived to have arisen) 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

No data protection incidents, reportable to the Information Commissioner's Office, occurred during 2022-23. DE&S continued to support the Data Controller's (MOD) compliance with UK Data Protection Laws, pursuing continuous improvement to enable this, throughout the reporting period.



*A member of 3 Regt Army Air Corps refuels an Apache AH64-E.*

## STATEMENT OF ACCOUNTING OFFICER'S 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 15 December 2022. The accounts are prepared on an accruals basis and must give a true and fair view of DE&S' state-of-affairs 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 (FRoM), in particular:

- 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 FRoM, have been followed, and disclose and explain any material departures in the accounts.
- Prepare the accounts on a going concern basis.

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

### 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.

#### Andy Start, Accounting Officer



A member of DE&S staff.



# GOVERNANCE STATEMENT

I, Andy Start, 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 HM Treasury 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<sup>20</sup> 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 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.



<sup>20</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/954659/20200118\\_DES\\_Framework\\_Document\\_-\\_APPROVED\\_.pdf](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<sup>21</sup>, 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 nine times during 2022-23. Deep dives were conducted on the DE&S Strategy (including the work to refresh our strategy), Supplier Strategy and a review of the Programme Review Committee(PRC)<sup>22</sup>.

Name	Number of meetings attended
Mark Russell	9(9)
Andy Start (from 5 September 2022)	6(6)
David Johnson	9(9)
Angela Williams	7(9)
Claire Hawkings	8(9)
Tony Meggs	7(9)
Lieutenant General Rob Magowan (from 12 May 2022)	5(9)
Carolyn Battersby (from 23 February 2023)	1(2)
Andy Lord	9(9)
Iain Lanaghan	9(9)
Dr Ros Rivaz	7(9)
Sir Simon Bollom (tenure ended 31 July 2022)	3(3)
Air Marshall Sir Richard Knighton <sup>23</sup> (tenure ended 11 May 2022)	0(0)
Henry Lloyd (tenure ended 15 December 2022)	6(6)

### DE&S BOARD MEMBERS AS AT 31 MARCH 2023



<sup>21</sup> MOD is responsible for DE&S and is its Sponsor Government Department. MOD is supported by UK Government Investments (UKGI), part of HM Treasury, who carry out Corporate Sponsor responsibilities, with the aim of providing advice to Min(DP) and the Perm Sec/PAO on their responsibilities as corporate owner of the organisation (such as governance and financial aspects, including agreement and delivery of the Corporate Plan).

<sup>22</sup> The table includes current DE&S Board members and those whose tenures ended during 2022-23. The figures represent the number of meetings attended with the total number of meetings available to attend in brackets.

<sup>23</sup> Air Marshall Sir Richard Knighton's tenure ended on 11 May which preceded the first Board meeting of the year.



**DE&S BOARD DECLARATION OF INTERESTS AS AT 31 MARCH 2023<sup>24</sup>**

<b>Name</b>	<b>Declaration</b>
<b>Mark Russell</b>	UK Government Investments (Senior Advisor) Angel Trains (Chair)
<b>Andy Start</b>	Capita (previous employer) Amorosso Consulting (sub-contractor to Defence Digital through PA Consulting) (wife provides contracted consultancy services) MKC training (wife is a NED) National Museum of the RN (wife is a Trustee) PA Consulting (Wife is an independent consultant) BMT Group (son's employer) Eldest son's wife is an employee of Defence Digital (MOD) Institute of Engineering & Technology (Chartered Member) RAF Club (Member) RAC Club (Member) Pilgrims Society of Great Britain (Member)
<b>David Johnson</b>	Acorn Education Trust (NED & People Committee Chair) Army Audit and Risk Committee (Committee Member) Cundall Engineering (son's employer)
<b>Angela Williams</b>	Angela Williams Consulting, Advisory and Interim Services Limited (Consultancy) AND.digital (NED) Sovereign Housing Limited (NED) Northcoders plc (Chair) Corsearch Inc (Chief People Officer)
<b>Claire Hawkings</b>	Ibstock plc (NED) Freelance Consultant (Business Strategy and Sustainability) (Consultancy) James Fisher and Sons plc (NED) FirstGroup plc (NED)
<b>Tony Meggs</b>	Marakon – Management Consulting Subsidiary of Charles Rivers Associates (Advisor) Sellafield Ltd (Chair)
<b>Lieutenant General Rob Magowan</b>	Royal Marines Association and Royal Marines Charity (President) (until November 2022) 65 Degrees North (Charity) (President) Liveryman of the Plaisterers
<b>Carolyn Battersby</b>	UK Government Investments (Executive Director) National Highways Limited (NED)
<b>Andy Lord</b>	Transport for London (Interim Commissioner) Crossrail Limited (Director) Crossrail 2 Limited (Director) Transport Trading Limited (Director)
<b>Iain Lanaghan</b>	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 UK Supreme Court (Lead NED)
<b>Dr Ros Rivaz</b>	Computacenter (Senior Independent Director, RemCo Chair) Victrex plc (Senior Independent Director) Aperam SA (Lead Independent Director) Nuclear Decommissioning Authority (Chair) Faithful&Gould (Atkins – SNC Lavalin) (son's employer)
<b>Sir Simon Bollom (tenure ended 31 July 2022)</b>	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)
<b>Air Marshal Sir Richard Knighton CB (tenure ended 11 May 2022)</b>	Mills and Reeve (wife is employed as a family lawyer) RAF Charitable Trust (Vice President) RAF Association (Ambassador)
<b>Henry Lloyd (tenure ended 15 December 2022)</b>	Mercers Livery Company (Board Member and Chair of Investment Committee) AWE plc (NED)

24 The table includes all current DE&amp;S Board members and those whose tenure ended part way through 2022-23.

## BOARD PERFORMANCE

BY MARK RUSSELL, DE&S CHAIR

The DE&S Board moved to a new cycle of six all-day meetings a year, with one-hour remote calls being convened in the intervening months. This new format has allowed more in-depth review and discussion of a range of key issues, not least the work to refresh our strategy. Our annual programme of Domain Days continues to add value and most recently, provided the opportunity to review activities at a range of sites, including Rosyth, Govan and Brize Norton. We commissioned an external Board Effectiveness Review this year, in line with Corporate Governance best practice. The report concluded that the Board and its sub-committees collectively form an effective, efficient and professional governance system, capable of supporting and scrutinising DE&S' activities. A number of helpful recommendations were also provided, designed to further develop the Board's added value agenda and raise the Board's profile and impact. We will take these forward over the coming year. Two new NEDs joined the Board in April, bringing a breadth of digital, legal and governance experience. This will complement the Board's existing skill set and support our drive towards excellence in delivery for the UK's armed forces. In conclusion, I am confident that Board effectiveness continues to improve and that we are discharging our duties as part of a strong and effective governance framework.

### KEY BUSINESS DISCUSSED AT THE DE&S BOARD DURING 2022-23

Subject	Discussion
<b>Strategy</b>	<ul style="list-style-type: none"> <li>• Strategy deep dive sessions in September and November 2022 to discuss the DE&amp;S Strategy 2025.</li> <li>• A further strategy session was held in January 2023 to discuss refreshing our strategy.</li> <li>• Discussion of strategic issues relating to our clients and wider stakeholders and our status in the wider-MOD and external environment.</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>• DE&amp;S strategic risks were reported throughout the year.</li> <li>• Strategic risk workshop held on the 12 October 2022, involving Executive Committee members and Board NEDs, to review the risks' scope and nature, ensuring they continue to be robustly managed and mitigated.</li> </ul>
<b>Corporate documents</b>	<ul style="list-style-type: none"> <li>• Tracked progress of the ARAC 2021-22 (published July 2022).</li> </ul>
<b>Updates from Board sub-committees and Executive Committee members</b>	<ul style="list-style-type: none"> <li>• Reviewed progress on work undertaken by the Board sub-committees.</li> <li>• Executive Committee members provided updates on key DE&amp;S business, including Cyber and Security, Corporate KPIs, OGSM, DE&amp;S projects and programmes and strategic workforce planning.</li> </ul>
<b>Wider MOD updates</b>	<ul style="list-style-type: none"> <li>• Regularly received military operational updates.</li> <li>• Gained a broader understanding of cross Government and wider MOD issues, with updates on the Integrated Review and Increasing Defence outputs.</li> </ul>
<b>HR, Equality, Diversity, Inclusion (EDI) and Wellbeing</b>	<ul style="list-style-type: none"> <li>• Received updates on the ongoing programme of Organisational Design work.</li> <li>• Received an update on the People Survey including results and response plan.</li> <li>• Executive Committee members provided updates on the DE&amp;S People Strategy, EDI work and Strategic Workforce Planning.</li> </ul>
<b>Other Business</b>	<ul style="list-style-type: none"> <li>• The Board receive safety updates at each meeting.</li> <li>• Other topics discussed over the year include reputation, the DECA merger, Supplier Strategy and Complex Weapons.</li> </ul>



## DE&S BOARD SUB-COMMITTEES

The DE&S NEDs attended the following sub-committees<sup>25</sup>.

Name	Audit & Risk Assurance Committee	Remuneration Committee	Nomination Committee	Programme Review Committee
<b>Mark Russell</b>	3(5)	5(5)	3(3)	5(6)
<b>Angela Williams</b>	N/A	5(5)	3(3)	N/A
<b>Claire Hawkings</b>	5(5)	N/A	N/A	6(6)
<b>Tony Meggs</b>	N/A	N/A	N/A	6(6)
<b>Lieutenant General Rob Magowan</b>	N/A	N/A	1(3)	1(5)
<b>Carolyn Battersby (started 23 February 2023)</b>	1(1)	1(1)	1(1)	1(1)
<b>Andy Lord</b>	N/A	N/A	N/A	4(6)
<b>Iain Lanaghan</b>	5(5)	N/A	N/A	6(6)
<b>Dr Ros Rivaz</b>	N/A	4(5)	3(3)	N/A
<b>Dr Ilona Blue<sup>26</sup></b>	5(5)	N/A	N/A	N/A
<b>Air Marshal Sir Richard Knighton (tenure ended 11 May 2022)</b>	N/A	N/A	N/A	1(1)
<b>Henry Lloyd (tenure ended 15 December 2022)</b>	3(3)	3(3)	1(2)	2(4)

Mark Russell is not a member of the Audit & Risk Assurance Committee, the Remuneration Committee, or the PRC but he attended these meetings. The Deputy Chief of the Defence Staff (DCDS) Military Capability is not a member of the PRC, but he attended. Dr Ilona Blue was previously a Department for Transport employee, appointed as a NED to the Audit & Risk Assurance Committee. Following her departure from the Civil Service, she was reappointed as a NED to the Audit & Risk Assurance Committee to provide support, experience, and continuity pending the arrival of a new Committee Chair in 2023.

<sup>25</sup> The table includes current DE&S Board members and those who left during 2022-23. The figures represent the number of meetings attended with the total number of meetings available to attend in brackets.

<sup>26</sup> Dr Blue is not a member of the DE&S Board and only attends the Audit & Risk Assurance Committee.



## AUDIT & RISK ASSURANCE COMMITTEE

<b>Purpose</b>	To monitor DE&S' corporate governance and the financial statements. Review the comprehensiveness, reliability and integrity of our risk and assurance framework.
<b>Frequency</b>	At least four times per year.
<b>Membership</b>	A NED Chair, at least one other NED, and the MOD Corporate Sponsor Representative. The CEO, Finance Director, Head of Financial Accounting and representatives from the NAO and DIA also have the right to attend, with subject matter experts called when appropriate.
<b>Summary of discussions</b>	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 then 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 commenced in March 2023 and will be presented at the May 2023 committee meeting. Other topics discussed included the GFA, Gifts and Hospitality, whistleblowing and contingent liabilities. The committee met five times during 2022-23.



## FRAUD BOARD

<b>Purpose</b>	An executive committee that reports directly to the Audit & Risk Assurance Committee established to protect DE&S' business reputation, assets and finances from fraud, corruption, theft, and misappropriation.
<b>Frequency</b>	Usually, three to four times per year.
<b>Membership</b>	Finance Director (Chair), Defence Function Commercial Director, Director Engineering and Safety, Director Logistics & Support, Director HR, Deputy Director Finance, MOD Director Assurance and MOD Head of Fraud Defence. With effect from January 2023 membership now includes Director Ships Acquisition and Director Helicopters. Also normally in attendance are the Fraud Risk & Assurance Team, including the DE&S Fraud Focal Point, the DIA and MOD Police Crime Command.
<b>Summary of discussions</b>	Primary focus on assessing fraud risks and the appropriate mitigation activities (policies, systems, and controls). The Fraud Board also receives updates on fraud, corruption, and theft investigation. International Fraud Awareness Week which took place in November 2022 provides communications on our collective responsibility to prevent and detect fraud and how the organisation is tackling fraud. Met three times during 2022-23.



## REMUNERATION COMMITTEE

<b>Purpose</b>	The Remuneration Committee advises the DE&S Board and the CEO on the development and application of the 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.
<b>Frequency</b>	Normally four times per year.
<b>Membership</b>	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.
<b>Summary of discussions</b>	Discussion included the reward review, pay and performance policy, reward aspects of retention of staff in critical roles, the capability growth pay progression project, and senior and executive reward and performance assessment outcomes. Met five times during 2022-23.





## NOMINATION COMMITTEE

<b>Purpose</b>	The Nomination Committee meets as necessary to advise the DE&S Chair, the 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.
<b>Frequency</b>	As required, with at least one meeting per year.
<b>Membership</b>	A minimum of three NEDs, including the DE&S Chair who also chairs this meeting. Other individuals may attend as required.
<b>Summary of discussions</b>	Issues covered include senior level succession planning, NED and Executive recruitment, and longer-term talent strategy development. The Committee Terms of Reference were reviewed. Met three times during 2022-23.



## PROGRAMME REVIEW COMMITTEE

<b>Purpose</b>	Reviews the status, progress and management of critical programmes relating to effective delivery of the Equipment Programme. Focuses on areas that have proven to be reasons for project failures in the past and monitors improvement initiatives against them. Provides early strategic advice to new programmes and advice on programme delivery improvement activities.
<b>Frequency</b>	Six times per year.
<b>Membership</b>	Four 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. Senior Responsible Owners (SRO) of reviewed programmes are invited to attend to discuss the findings.
<b>Summary of discussions</b>	Discussions focused on NED led reviews of key defence programmes specifically focussed around reasons projects fail [1] [2]. This covers improvements needed, for example, across project schedule and controls or working as one team. Each meeting also focuses on a specific theme related to improvement initiatives ongoing in DE&S and assesses whether these initiatives truly address the problem they are trying to solve. More recently, a standing agenda item has been included which seeks to ensure coherence between DE&S and the project delivery function in the wider MOD. Met six times during 2022-23.

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

2 <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 the delegations and responsibilities set out in the CEO’s Letter of Delegation as Accounting Officer and Letter of Authority from the MOD Permanent Secretary. The Executive 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;
- 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:

- September 2022 – Andy Start was appointed as CEO, replacing Sir Simon Bollom
- September 2022 – Vice Admiral Paul Marshall was appointed as interim DG Ships, replacing Vice Admiral Sir Chris Gardner
- January 2023 – Rear Admiral Jim Higham was appointed as interim Director, Strategy & Corporate Operations, replacing Krishna Dhanak

**DE&S EXECUTIVE COMMITTEE AS AT 31 MARCH 2023**



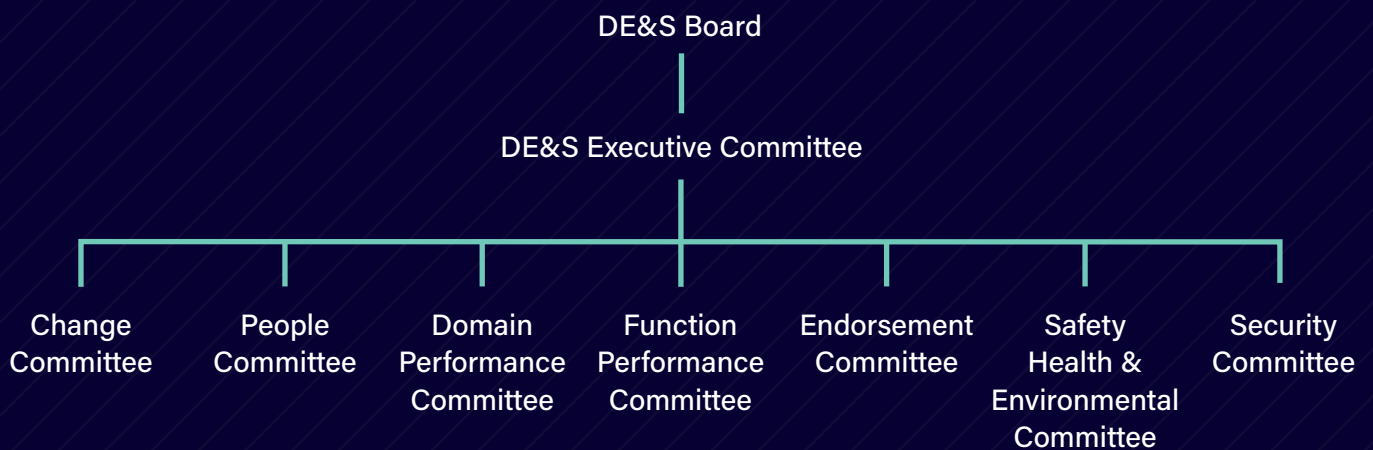


During 2023-23 the Executive Committee discussed/provided direction on the following key topics:

Subject	Discussion
Strategy	<ul style="list-style-type: none"> <li>DE&amp;S Strategy</li> <li>Exports Strategy</li> <li>Learning From Experience Strategy</li> </ul>
Safety & Security	<ul style="list-style-type: none"> <li>Safety performance dashboards</li> <li>The Safety &amp; Environmental Assurance Report</li> <li>Protective security risk</li> <li>Ajax health, safety and environmental protection report</li> </ul>
People	<ul style="list-style-type: none"> <li>DE&amp;S People 2025 strategic risk</li> <li>Smarter working</li> <li>People Survey Response Plan</li> </ul>
Performance	<ul style="list-style-type: none"> <li>Progress against KPIs, CASPs and financial forecasts</li> <li>Annual strategic risks stocktake and a rolling programme to assess selected strategic risk mitigation activities</li> <li>The AAR</li> </ul>

### EXECUTIVE COMMITTEE SUB-COMMITTEES

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





### CHANGE COMMITTEE

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



### PEOPLE COMMITTEE

The People Committee provides strategic direction and oversight of the DE&S People Strategy in support of DE&S Strategy 2025. It considers and directs the development and sustainment of a highly capable and motivated workforce and drives cultural change.



### DOMAIN PERFORMANCE COMMITTEE

The Domain Performance Committees provide the forum for the CEO 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 Function Performance Committees review 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 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 Safety Health & Environmental Committee assures that DE&S has suitable arrangements in place to protect, employees, those who may be affected by DE&S activities, the users of equipment and services procured for the armed forces, and the environment from unintentional harm.



### SECURITY COMMITTEE

The Security Committee 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 range 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, which consists of the highest grades in our structure and includes civil servants and military equivalents.



## DE&S RISK AND CONTROL FRAMEWORK

### RISK MANAGEMENT

Our pro-active approach to the 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 focus our efforts on the most important areas of concern.

Those strategic 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 are regularly reviewed by the DE&S Board, the Executive Committee and the Audit, Risk & Assurance Committee. The focus is on challenging risk owners to manage and reduce the risks as far as is reasonably practicable and ensuring appropriate governance and controls are in place. Scrutiny is applied to the effectiveness and measurable results of controls and mitigating actions, whilst maximising the benefits and opportunities. Lower-level project-based risk management is organised and undertaken by risk professionals across the different functions, specifically in the project delivery function.

We have assessed risk appetite and tolerance levels, and qualitative assessments have been agreed for all our strategic risks. Our Assurance Framework within which we assess how we assure our Strategic Risks against the three Lines of Defence continues to work well. This process continues to provide significant confidence that our own internal assurance as well as that by external bodies is either working well or helping us to identify where there are issues requiring improvement and that those issues are being appropriately addressed.

We have also recently changed the way we visualise our strategic risk data for the Board at the Annual and Mid-Year reviews. This has helped to better focus the discussion and enable greater challenge. We have 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.

Significant work continues across DE&S to enhance the risk management maturity of our organisation. Our Project Delivery function is taking the lead in the development of our approach to risk in terms of better coherence of risk improvement activities, strategy, and management across the function. Our Risk Champion (the Deputy Chief Executive) continues to advocate and engage with the risk community through regular communication and attendance at function wide events. New training opportunities have been put in place to ensure we have an appropriately skilled risk community, and we regularly review our approach and processes to ensure we adopt best practice across the organisation.

## PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2022-23

Strategic Risk	Potential impact	Progress
<b>Potential flaws within Safety Cases</b>	<p>There is a risk that factors contributing to a significant injury or death, which were reasonably foreseeable, were not captured in the Platform/System/Service (PSS) Safety Case.</p>	<ul style="list-style-type: none"> <li>Revised policy covering Acquisition Safety responsibilities including Training Matrix published in March 2023</li> <li>Good practice safety case construct published on ASEMS, alongside a Safety Case Maturity Tool being implemented across DE&amp;S. The results are published on the Safety Case Maturity Dashboard as part of the DE&amp;S MI suite.</li> <li>Training is being developed under a Mode 3 Engineering Delivery Partner contract to provide modular safety, thereby reducing the training burden on experienced individuals.</li> <li>All areas of the business working to improve the management of safety-related records and information, including the dissemination of good practice, and learning from experience across the business.</li> </ul>
<b>People</b>	<p>Failure to effectively and efficiently deliver defence equipment and support services.</p>	<ul style="list-style-type: none"> <li>HR Programme Plan being reviewed and republished for 2023-24 to ensure coherence with the work to refresh our DE&amp;S Strategy.</li> <li>Reward Review was implemented in July 2022 as a key enabler for attracting and retaining a skilled workforce and reducing attrition to MOD and OGDs.</li> <li>SQEP requirements have been identified by each function to set the baseline of their people requirements.</li> <li>Learning product gap analysis undertaken by Ernst &amp; Young to help address SQEP needs.</li> <li>Increased expenditure on upskilling and exploiting evidence-based learning planning by functions.</li> <li>Continued exploitation of the new DE&amp;S HR system (MyHR), which now includes bookable DE&amp;S learning products.</li> <li>Capability Growth Programme initiated with oversight of the Success Profile<sup>27</sup> review, Employee Value Proposition (EVP), Talent Strategy development; and the Capability Based Pay Progression project.</li> <li>Launch of a new approach to in-year recognition linking to DE&amp;S values, making it easier to recognise exceptional work behaviours.</li> <li>Additional training opportunities in leadership and management for DE&amp;S people, from Professional II to SLG.</li> <li>Implementation of EVP branded content across all relevant recruitment related platforms and documents.</li> </ul>
<b>Continuity of supply</b>	<p>Supply chain interruption, capability loss, increased costs, delay to equipment delivery and damage to the DE&amp;S reputation.</p>	<ul style="list-style-type: none"> <li>Supply Chain Resilience (SCR) programme delivered a Full Operating Capability for DE&amp;S in March 2023 which will be implemented during the coming year. This will provide supply chain mapping, fragility identification and analysis of priority programme supply chains to highlight vulnerabilities and to prompt mitigations in close collaboration between DE&amp;S Delivery Teams and the respective supplier. This is an 'in house' designed, developed, and delivered innovative solution that has received considerable interest from OGDs, industry partners and allies.</li> <li>Supply Management (SM) programme has identified 'Strategic' Critical' and 'Tactical' suppliers to DE&amp;S in terms of importance. It is driving improved and unified relationships with our strategic suppliers through a joined-up supplier strategy approach.</li> <li>The SCR and SM programmes provide the consistent frameworks, methodologies, and MI to collaboratively drive innovation, mitigate risk, promote cost avoidance, and deliver value for money. The synergies between these have also played a key role in supporting the MOD's response to the crisis in Ukraine as well as providing smart supply chain and supplier intelligence to DE&amp;S.</li> </ul>

<sup>27</sup> Success Profiles define all roles on technical and other capability requirements

**PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2022-23 CONT.**

Strategic Risk	Potential impact	Progress
<p><b>Cyber security</b></p>	<p>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.</p>	<ul style="list-style-type: none"> <li>DE&amp;S security culture has benefited from MOD-wide cyber security initiatives and relevant local campaigns through our security and data protection portals. Role-specific training has also been implemented for Information Asset Owners through computer-based training.</li> <li>Corporate IT has been recertified to the ISO27001 standard<sup>28</sup>.</li> <li>DE&amp;S' ECR programme has: introduced a resource service that provides cyber and security specialists to project teams; supported beta trials for Secure By Design (SbD) as we move from accreditation to continual assurance; identified metrics for an automated Security Dashboard; supported the introduction of Defence Standard (Def Stan) 05-139 which will enable Delivery Teams to contract for SbD; further refined the security case mandated for all DE&amp;S projects; continued upskilling cyber security engineers through the ECR Training Pathway.</li> </ul>
<p><b>Reputation</b></p>	<p>Failure or perceived failure to deliver on our major objectives and obligations, and the lack of a strong DE&amp;S employee brand, causes DE&amp;S to have a poor reputation with our clients, key stakeholders, and current and prospective employees, leading to an impact on our status, and freedoms as an Executive Agency / BTE, and our ability to recruit / retain the best people.</p>	<ul style="list-style-type: none"> <li>Continued communication of successes internally and externally, with a focus on a campaign-based approach<sup>29</sup> to communications to increase engagement and awareness of DE&amp;S including Remembrance Day, contribution to national shipbuilding strategy, National Apprenticeship Week, etc.</li> <li>'Message houses' developed to help simplify key messages for corporate and programme communications.</li> <li>Advice and preparation provided by DE&amp;S Corporate Communications to those undertaking media interviews and appearing before Parliamentary Committees.</li> <li>Delivery of a targeted and coordinated engagement activity plan with key stakeholders, providing the DE&amp;S Executive Committee and Board with the appropriate tools, briefings, and opportunities to ensure proactive delivery of the right messages, to the right people, at the right time.</li> </ul>

28 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.

29 A campaign approach ensures we are offering multi-channel touchpoints - both inbound and outbound to reach our target audience.

Table continued on next page.



## PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2022-23 CONT.

Strategic Risk	Potential impact	Progress
<b>Protective Security</b>	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"> <li>A Project Security Guide has been published, supported by a compliance audit programme. In addition, a project security forum has been established to support prioritisation, engagement and decision making. Additional communications are regularly distributed to the business to improve security culture and awareness.</li> <li>The Security Infrastructure Improvement Programme is ensuring priority areas are mitigated first to optimise physical threat reduction on DE&amp;S establishments. Under this programme we are working with the Defence Infrastructure Organisation to refine costs and schedule to make further improvements.</li> <li>Optimising delivery of the ISAC, a Cabinet Office sponsored Centre of Excellence for security across the defence supply chain. The Industry Personnel Security Assurance programme has completed the first year of its three-year initial assurance programme and is now recognised as an approved form of accreditation. Timeliness, quality, and engagement with industry has improved over the year.</li> <li>DE&amp;S senior leadership formally engaged with cross-defence security groups, including defence industry, ensuring a common approach to work needed in this area.</li> <li>Working with site security forces to proactively manage vulnerabilities and issues arising from aged infrastructure and supporting the MOD HO sponsored review of policing and guarding.</li> </ul>
<b>Information &amp; Records Management</b>	Sub-optimal information and records management (IRM) 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"> <li>Successful completion of a Microsoft Office 365 digital programme that has improved the standardisation of electronic information and records structures and ensured effective and compliant storage of information. This programme has embedded a comprehensive, sustainable information governance and management framework to meet critical regulatory requirements for auditability and transparency of DE&amp;S records.</li> <li>Workstreams are in place to support full adoption and realisation of benefits, with an agreed compliance and audit regime in place. Focus is on improving the culture of consistent record declarations across DE&amp;S. These include: <ul style="list-style-type: none"> <li>A five year IRM compliance and audit programme.</li> <li>A functional maturity assessment to re-baseline and monitor consistent record declarations across DE&amp;S.</li> <li>A series of data driven monitoring activities to assess volume and quality of new records.</li> <li>A programme of ongoing training, communications, and reporting to improve attitudes and behaviours across the business to improve cultural change.</li> </ul> </li> <li>Delivery of training sessions across a range of IRM topics and tools with circa 20,000 sessions delivered to date and ongoing continuous training programme for DE&amp;S staff.</li> <li>Large scale review is being undertaken of paper records held within DE&amp;S and at the Government's record storage facility, to reduce records held and improve compliance with the Public Records Act and MOD policy.</li> </ul>
<b>Knowledge Management (KM)</b>	Poor KM organisational culture processes and tools causing loss of knowledge or failure to exploit existing knowledge, leading to reduced efficiency, increased costs, sub-optimal decisions, non-compliance with legal or regulatory obligations, and repeated mistakes.	<ul style="list-style-type: none"> <li>KM Strategy and associated Strategic Risk formally agreed by the Executive Committee in March 2022 at the direction and recommendation of DE&amp;S CEO, to enable improved focus and attention on KM culture, processes, work practices and tools across the organisation.</li> <li>12 priority workstreams developed, each with SLG ownership, to propose, deploy and embed new ways of working on KM within DE&amp;S. This has included a systematic approach to KM good practice, such as Learning from Experience, organisational and project history capture, and role-based knowledge transfer prior to staff departure from roles.</li> </ul>







## UPDATE ON PRINCIPAL STRATEGIC RISKS EXTANT IN 2021-22

The previous table outlines the principal strategic risks for 2022-23, which are largely the same as those reported against in 2021-22. At the direction of the Board, we have separated the former Knowledge and Information Management (KIM) risk into two – IRM, and KM - to provide a better focus on these two vital areas of business. Our former People risk has also been reviewed to better focus on our key staff resourcing issues and renamed, Meeting Future SQEP Needs. We have also reviewed our strategic risks in the context of changing external threats and other strategic factors. While this hasn't necessarily resulted in creation of new risks, it has enabled us to sharpen our risk response plans on issues, such as recognising the labour market challenges in the context of our SQEP risk and progressing supplier resilience and understanding fragilities in the supply chain in the context of our continuity of supply risk.

## 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 describes 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 and 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 Executive Agency 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 2022-23 we were exempt from certain Cabinet Office controls, which were advertising; marketing and communications; redundancy and compensation; and learning and development. 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 2022-23 the Cabinet Office removed their controls in relation to external assistance (consultancy and professional services), and amended controls around contingent labour. More information about Cabinet Office controls can be found [here](#).<sup>30</sup>

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. These 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 (BMS) and QM capability. Our quality policy, consistent with that for the wider MOD in Joint Service Publication 940, sets out intentions and direction for the management of quality, which is approved by our CEO. It is 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 BMS, remains a key improvement driver. ISO 9001 is the international standard by which organisations are measured to demonstrate their implementation of a sound QM

<sup>30</sup> <https://www.gov.uk/government/collections/cabinet-office-controls>



system and is a requirement laid down by the MOD in our Framework Document. Following certification to this standard in December 2021, this year saw our first annual surveillance audit where it was demonstrated that we continue to improve and meet the requirements of this prestigious standard. In the Executive Summary the auditor recorded "All who participated in the audit showed a great level of knowledge within their role, a great deal of passion for the projects being worked on, and a knowledge of how improvements will be made, demonstrating a plan already in place. The system continues to provide the required level of control. The organisation's context is well defined, leadership has been effectively demonstrated and commitment levels are evident. This is reflected in the levels of compliance with requirements and operational control evident at the organisation which are appropriate to the risks and opportunities identified".

Following some recent programme failings, our Executive Committee 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. DE&S led initiatives to improve Quality Assurance (QA) of the supply chain introduced over the past year, included:

- The use of QM system certification as a Technical Discriminator during the supplier selection process, plus the adoption of standard QM questions relating to the management of QM system nonconformity and top management engagement and commitment to customer focus.
- The introduction of an annual MOD Quality Award for Supplier Quality Improvement in November 2022 which resulted in two awards to key suppliers.
- Establishing an understanding of the lay-down of both QM and QA SQEP resource across DE&S, to provide a more consistent approach across all programmes.
- 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 QA 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 QM system planning and QA.
- Emphasising the importance placed by the MOD on the assurance provided by accredited third party QM system 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 QA.
- Providing increased visibility of non-value-added costs and risks through the ongoing reporting of quality metrics.

## COMMERCIAL CAPABILITY AND CAPACITY.

To meet our objectives and deliver for our clients, including support to operational requirements, the DE&S Commercial Function continues to invest in recruitment programmes for new people and to support retention by providing key development and support for all our people. These investments strengthen the level of SQEP in the commercial function and the delivery of the DE&S OGSM.

In support of the development of SQEP we continue to develop new and accessible routes to commercial training and guidance that supports our objective of continuous development of our people and flexible working arrangements. The following developments have been implemented:

- **Capacity** - We have run frequent commercial recruitment and promotion campaigns, and enabled managed moves at level, to support assignments across the DE&S business and career development of individuals. We continue to review our recruitment and promotion processes to improve the experience for internal and external candidates. We also continue to work with our commercial delivery support partner, Paragon, providing commercial resource and specialist skills and services as required by DE&S teams.
- **Professionalism** - We have continued to keep our levels of Professionalism on track at Practitioner Level and, following completion of Trade Union (TU) consultation, have made progress against the pan-MOD professional development target at the Expert Level. To date over 75% of Technical Support to Professional II (previously

Levels 1 to 3) are accredited at the Practitioner Level and at the Expert Level over 41% of Professional I and Senior Professionals (previously Level 4 and 5) are accredited. This number continues to grow as we have Cabinet Office Assessment & Development Centres (ADC) at the Expert Level booked for substantive staff to support the March 2023 requirement and ADCs are included in all Expert Level recruitment and promotion campaigns.

- **Learning and Development** - The commercial training library continues to be updated and refreshed. We continue to ensure we develop and implement new ways of delivering training by providing more modular approaches through training videos and podcasts and we have introduced commercial training for non-commercial staff. We continue to prepare our commercial people for the introduction of the new Government Wide Procurement Regulations.
- **Structured Learning** - We are hosting and developing Commercial Business Graduates, on a two-year programme, across a number of cohorts. We also run a Structured Learning Programme to develop our Technical Support cadre, in Commercial Competencies and Core skills, which includes Commercial Apprenticeships.

## COMMERCIAL OPERATIONS

In 2022-23 DE&S raised in the region of 790 new contracts, with a combined total value of £6.5 billion and managed approximately 2,600 contracts worth around £134 billion. In addition to supporting the existing Equipment Plan and in support of Ukraine, we have undertaken significant and sustained efforts to deliver a wide range of capabilities and support to the AFU, including the provision of commercial personnel to support the new Operations Directorate. We placed key contracts including Fleet Solid Support ships, additional Type 26 Frigates and are seeing progress on Type 31. In addition, we are supporting the Global Combat Air Programme, through the Future Combat Air System Programme, which will deliver the next generation of future fighter jet. Through Project Crenic, the MOD's Force Protection Electronic Countermeasures programme, we have appointed a systems integrator to provide innovative digital protection for UK armed forces against remote and radio controlled IEDs. And through PUMA Future Support pricing period 2 we have continued to support the fleet out to 2025.

## INFORMATION AND RECORDS MANAGEMENT

The mitigation programme associated with our IRM strategic risk continues to deliver improvements to the effective capture, management and exploitation of information and records across our organisation. It has raised the profile of IRM as a priority focus for the business and supported a cultural shift towards better working practices and policy compliance.

As a key part of the programme, the successful delivery of the Microsoft Office 365 project has ensured standardised information structures are in place, enabling increased collaboration and improving IRM. Over 20,000 associated training sessions have been delivered across our business, supporting our people in embracing the new tools, policies, and processes.

The IRM programme will continue to make improvements by ensuring appropriate governance, assurance and compliance measures are in place, whilst also addressing current and emerging IRM risks, issues and opportunities.

Our paper record holdings continue to be reduced through the programmatic destruction of documents that are no longer required, and the digitisation of those that need to be retained.

## QUALITY ASSURANCE OF ANALYTICAL MODELS

DE&S continues to implement the Macpherson<sup>31</sup> report recommendations and drive the actions needed to further strengthen our approach to QA. The Project Delivery function conducted a QA review of the Business-Critical Models (BCMs) listed for 2022-23. All of the 20 BCMs declared were found to have conducted appropriate QA or have appropriate QA planned. The review identified eleven instances of minor deviations from the prescribed processes, relating to Model SROs including their responsibilities in their annual goals, recording and models sign off, and adherence to modelling best practice. These minor deviations are also being addressed. The overall conclusion confirmed satisfactory QA exists in BCMs, satisfying HMT requirements and the Macpherson report recommendations, maintaining the level of assurance given for the 2021-22 review.

<sup>31</sup> Report by Sir Nicholas Macpherson into the quality assurance of analytical models that inform government policy, published in March 2013:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/206946/review\\_of\\_qa\\_of\\_govt\\_analytical\\_models\\_final\\_report\\_040313.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/206946/review_of_qa_of_govt_analytical_models_final_report_040313.pdf)

## ANNUAL ASSESSMENT OF GOVERNANCE

The DE&S Audit, Risk & Assurance Committee has engaged with, and provided advice and support to our governance and control frameworks, risk management structures, and internal controls. The evidence provided in support of our AAR this year demonstrates that our governance and compliance and risk management processes are robust and provide a significant level of rigour, continuous review, and improvement across the business. In support, the DE&S Fraud Board, an executive committee that reports directly to the Audit & Risk Assurance Committee, provides a focus on counter-fraud activities and the management of fraud risks to protect DE&S' business reputation, assets and finances from fraud, corruption, theft, and misappropriation.

Our DE&S assurance plan provides a structure within which to develop those aspects of our business where we have identified issues and provides a focus on where and how we can improve. Aspects of business being monitored through this plan include:

- Improved and better targeted assurance across various aspects of business including approvals and business case assurance; function and domain led assurance; and the assurance of performance and reporting in DE&S.
- The annual review of our ISO9001 standard for our Quality Management Systems. Following the latest review, the certification body assessed that, in their opinion, DE&S continued to perform to the high standards set and continues to show improvement in the application of its working management system.
- The further development of our assurance-based governance and control framework to support the assurance of our strategic risks.
- Managing and monitoring our three-year DIA audit plan.

Our assurance-based governance and control framework within which we assess how we assure our strategic risks against the three Lines of Defence continues to provide the evidence that our strategic risks are being assured by appropriately evidenced internal and external sources. It covers all eight of our strategic risks and continues to provide significant confidence that our own

internal assurance as well as that by external bodies is either working well or helping us to identify where there are issues requiring improvement and that those issues are being appropriately addressed.

As part of the AAR and aided by the Function Performance Committee, our functions make a judgement-based self-assessment to reflect compliance against our own, and wider MOD, functional policies, and processes. This process of assessment enables us to identify those areas where some level of improvement is required so that we can ensure appropriate action can be taken. Some examples identified this year include the need to address the results of the Internal Control Assurance Framework (ICAF) and other process audits; improving information security maturity in risk management of individual IT; and work to improve security infrastructure as part of the Security Infrastructure Improvement Programme.

We have in place an agreed audit plan with DIA, which is aligned to our strategic risks and aspects of the business where issues have been identified. Overall, the annual audit opinion provided for DE&S by DIA is one of Substantial Assurance. Of the 12 audits that have reported this year, nine are assessed as having Substantial or better assurance. This year's results were largely positive and DIA noted effective control frameworks in a number of key business areas, including our AAR process, category management, commercial licensing and delegations, people processes including HR casework management and the investigation and follow up of equipment safety incidents and near misses. Issues were highlighted for improvement in a small number of areas including project security and the management of financial risks. It was noted that DE&S has a robust process in place to track and ensure the completion of internal Audit Management Actions (AMAs) within time frames set.





700x Squadron Puma AE 2 launch from RFA Lyme Bay during International Maritime Exercise 2022 (IMX 2022).



## CHAIR'S ASSESSMENT

MARK RUSSELL

I am confident that DE&S continues to operate within a robust governance framework, as reflected by DIA's annual assurance assessment of 'substantial' for the fourth consecutive year. This assessment has been derived from an honest and appropriately critical review of our internal controls. The Board continues to discuss and review our strategic risks to ensure they remain aligned to the wider strategic context and that appropriate mitigations are in place to support our mission to equip the armed forces with the edge to protect the nation.

DIA continues to provide welcome support and challenge, and through the DE&S Audit Risk & Assurance Committee, we have an agreed audit plan in place. The audit plan is aligned to our strategic risks and maintains a sharp focus on the effective management of AMAs. Overall, I am satisfied that DE&S has an effective corporate governance structure in place that can adapt to the needs of the organisation, and through which DE&S can deliver its outputs and objectives, while complying with agreed standards as part of its delegated responsibilities.





# REMUNERATION AND STAFF REPORT

Members 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 ARAC. During 2022-23, seven<sup>32</sup> members of the DE&S Executive Committee were members of the Senior Civil Service (SCS), one was an employee of the Government Commercial Organisation<sup>33</sup>, and four<sup>34</sup> 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, as well as any implications of our remuneration approach for the Department as a whole.

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 ARAC. 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 23 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 2023 there were eight 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.*

<sup>32</sup> Sir Simon Bollom, Andy Start, David Johnson, Chris Bushell, Adrian Baguley, Dr Jill Hatcher, and Krishna Dhanak.

<sup>33</sup> Andrew Forzani, DG Commercial.

<sup>34</sup> VAdm Sir Chris Gardner (replaced on an interim basis as DG Ships by VAdm Paul Marshall), VAdm Rick Thompson, and RAdm Jim Higham, interim Director Strategy & Corporate Operations (replacing Krishna Dhanak).

## PERFORMANCE AND REWARD

The 2022-23 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.

This year, we have implemented our new approach to reward which better meets our business needs, is aligned with our People Strategy and reward principles, and has sought to address our people's concerns expressed through the annual People Survey and through Executive level and other engagement events. Our reward offer remains market-informed and performance driven, and all our SCS, including members of the Executive Committee, are aligned to our SLG though they have retained their shadow SCS pay band to support internal transfers with MOD and OGD and other processes such as talent management.

Published in early April 2022, following a significant period of consultation and negotiation with our TU colleagues, the new framework of narrower grades and transparent pay ranges for grades below SLG gives our people much greater clarity around their current and future pay opportunity and comparison with wider MOD and Civil Service. The implementation of the reward review was seen by most staff as a hugely positive step-change for DE&S and followed wide-ranging engagement with our people. We completed a review of our most critical roles within the SLG in autumn 2022, with the process endorsed by our Remuneration Committee, following which a total of nine non-Executive SLG and Senior Professionals on temporary promotion into SLG roles received salary increases to reflect their importance in delivering our mission.

A further 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 qualified and experienced people, to deliver to best effect for Defence. A pilot of a capability-based pay progression approach has been established for staff within the Logistics Execution sub-function of the Operational Delivery function for 2023-24, from which we will learn lessons for any future implementation across wider DE&S.

The new pay ranges have been utilised for all new recruitment and internal promotion this year and, as announced in April 2022, new pay range minima effective from April 2023 (a second stage of pay range minima uplifts delayed from April 2022 for affordability reasons) were automatically implemented in staff payroll for over 3,600 people. Statutory national living wage increases were implemented on 1 April 2023 as well as a revised pay framework for our graduates and apprentices whilst on their schemes. We continue to use the flexibility of the new reward framework to maximise our ability to attract, engage and retain people in core and specialised roles. The competitive nature of our reward approach is maintained through our annual pay award, reflected in movement in published pay ranges. We have announced that we will be making a non-consolidated payment of £1,500 to all eligible non-SCS staff, in line with the wider Civil Service, and in recognition of their public service and the challenges of the cost of living felt during 2022-23. We are currently negotiating the Pay 23 outcome for all civil servants with our TUs. We intend that the offer will include further changes to pay ranges, calculated to reflect external and internal Civil Service/MOD comparators. Salary increases for eligible employees will be in addition to the April changes.

This year we have completed our end of year performance management process for all staff, recording end of year performance ratings and narrative statements on achievement against goals and behaviours. 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.

For all staff, performance awards are based on their individual performance rating for performance year 2022-23 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 agreement with TUs, performance awards are to be implemented in the July 2023 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 ARAC.



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 Civil Service appointments 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\*.

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

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

Andy Start joined as the new DE&S CEO on 5 September 2022, replacing Adrian Baguley who was interim CEO during August 2022 following the departure of Sir Simon Bollom who had been extended in post as CEO to 31 July 2022.

Chris Bushell, DG Land, accepted an offer of a one year extension to his fixed term appointment through to 8 December 2023.

Krishna Dhanak, Director Strategy & Corporate Operations, left DE&S on 29 January 2023 to join the MOD as Director Security and Resilience & MOD Chief Security Officer. She has been replaced on an interim basis by Rear Admiral Jim Higham.

### **BUSINESS APPOINTMENTS**

DE&S is aligned to Departmental and Cabinet Office Rules on Business Appointments as contained in Section 4.3 Annex A of the Civil Service Management Code. This policy, referenced in all senior manager contracts and directed within DE&S procedures to any staff leaving the organisation, makes clear the circumstances in which individuals will be required to apply for clearance before taking up an appointment outside of the Department. This includes detailed policy and guidance advice on the DE&S BMS and on the leavers checklist for Prime Delivery Managers to advise exiting employees of their obligations. In compliance with Business Appointment rules, the Department is transparent in the advice given to individual appointment applications for senior staff.

### **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 2022-23. 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	2022-23					2021-22				
	Salary <sup>1</sup> £000	Annual <sup>2</sup> Performance Award £000	Benefits in Kind £000 to Nearest £100	Pension Benefits £000 <sup>3</sup>	Total £000	Salary £000	Annual Performance Award £000	Benefits in Kind to Nearest £100	Pension Benefits £000	Total £000
Andy Start <sup>4</sup> (from 5 September 2022)	155-160 [275-280]	90-95	7.1	-	255-260 [375-380]	-	-	-	-	-
Sir Simon Bolloom <sup>5</sup> (to 31 July 2022)	90-95 [275-280]	30-35	-	-	125-130 [310-315]	275-280	95-100	-	-	375-380
David Johnson <sup>6</sup>	155-160	40-45	-	-34	165-170	155-160	30-35	-	25	210-215
Adrian Baguley <sup>7</sup>	170-175	60-65	-	30	260-265	155-160	45-50	-	22	220-225
Vice Admiral Paul Marshall <sup>8</sup> (from 22 September 2022)	75-80 [140-145]	-	-	75	150-155 [215-220]	-	-	-	-	-
Vice Admiral Sir Chris Gardner <sup>9</sup> (to 22 September 2022)	85-90 [170-175]	-	-	42	125-130 [210-215]	150-155	-	-	128	280-285
Vice Admiral Richard Thompson	155-160	-	-	143	300-305	140-145	-	-	85	225-230
Andrew Forzani <sup>10</sup>	105-110	-	-	3	110-115	75-80 [105-110]	-	-	-	75-80
Dr Jill Hatcher	125-130	50-55	-	4	180-185	75-80 [115-120]	10-15	-	12	100-105
Chris Bushell <sup>11</sup>	230-235	60-65	-	-	295-300	225-230	30-35	-	-	260-265
Rear Admiral Jim Higham <sup>6,12</sup> (from 23 January 2023)	25-30 [130-135]	-	-	-27	-5-0 [105-110]	-	-	-	-	-
Krishna Dhanak <sup>13</sup> (to 29 January 2023)	85-90 [100-105]	5-10	-	33	125-130 [145-150]	90-95	10-15	-	32	135-140
Daniel Griffiths <sup>14</sup> (to 23 April 2021)	-	-	-	-	-	10-15 [165-170]	-	-	4	15-20
Morag Stuart <sup>15</sup> (to 26 July 2021)	-	-	-	-	-	60-65 [185-190]	10-15	-	22	95-100
Katie Sloggett <sup>16</sup> (26 April 2021 to 31 July 2021)	-	-	-	-	-	30-35 [105-110]	-	-	13	40-45

### 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 appraisal process. The performance awards reported in 2022-23 relate to performance in 2022-23 and the comparative figures reported for 2022-23 relate to that performance year. Performance awards for the year 2022-23 are estimates, pending TU negotiation. Military terms and conditions do not include provision for a performance award. Subject to TU negotiation, awards may include an additional non-consolidated performance-related payment for January-March 2023. Where appropriate, this additional amount is included in the performance award.
- The value of pension benefits accrued during the year is calculated as the increase in pension multiplied by 20, plus the increase in any lump sum, less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to transfer of pension rights.
- Andy Start assumed the role of CEO on 5 September 2022. His salary and pension costs reflect the actual remuneration received during the appointment. The figures in brackets reflect the annual equivalent salary. Andy Start is required to work and have permanent office locations in both MOD HQ

in London and DE&S headquarters in Bristol. In line with dual workplace policy, and HMRC Benefit in Kind requirements, DE&S covers the cost of travel, accommodation to and from Bristol including the taxable benefit of those costs, the total value including the taxable benefit for the 2022-23 FY is captured here.

5. Sir Simon Bolloom left the role of CEO on 31 July 2022. His salary and pension costs reflect the actual remuneration received during the appointment. The figures in brackets reflect the annual equivalent salary. Sir Simon's performance award is pro-rated to reflect time served on the Executive Committee during the year.

6. The negative pension benefit figures arise because the pension scheme these individuals are a member of has a live salary link, and inflation during the year was higher than the individuals salary increase.

7. Adrian Baguley changed pension scheme during the year, the contributions above relate to his Principal Civil Service Pension Scheme (PCSPPS) to 31 August 2022, he also received and he also received contributions into his partnership pension account of £19,200 (21-22.£0) for the period 1st September 2022 to 31st March 2023.

8. Vice Admiral Paul Marshall assumed the role of Director, General Ships on 22 September 2022. His salary and pension costs reflect the actual remuneration received during the appointment. The figures in brackets reflect the annual equivalent salary.

9. Vice Admiral Sir Christopher Gardner left the role of Director, General Ships on 22 September 2022. His salary and pension costs reflect the actual remuneration received during the appointment. The figures in brackets reflect the annual equivalent salary.

10. Andrew Forzani is currently employed by GCO Cabinet Office and the remuneration is in relation to DE&S contribution to his salary.

11. Chris Bushell received contributions into his partnership pension account of £34,400 (21-22, £33,900).

12. Rear Admiral Jim Higham assumed the role of Director Strategy & Corporate Operations (Interim) on 23 January 2023. His salary and pension costs reflect the actual remuneration received during the appointment. The figures in brackets reflect the annual equivalent salary.

13. Krishna Dhanak left the role of Director, Strategy & Corporate Operations on 29 January 2023. Her salary and pension costs reflect the actual remuneration received during the appointment. The figures in brackets reflect the annual equivalent salary. Krishna was awarded a CEO recognition award in March 2023 on the basis of successful completion of delivery milestones, this is reflected in the performance award column.

14. Daniel Griffiths, Morag Stuart and Katie Sloggett left DE&S during 2021 and therefore did not receive any remuneration in 2022-23.

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

DE&S Non-Executive Directors <sup>1</sup>	2022-23 <sup>2</sup> £000	2021-22 £000
Mark Russell	145-150	145-150
Angela Williams <sup>3</sup>	25-30	25-30
Claire Hawkings <sup>4</sup>	25-30	25-30
Tony Meggs <sup>5</sup>	25-30	25-30
Lt Gen Rob Magowan <sup>6</sup> (from 12 May 2022)	-	-
Carolyn Battersby <sup>7</sup> (from 23 Feb 2023)	-	-
Andy Lord	25-30	25-30
Iain Lanaghan	25-30	25-30
Dr Ros Rivaz	25-30	25-30
Dr Ilona Blue	0-5	-
Air Marshal Richard Knighton CB <sup>8</sup> (to 11 May 2022)	-	-
Henry Lloyd <sup>9</sup> (to 15 December 2022)	-	-
James Dorrian <sup>10</sup> (to 31 July 2021)	-	5-10 [25-30]

- 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.
- 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.
- Mrs Williams joined the DE&S Board on 1 April 2021.
- Ms Hawkings joined the DE&S Board on 1 April 2021.
- Mr Meggs joined the DE&S Board on 1 April 2021.
- Lieutenant General Rob Magowan received no remuneration for the DE&S Board membership as he is a MOD employee. His salary details are reflected in the MOD ARAC.
- Ms Carolyn Battersby receives no remuneration as she is a UKGI employee.
- 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.
- Mr Lloyd received no remuneration for DE&S Board membership as he is a UKGI employee.
- Mr Dorrian left his role as a NED during 2021 and did not receive any remuneration in 2022-23.

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

DE&S Executive Directors <sup>1</sup>	Total accrued pension at pension age [and related lump sum] as at 31 March 2023 [£000]	Real increase in pension [and related lump sum] in 2022-23 [£000]	Cash Equivalent Transfer Value (CETV) <sup>2</sup> as at 31 March 2023 or cessation of employment if earlier [£000]	CETV as at 31 March 2022 or date of appointment if later [£000]	Real Increase in CETV <sup>3</sup> [£000]
David Johnson <sup>4</sup>	75-80 [150-155]	0 [0]	1,507	1,397	-55
Adrian Baguley	75-80 [165-170]	0-2.5 [0-2.5]	1,555	1,477	19
RAdm Paul Marshall (from 22 September 2022)	70-75 [160-165]	3-3.5 [7-7.5]	1,750	1,636	63
Vice Admiral Sir Chris Gardner (to 22 September 2022)	85-90 [255-260]	2-2.5 [1-1.5]	2,170	2,071	35
Vice Admiral Richard Thompson	65-70 [195-200]	6.5-7 [10.5-11]	1,683	1,529	106
Andrew Forzani	-	-	-	-	-
Dr Jill Hatcher <sup>5</sup>	45-50	0-2.5	636	574	-7
RAdm Jim Higham (from 23 January 2023) <sup>4</sup>	70-75 [155-160]	-1-1.5 [-3-3.5]	1,703	1,682	-31
Krishna Dhanak (to 29 January 2023)	35-40 [70-75]	0-2.5 [0-2.5]	589	519	16

- Sir Simon Bollom and Andy Start are not members of any DE&S pension scheme and no pension contributions have been made by DE&S. Chris Bushell is not a member of the PCSPS. DE&S contributed to his Partnership Pension Accounts as part of the overall remuneration package. Rear Admiral Paul Marshall's pension contribution reflects his time as DG Ships from 22 September 2022. Chris Gardner's pension contribution reflects his time as DG Ships from 22 September 2022. Andrew Forzani is not a member of any DE&S pension scheme DE&S has contributed to his Government Commercial Organisation pension. Rear Admiral Jim Higham's pension contribution reflects his time as Director Strategy and Corporate Operations from 23 January 2023. Krishna Dhanak's pension contribution reflects her time as Director Strategy and Corporate Operations to 29 January 2023. Adrian Baguley switched to a Partnership Pension Account on 31 August 2022. His PCSPS pension details are shown in the table above. DE&S contributed to his Partnership Pension Account for the period 1 September 2022 to 31 March 2023.
- 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.
- 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.
- The negative pension benefit figures arise because the pension scheme these individuals are a member of has a live salary link, and inflation during the year was higher than the individuals salary increase.
- Jill Hatcher's Civil Service Pension value as at 31 March 2022 was revalued from £555,000 to £574,000 by the Civil Service Pension Authority. £555k was the value as at 31 March 2022 reported in the 2021-22 account



## 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 2022-23 was £157,500. This was 2.91 (2021-22 2.98) times the median remuneration of the military workforce, which was £54,046 (2021-22 £52,768). The military remuneration ratio is slightly lower in 2022-23 due to a small annual increase to military pay with no corresponding increase to the highest paid military director. The median remuneration of the military workforce has increased in 2022-23 due to annual military pay rise.

The midpoint of the banded remuneration of the highest paid civilian director in DE&S during 2022-23 was £377,500. This was 9.61 (2021-22 10.79) times the median remuneration of the civilian workforce, which was £39,285 (2021-22 £34,874). This decrease in remuneration ratio is driven by an increase in the median workforce salary. The civilian workforce median increased in 2022-23, this is mainly driven by a significant uplift in our salary minimums in levels 1 to 5 following a pay review to align to internal (MOD) and external markets.

In 2022-23, zero (2021-22, zero) employees received remuneration in excess of the highest-paid director.

Military remuneration ranged from £14,683 to £157,500 (2021-22 £22,411 to £157,500). Civilian remuneration ranged from £18,278 to £377,500 (2021-22 £17,143 to £377,500).

It is not currently possible to include Benefits in Kind for information for all personal in the calculations. The calculations underlying the analysis below are comparable and captured on the same basis as the prior year.

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

Pay Changes	2022-23	2022-23
	Military	Civilian
<b>Salary &amp; Allowances</b>		
Highest paid director	0%	1.80%
Staff average	2.75%	10.37%
<b>Performance Pay</b>		
Highest paid director	N/A	-3.30%
Staff average	N/A	-3.81%

Salary and Allowances includes benefits in kind for the highest paid director.

Military salaries do not attract performance

*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
2022-23	3.34	2.91	2.35	11.85	9.61	7.76
2021-22	3.42	2.98	2.44	13.80	10.79	8.39

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

#### Military

	Lower Quartile		Median		Upper Quartile	
	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22
<b>Salary £</b>	47,205	46,005	54,046	52,768	67,075	64,642
<b>Total Pay £</b>	47,205	46,005	54,046	52,768	67,075	64,642

#### Civilian

	Lower Quartile		Median		Upper Quartile	
	2022-23	2021-23	2022-23	2021-22	2022-23	2021-22
<b>Salary £</b>	31,402	26,594	38,528	33,795	47,155	43,000
<b>Total Pay £</b>	31,869	27,277	39,285	34,874	48,646	44,846

## 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	2022-23	2021-22
<b>Band 1</b>	87	87
<b>Band 2</b>	16	18
<b>Band 3 and above</b>	4	4
<b>Total</b>	107	109

The substantive SCS head count as at 31 March 2023 has decreased slightly since 2021-22, although gapped SLG posts are routinely filled by non-SCS staff on an temporary basis pending completion of external recruitment campaigns. The figures shown include one DE&S SLG who was on loan to wider MOD on 31 March 2023 as well as three Government Commercial Organisation SCS appointed to roles in DE&S.

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.

	2022-23	2021-22
<b>Permanent Staff</b>	11,338	11,318
<b>Contingent Labour</b>	971	657
<b>Total</b>	<b>12,309</b>	<b>11,975</b>

Staff turnover for 2022-23 (reflecting all leavers from DE&S) was 10.9% compared with 10.7% for 2021-22<sup>35</sup>.

<sup>35</sup> 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:

	2022-23			2021-22		
	Permanently employed staff £000	Contingent labour £000	Total £000	Permanently employed staff £000	Contingent labour £000	Total £000
<b>Salaries and Wages</b>	503,321	121,507	624,828	464,097	95,780	559,877
<b>Social Security Costs</b>	54,578	-	54,578	47,202	-	47,202
<b>Other Pension Costs</b>	150,327	-	150,327	140,877	-	140,877
<b>Total</b>	<b>708,226</b>	<b>121,507</b>	<b>829,733</b>	<b>652,176</b>	<b>95,780</b>	<b>747,956</b>
<b>Paid to:</b>						
<b>Armed Forces</b>	121,163	-	121,163	112,315	-	112,315
<b>Civilian</b>	587,063	-	587,063	539,861	-	539,861
<b>Contingent Labour</b>	-	121,507	121,507	-	95,780	95,780

Costs for permanently employed staff, including salary, social security, and pension costs, have increased by £56 million. Contingent labour has increased by £25.7 million.

The increase in salaries and wages reflects the recent pay review, reward review and performance award, which was higher than in FY 21-22. This better aligns our pay structure to MOD. There was also a significant increase due to the temporary change in National Insurance rates. Contingent Labour demand has increased due to additional activity from our Clients (FLCs) as Annual Budgeting Cycle, Options and Formal Change Requests. Additionally, DE&S workforce supply is impacted by recruitment challenges in the Bristol area following continued recruitment cycles at pace, which have depleted the local market requiring continuing usage of Contingent Labour.

**PRINCIPAL CIVIL SERVICE PENSION SCHEME**

The PCSPS and the Civil Service and Other Pension Scheme, known as "Alpha", are unfunded multi-employer defined benefit schemes. DE&S is unable to identify its share of the underlying assets and liabilities. An actuarial valuation of the PCSPS was completed on 31 March 2016.<sup>36</sup>

Contributions to the PCSPS in 2022-23 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 2022-23 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 2022-23 period were aligned to those from 2021-22 and incorporate additional costs associated with the 2015 Remedy Programme, also known as the McCloud Judgement.<sup>37</sup>

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

<sup>36</sup> <https://www.civilservicepensionscheme.org.uk/about-us/scheme-valuations/>  
<sup>37</sup> <https://www.civilservicepensionscheme.org.uk/your-pension/2015-remedy/>



earnings. There were no contributions due to the partnership pension providers at the balance sheet date and no contributions have been prepaid. Further details about the Civil Service Pension arrangements are available.<sup>38</sup>

### **ARMED FORCES PENSION SCHEME**

The AFPS is an unfunded, non-contributory, defined benefit, salary related, contracted out, occupational scheme. As such, this scheme is consolidated into separate accounts, details of which are available.<sup>39</sup>

Employer's contribution rates are determined by the Government Actuary. For 2022-23, the employer's contribution rates remained unchanged from 2021-22 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 age 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 2022-23 the average number of days for sickness absence was 5.48 days per employee, compared with 5 days per employee in 2021-22. For 2022-23, there was an increase of 7.5% in total absence days across all sickness types compared with 2021-22, however the total absence was 21% lower than the pre-COVID year (2019-20). The largest cause of sickness absence as recorded by employees was anxiety, depression or stress, although this has reduced both in days lost and as a proportion of total absence. In 2022-23 this was 25% of all recorded sickness absence, reduced from 28% in the two previous years. There were 3,879 absence days recorded for confirmed COVID-19, 7% of all sickness absence. DE&S' average sickness absence rate compares favourably with the MOD average of 6.47 days.

Throughout the year we have regularly signposted staff to the Employee Assistance Programme, a confidential service provided through a new supplier from August 2022 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.

2023 marks the three-year anniversary of the establishment in DE&S of psychological health resources based on a 'whole person' approach as part of our Safety and Environmental Management System. DE&S now has over 400 fully trained Mental Health First Aiders across many of our sites, trained with skills such as non-judgemental listening and the appropriate signposts to professional support, enabling early intervention. We exploited World Wellbeing Week in June 2022 with a range of events and celebrated International Men's Day in November with a series of men's mental health and wellbeing sessions championed by all four domain Chief Operating Officers which was extremely well received. We also implemented the cessation of vaping at all sites to make DE&S smoke-free from December 2022.

<sup>38</sup> <https://www.civilservicepensionscheme.org.uk/>

<sup>39</sup> <https://www.gov.uk/guidance/pensions-and-compensation-for-veterans>

# OUR PEOPLE

## PEOPLE STRATEGY

In February 2022 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 was complementary to the DE&S 2025 Strategy and reflected that our people, values and culture are central to our ability to deliver that strategy. Underpinned by a comprehensive HR programme plan to enable delivery of outcomes and to track progress, it aligned our corporate objectives with the people workstreams to 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 set 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, as well as driving our People OGSM measures.

Since its launch, quarterly updates on progress against the strategy’s milestones have been provided to the DE&S People Committee. The DE&S Board has also been updated on progress. Significant programme achievements against the People Strategy pillars are reported in relevant sections below, but there have also been some notable successes in key ‘business as usual’ activities supporting the ability of DE&S to operate effectively, including:

- The embedding of MyHR<sup>40</sup> following ‘go-live’ in February 2022, which includes additional DE&S-only modules for talent acquisition, internal deployment, learning, and for casework/helpdesk implemented through the year.

## 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

40 A MOD-wide HR system based on a 'software as a service' approach.

- In learning, a significant increase in our skills and training budget spend, with a total of nearly £8 million across our functions' capability development areas as well as for leadership and management development, compared with £5.6 million in 2021-22.
- In recruitment, following improvements in marketing materials and channels, a 32% increase in applications for roles in DE&S from females and a 24% increase in those with a declared disability, alongside a nearly 60% reduction in time to hire compared with September 2020.
- A 21% reduction in average length of casework, with customer satisfaction scores averaging 92% against a target of 85%.

As an integral part of the work to refresh our DE&S Strategy, we have been reviewing the People Strategy and associated programme. We have looked to ensure that our people workstreams are aligned and prioritised appropriately to fully support the refreshed strategy and we do not envisage a major change to the People Strategy. The workstreams are designed to enable our drive to become more agile with our people continuously professionalising to deliver in the right place and the right time, underpinned by a compelling employee value proposition and within a culture and environment that is diverse, inclusive and fun. These workstreams are coherent with our organisational response to the People Survey outcome.

## INVESTING IN TALENT

This year we invested £8 million in the continued development of our skilled workforce and to ensure we have the skills and capabilities needed to meet the challenges of an ever-changing defence landscape, supported by inspiring and confident leaders at all levels. This is achieved through both corporate leadership development, professional upskilling and functional (i.e. technical) learning, with the latter underpinned by a comprehensive learning products gap analysis completed to support evidence-based learning plans and learner pathways for technical learning and accreditation.

Following the successful rollout of the SLG 'Everyday Excellence' development programme last year, a new tailored leadership development programme, 'Developing the Edge', launched in March 2023, to support the work refreshing our DE&S Strategy. This is providing practical expertise in leadership and performance as a collective

strategic leadership group over a series of six sessions. Our 'Catalyst' development programme, aimed at the Professional I and Senior Professional population, has continued to support skills development in leading virtually, adapting to constant change and coaching. This year the programme has been expanded with two additional modules, 'Influencing Outcomes Through Others' and 'Accelerating Strategic Initiatives'. Feedback from attendees remains positive, with 89% saying the workshops enabled them to be more effective at leading their team and 81.5% saying they would be able to manage change more effectively. These programmes will continue to provide a key leadership offering for these populations throughout 2023-24.

We are expanding our learning interventions further as part of a wider Organisational Capability Framework for Business Effectiveness, Leadership and Functional (technical) learning at all grades. Access to learning has been made easier through an online learning campus launched, as a module within the MyHR system, in April 2023. The learning available includes three new digital products in support of the strategy refresh drive to upskill the workforce on Lean, Agile and Commercial Awareness.

We also expanded our offer for underrepresented groups at Professional II/ Professional I grades, delivering four cohorts of our high potential development programme, 'Becoming', which is aimed at women who show the aptitude to develop into broader leadership roles. We have also launched two new programmes for other underrepresented groups, 'Boost', for colleagues from ethnic minority backgrounds, and 'Beyond', for disabled colleagues. All three programmes aim to increase participants' self-confidence to support them on their leadership journey, enabling them to take on new opportunities. Of the 58 women who completed the 'Becoming' programme 93% reported they have improved confidence in their preparation for progression.

In support of OGSM KPI 4.2 (SQEP improvement) and based on gap analysis as well as their longer-term strategic workforce plans, functions have identified technical competence requirements and created comprehensive learning plans. Functional interventions this year have included:

- The Engineering function have invested £386 thousand to enable 112 people to upskill their professional



expertise in key technical disciplines by studying for academic qualifications ranging from Ordinary National Certificate to Doctor of Philosophy (PhD).

- Project Delivery have invested over £1.2 million in training, including £60 thousand in a Project Doctorate for a senior professional in the function. The project delivery function have continued to invest £45 thousand in a Post Graduate Certificate (PGCert) course with the University of the West of England, to develop our Project Professionals with eleven DE&S people in the current cohort. This partnership has entered its second year with five staff going forward onto the Post Graduate Diploma, a further ten to join a second PGCert cohort, and a plan to offer a Project Leadership MSc. In recognition of the positive and meaningful progression of DE&S' project profession and excellence in project management practice, we received an Association of Project Management award in November 2022.
- The Government Commercial Function is a cross government network which includes DE&S. The function continues to invest in the licencing & accreditation of our people, at grades up to Professional II (for Practitioner) and at Professional I and Senior Professional (Expert). Our people are actively engaging in the Contract Management Training Programme.
- The Finance & Accounting function have spent around £200 thousand in 2022-23 on professional accountancy training for around 150 people. Some £40 thousand has also been ring fenced to provide Lean Six Sigma certificated training, to allow a professional approach to change management.
- The HR function have invested £42 thousand to enable 17 HR professionals to achieve various levels of accreditation with the Chartered Institute of Professional Development, up to and including Chartered Fellowship.

Throughout 2022-23, we have recruited 225 Entry Talent graduate and apprentice starters across 16 schemes in six functional areas (Finance, Project Professional covering Programme Management and Project Controls, Engineering, Integrated Logistics, Corporate Services Group and IM & Information Technology (IT), including cyber). We currently have over 600 graduates and apprentices, and during 2022-23, 142 graduated from their schemes and were assigned roles across DE&S.

Our schemes offer development programmes ranging from two to five years, during which individuals gain both professional qualifications and hands-on experience across the organisation.

Over four days in August we ran the Tom Nevard Competition at Shrivenham, where 65 apprentices on a range of schemes and from DE&S, the SDA and the Defence Science and Technology Laboratory took part in practical skills events. Attended by the President of the Institute of Mechanical Engineering, our CEO and representatives from colleges and universities, this annual event was a great success.

Throughout the year, Entry Talent staff attended over 70 recruitment and career events to showcase our schemes and many graduates and apprentices went back to their old schools and colleges as ambassadors to talk about their experiences at DE&S. Using a wide range of channel and recruitment platforms, for the 2023-24 intake we received over 2,100 applications for 452 vacancies across 17 schemes. We have introduced a new induction programme for our Entry Talent that included team days in Abbey Wood and a day at a customer or a DE&S site. We are pleased to see improved retention for graduates and apprentices whilst on schemes; for example, the retention of engineering graduates has increased from 50% in 2019 to 98% during 2022-23.

## ENGAGEMENT

Through September and October 2022 we conducted our annual staff People Survey, which is part of the wider Civil Service 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. 78% of staff (9,007) completed the survey, which was a 1.6% increase on 2021-22 and 13% above the Civil Service average.

At the headline level, our overall Employee Engagement Index increased slightly from 59% in 2021 to 60%. We saw increases of between 1 and 2% across six of the nine key themes, including Inclusion and Fair Treatment, and Pay and Benefits. Given the context of the last year we were pleased that the results reflected our focus on behaviours; the delivery of a new reward framework; that we had noticeably communicated and celebrated our successes more widely; and that we had continued to embed smarter working. However, qualitative insights from the Survey do indicate that external factors, such as the cost-of-living crisis, may have diluted the potential impact of these improvements.

Our scores for Leadership and Managing Change and Learning and Development remained the same as in 2021, reinforcing the need to do more in these areas. We also saw a slight reduction of 1% in the Resources and Workload theme. While disappointing, this is not surprising when considered in the context of the vital support we are giving to the people and the armed forces fighting the war in the Ukraine.

In January 2023, the Executive reviewed the detailed results and publicly committed to making progress against three major themes aligned to the Strategy refresh people workstreams, with hybrid working also being identified as a cross-cutting theme.



This commitment includes specific outputs under the DE&S People Programme, such as a capability-based pay pilot building on the new reward framework introduced in 2021-22; the publication of a new Little Book of Big Benefits, explaining the extensive offer for our people; the launch of an online learning campus making it easier for individuals to access the learning they need; and opportunities for our people to be directly involved in developing the changes required to underpin the organisation’s work to refresh the DE&S Strategy. A joint corporate and local approach to survey response activities sees the domain Chief Operating Officers and corporate Functional Directors routinely reporting progress into the People Committee and a drumbeat of communications to engage the wider business.

## CULTURE, 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. The importance placed on this is demonstrated with the appointment of our CEO, Andy Start, and the Land Domain Chief Operating Officer, Jo Osburn-Hughes, as co-champions for diversity and inclusion to oversee and drive the changes we need to become an even better organisation.

Overall, DE&S has seen an increase in all four diverse representation populations in 2022-23 as shown below:

Characteristic	As at 31 March 2023	As at 31 March 2022
Female	35.5%	34.6%
Ethnic Minority	7.0%	6.8%
Non heterosexual	2.9%	2.7%
Declared disability	10.5%	9.8%

We continue our 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. As employees adapt to hybrid working and the organisation progresses on its Smarter Working journey, we have also sharpened focus on manager and team behaviours and building allyship. It is important to us that our employees are engaged and feel they belong to the DE&S community, one that encourages individuals to build long and fruitful careers with us.

During 2022-23, we have undertaken a range of organisation-wide activities and engagement events, many with Board, Executive and Senior Leadership sponsorship and involvement. Highlights include:

- Reviewing and refreshing how we analyse, report and utilise the diversity and inclusion data collected from our annual People Survey to prioritise and inform activities (as well as data from MyHR; such as analysing retention data relating to different diversity groups).
- Completing a Diversity and Inclusion governance review to better align and leverage activity through domains, functions, senior champions, and employee networks.
- Continuing the delivery of our "Let's Talk About Behaviours" series of workshops to increase confidence and competence to tackle team behaviours and support wider activity to embed a positive workplace culture.
- Embedding our DE&S Values (Inclusivity, Excellence, Collaboration, and Integrity) throughout the employee

experience in DE&S – including as part of the launch of a new in-year recognition award approach; as part of end of year performance management assessment; within new joiner corporate induction; and throughout HR corporate communications.

- Achieving the largest cohort to date for our Diversity Reverse Mentoring scheme – 54 pairings of senior leader mentees with diverse mentors from more junior grades to challenge their thinking and provide an alternative perspective on life at DE&S.
- Hosting celebrity keynote speakers during Black History Month, Disability History Month and National Inclusion Week – with record attendance (up to 500 participants) – generating important, constructive debates that continued long after the speakers concluded their sessions.
- Running a series of employee focus groups to better understand diverse perspectives and lived experiences pertaining to anxiety, depression and stress-related absence, recruitment, career progression and psychological safety.
- Delivering a pilot Science, Technology, Engineering and Mathematics returners programme to increase underrepresented groups in Engineering, Logistics and IM & IT functions.
- Refreshing our DE&S Menopause guidance and fact sheets.
- Developing and delivering regular mental health and wellbeing workshops and sessions.
- Continuing to support the retention and opportunity for progression of diverse candidates through the establishment of new targeted leadership development programmes for under-represented groups.

Engagement through employee networks and function and domain leads continues to rise. We are committed to keeping this momentum going through the work to refresh our DE&S Strategy and the supporting HR programme plan's aim to create a culture and environment that is diverse, inclusive, and fun. This coming year's activities will continue our proactive approach we have taken to prioritise hotspots in the employee experience (from attraction to exit), to embed our values at every touchpoint, and to maximise the opportunities unearthed by employee data and insights to increase representation and inform culture shifting programmes and projects.



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

### STAFF BREAKDOWN

	31 March 2023	31 March 2022
<b>Civilian total headcount</b>	10,905	10,743
<b>Gender</b>		
Female	3,869	3,718
<b>Ethnicity</b>		
Black, Asian and Minority Ethnic	759	734
<b>Disability</b>		
Declared a disability	1,147	1,055
<b>Sexual orientation</b>		
Lesbian, gay, bisexual	320	291
<b>Religion or belief</b>		
Non Christian religion	456	433
Secular	4,305	4,148
Christian	4,027	4,054

Civilian total headcount in the above table includes all industrial and non-industrial civilian personnel of DE&S and excludes all RFA, 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 2023	31 March 2022
<b>Total DE&amp;S Board and Executive Committee</b>	18	18
<b>Female</b>	5	5
<b>Male</b>	13	13

Two new board members were appointed during 2022-23, one of whom was female (Carolyn Battersby replacing Henry Lloyd). Rear Admiral Jim Higham was appointed in January 2023 as Interim Director Strategy & Corporate Operations, replacing Krishna Dhanak.

### GENDER BREAKDOWN AT SCS LEVEL

	31 March 2023	31 March 2022
<b>Total DE&amp;S SLG (SCS)</b>	107	109
<b>Female</b>	31	27
<b>Male</b>	76	82

The data shown in the above table includes one DE&S SLG who was on loan to wider MOD.

### TRADE UNION RELATIONSHIPS

In December 2022 an updated TU Relations Framework Agreement (TURFA) was signed on behalf of local TUs and by both CEO DE&S and CEO SDA. Under the freedom to agree their own approach to TU engagement laid down in respective Framework Documents and in accordance with the TURFA, the HR team in DE&S leads on TU consultation for both DE&S and SDA (and this will be the case until the SDA establishes its own TU Relations Framework Agreement). Consultation with the TUs<sup>41</sup> 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 annually collate and publish 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 duties across both organisations. Consequently, facility time costs for

<sup>41</sup> The five recognised TUs are: Public and Commercial Services, Prospect (representing engineers, managers, scientists and other specialists in the public/private sector), First Division Association (for senior and middle management civil servants), Unite (fights to protect workers' rights) and General Municipal Boilermakers (representing a number of different sectors).

2022-23 are shared between the two organisations and are reflected in the annual facility time data return as a combined expenditure. This is shown below for the period 1 April 2022 to 31 March 2023:

### RELEVANT UNION OFFICIALS

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
41	41

### PERCENTAGE OF TIME SPENT ON FACILITY TIME

Percentage of time	Number of employees
0%	19
1-50%	22
51-99%	0
100%	0

### PERCENTAGE OF PAY BILL SPENT ON FACILITY TIME

Total cost of facility time	£49,874.73
Total annual civilian pay bill	£707,270,000
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 TU activities as a percentage of total paid facility time	0.00% <sup>42</sup>
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<sup>42</sup> TU activities means time taken off under section 170 (1) (b) of the TU and Labour Relations Act 1992. 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\*

\* <https://www.gov.uk/government/publications/trade-union-facility-time-publicationservice-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 armed forces redundancies in 2022-23 or 2021-22.

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, 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 civilian redundancies in 2022-23 or 2021-22.

### EXPENDITURE ON EXTERNAL ASSISTANCE

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

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 (page 117) to the accounts.

Private sector support is defined by DE&S as external support to supplement our capacity and capability to manage our programme of work. This includes packages of work aimed at addressing resource and skills gaps, principally in project and logistics management capability. Private sector support within DE&S includes consultancy assistance and other external support provided through arrangements, including Delivery Partner and the Crown Commercial Services framework. A breakdown and prior year comparator is at Note 4 (page 118) to the accounts.

## HIGH PAID OFF-PAYROLL APPOINTMENTS

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

The number of reported appointments has substantially increased compared to 2021-22 when we reported 829 existing engagements as of 31 March 2022 and 870 new engagements. This year's increase in temporary workforce is due to current market conditions and challenges recruiting permanent staff.

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 operational delivery 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:** All highly paid off-payroll worker engagements earning £245 per day or greater as of 31 March 2023.

Defence Equipment & Support Bespoke Trading Entity	Total
Total Number of existing engagements	995
<b>of which...</b>	
number that existed less than one year at time of reporting.	640
number that existed for between one and two years at time of reporting.	279
number that existed for between two and three years at time of reporting.	39
number that existed for between three and four years at time of reporting.	24
number that existed for four or more years at time of reporting.	13

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, earning £245 per day or greater, engaged at any point during the year ended 31 March 2023.

Defence Equipment & Support Bespoke Trading Entity	Total
Total number of temporary off-payroll workers engaged during the year ended 31 March 2023	1,316
<b>of which...</b>	
number not subject to off-payroll legislation.	1299
number subject to off-payroll legislation and determined as in-scope of IR35.	0
number subject to off-payroll legislation and determined as out-of-scope of IR35.	17
total number of engagements reassessed for compliance or assurance purposes during the year.	1,261
<b>of which...</b>	
number 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 fiscal responsibility between 1 April 2022 and 31 March 2023.

Defence Equipment & Support Bespoke Trading Entity	Total
Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibilities, during the FY.	0
Total number of individuals on-payroll that were "board members and/or senior officials with significant financial responsibility" during the FY.	4

We have considered those with 'significant financial responsibility' within DE&S to be the CEO and the CFO. Over the course of the FY, between 1 April 2022 and 31 March 2023, there were three separate individuals who acted as Chief Executive Officer and one who acted as Chief Finance Officer.





# — PARLIAMMENTARY ACCOUNTABILITY AND AUDIT REPORT

*A Challenger 2 main battle tank moves at speed across the rugged terrain during Exercise Arrow 22 in Finland.*



## PARLIAMENTARY ACCOUNTABILITY

In 2022-23 we responded to 481 written Parliamentary Questions and 136 pieces of Ministerial and Treat Official correspondence from Members of Parliament, Peers, industry, and the public, reflecting another very busy year and exceeding our departmental targets for on-time delivery. Ajax continued to be a particular source of parliamentary interest, with the announcement of the Fleet Solid Support contract leading to over 80 parliamentary questions in a fortnight. The war in Ukraine also led to several questions on how Defence is supporting the Ukrainians' efforts, as well as parliamentary interest in the replenishment of our stockpiles. We also supported a range of parliamentary committee business, including oral evidence sessions with the House of Commons Defence Committee (HCDC), on land and ships procurement, and the MOD ARAC 2021-22, and with the PAC on the MOD Equipment Plan 2022. We also supported Ministers for a debate in Westminster Hall on 'Procurement and the UK Defence Industry'. Private briefings for parliamentarians were arranged on subjects relating to our support to Ukraine. Towards the end of the year, the HCDC formed a sub-committee to look specifically at 'The Work of DE&S', which we will continue to support through the provision of written and oral evidence.

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 395 requests during 2022-23, again exceeding our departmental target for on-time delivery. Interest in DE&S' activities remains high, and requests covered business across all our domains, with a particular focus remaining on the FSS contract, Ajax, broader contracts activity, and DE&S' activities in support of Ukraine.

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.<sup>43</sup>

## 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 2022-23 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 because 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 £3.32 million, which represents an increase of £3.112 million from 2021-22. The increase in value is primarily due to the £3.14 million constructive loss relating to a decision to stop in-house development of an application because of increased costs, scarcity of resource, and technological change making this approach no longer valid. The increase in the number of cases since 2021-22 is mainly caused by the increased number of low value fruitless payments in relation to cancellations and car hire damage. This aligns with the increase in travel since COVID-19 restrictions were lifted.

There were no losses to report in 2022-23 in relation to the impact of COVID-19.

**LOSSES STATEMENT**

Total Cases	2022-23	2021-22
Fruitless payments (volume of cases)	242	163
Fruitless payments (value £000)	121	179
Minor equipment losses (volume of cases)	4	5
Minor equipment losses (value £000)	2	1
Claims waived or abandoned (volume of cases)	3	1
Claims waived or abandoned (value £000)	58	19
Constructive loss (volume of cases)	1	1
Constructive loss (value £000)	3,142	12
<b>Total losses (volume of cases)</b>	<b>250</b>	<b>170</b>
<b>Total losses (value £000)</b>	<b>3,323</b>	<b>211</b>
<b>Details of closed cases over £300,00</b>	<b>2022-23</b>	<b>2021-22</b>
Volume of cases	1	-
Value (£000)	3,142	-

There were no Advanced Notifications over £300,000 to report.

**SPECIAL PAYMENTS**

The special payment made in 2022-23 related to an extra-contractual payment, following legal advice, to settle work undertaken but not completed by a contractor prior to contract expiry. The 2021-22 payment related to severance payments; details of this case are confidential and no further information can be provided.

Special Payments	2022-23	2021-22
<b>Total Number of Special Payments</b>	<b>1</b>	<b>1</b>
<b>Total Value of Special Payments (£000)</b>	<b>197</b>	<b>16</b>

**LONG TERM EXPENDITURE TREND BY CATEGORY<sup>44</sup>**

Total Departmental Expenditure Limit DE&S BTE (£million)	
Outturn 2021-22	1,050
Outturn 2022-23	1,230
Estimate 2023-24	1,313
Estimate 2024-25	1,121
Estimate 2025-26	1,057
Estimate 2026-27	1,031
Estimate 2027-28	1,037



**Andy Start** - Accounting Officer

18 July 2023



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

### OPINION ON FINANCIAL STATEMENTS

I certify that I have audited the financial statements of the Defence Equipment & Support for the year ended 31 March 2023 under the Government Resources and Accounts Act 2000.

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

- Statement of Financial Position as at 31 March 2023;
- 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 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 the Defence Equipment & Support's affairs as at 31 March 2023 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 and Regularity of Public Sector Bodies in the United Kingdom (2022). 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 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 the 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 the 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 requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is 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 and my auditor's certificate and report 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.

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:**

- 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
- I have not received all of the information and explanations I require for my audit; 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;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within Defence Equipment & Support from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury directions

made under the Government Resources and Accounts Act 2000;

- ensuring that the annual report, which includes the Remuneration and Staff Report, is prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; 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 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, I:**

- considered the nature of the sector, control environment and operational performance including the design of the Defence Equipment & Support's accounting policies, key performance indicators and performance incentives.
- inquired 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 on:
  - identifying, evaluating and complying with laws and regulations;

- ◇ detecting and responding to the risks of 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 the Defence Equipment & Support's compliance with the Government Resources and Accounts Act 2000 and Managing Public Money.
- inquired of management, the Defence Equipment & Support's head of internal audit and those charged with governance whether:
  - ◇ they were aware of any instances of non-compliance with laws and regulations;
  - ◇ they had knowledge of any actual, suspected, or alleged fraud,
- discussed with 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: revenue recognition, posting of unusual journals, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the Defence Equipment & Support's framework of authority and other legal and regulatory frameworks in which the Defence Equipment & Support operates. I focused 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.

#### I considered:

- the results of analytical procedures designed 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

#### To respond to the identified risks resulting from the above procedures:

- I reviewed 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;
- I enquired of management, the Audit and Risk Committee concerning actual and potential litigation and claims;

- I reviewed 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, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- I attended Audit & Risk Assurance Committee meetings and had regular communication with management and internal audit to identify any instances of fraud, non-compliance with laws and regulation, or irregular transactions.

I also communicated relevant identified laws and regulations and potential risks of fraud 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](http://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 expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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 I identify during my audit.

### REPORT

I have no observations to make on these financial statements.

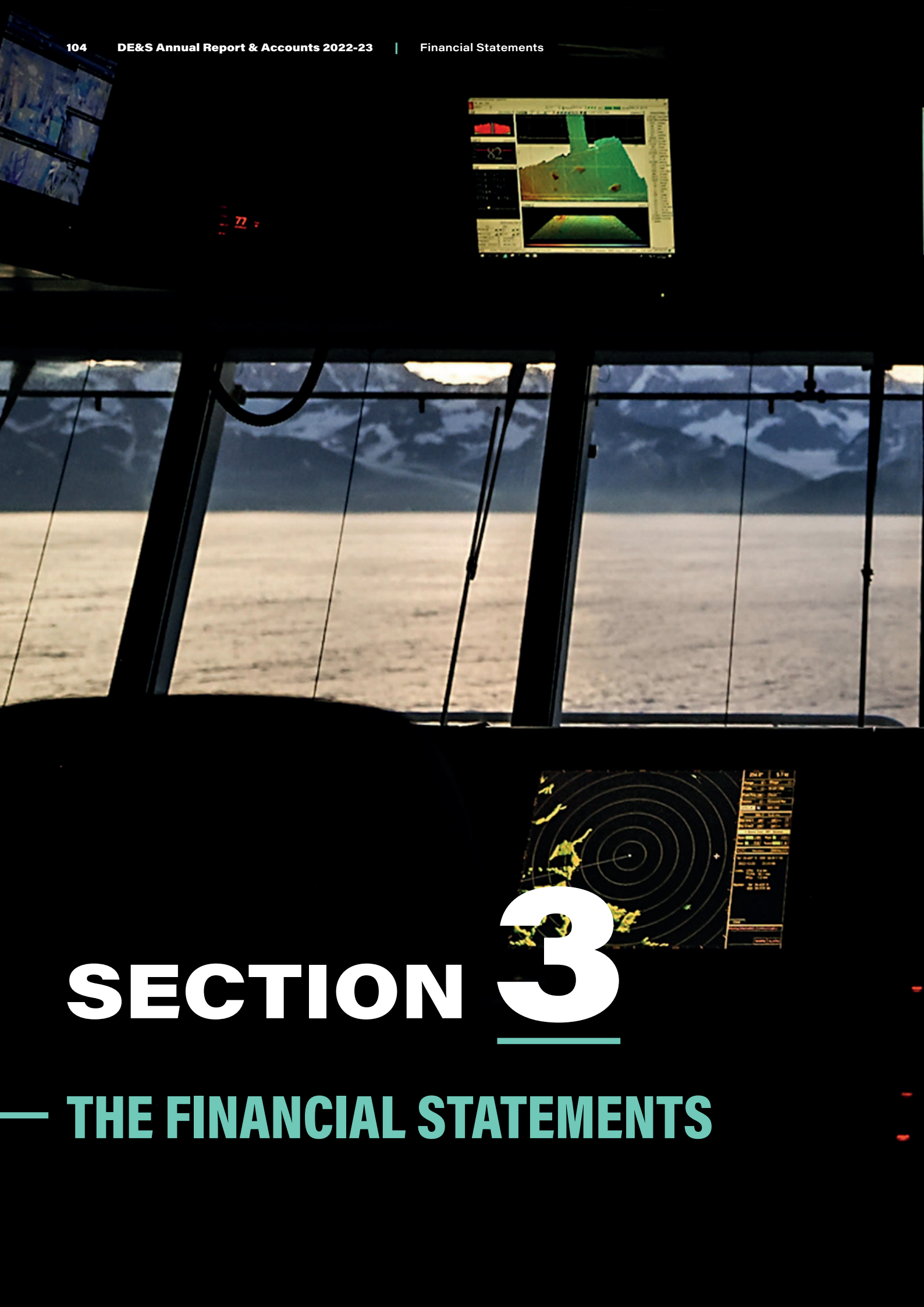


**Gareth Davies**  
**Comptroller and Auditor General**

**19 July 2023**

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





# SECTION 3

## — THE FINANCIAL STATEMENTS



*HMS Protector's Officer of the Watch on the bridge sailing the ship into an anchorage off the coast of South Georgia.*

# ACCOUNTING INFORMATION

## STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2023

	Note	2022-23 £000	2021-22 £000
<b>Expenditure – Direct Programme Costs</b>			
Direct Staff Costs	3	829,733	747,956
Private Sector Support Costs	4	306,647	236,643
Other Programme Costs	5	106,977	82,383
<b>Total Direct Programme Costs</b>		<b>1,243,357</b>	<b>1,066,982</b>
<b>Income – Direct Programme</b>	6	<b>(33,703)</b>	<b>(27,701)</b>
<b>Net Direct Programme Expenditure</b>		<b>1,209,654</b>	<b>1,039,281</b>
<b>Expenditure – Non-Cash Items</b>			
Communicated Costs from other MOD Organisations	7	105,768	103,118
Auditors Remuneration	8	169	162
Asset write off, disposals and impairment <sup>45</sup>	9, 10 & 16	1,510	-
Finance lease interest	16	25	-
Depreciation and amortisation	9, 10 & 16	5,790	3,423
Movement on provision	13	(71)	(1,252)
		<b>113,191</b>	<b>105,451</b>
<b>Total Net Operating Expenditure</b>		<b>1,322,845</b>	<b>1,144,732</b>
Non-operating gain on transfer by absorption <sup>46</sup>	2	-	(66)
<b>Total Net Expenditure for the year</b>		<b>1,322,845</b>	<b>1,144,666</b>
<b>Other Comprehensive Net Expenditure</b>			
Net (gain)/loss on revaluation of property, plant and equipment	9	(457)	(88)
Net (gain)/loss on revaluation of intangible assets	10	(1,052)	(30)
<b>Total Comprehensive Net Expenditure</b>		<b>1,321,336</b>	<b>1,144,548</b>

The Notes on pages 110 to 128 form part of these accounts.

<sup>45</sup> During 2022-23 there were two asset write offs as well as disposals. There were none in 2021-22.

<sup>46</sup> See note 2 to the accounts. Gain on transfer by absorption in 2022-23 was zero as there were no transfers of Function out of DE&S (2021-22 £0.07m).



**STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2023**

	Note	2022-23 £000	2021-22 £000
<b>Non-current assets</b>			
Property, plant & equipment	9	28,714	11,019
Right-of-use assets	16	2,701	-
Intangible assets	10	12,361	14,862
Trade and other receivables due after one year	11	563	355
<b>Total non-current assets</b>		<b>44,339</b>	<b>26,236</b>
<b>Current assets</b>			
Trade and other receivables	11	5,664	3,797
<b>Total current assets</b>		<b>5,664</b>	<b>3,797</b>
<b>Total assets</b>		<b>50,003</b>	<b>30,033</b>
<b>Current liabilities</b>			
Trade and other payables	12	(182,509)	(138,184)
Provisions due within one year	13	(331)	(488)
<b>Total current liabilities</b>		<b>(182,840)</b>	<b>(138,672)</b>
<b>Total assets less current liabilities</b>		<b>(132,837)</b>	<b>(108,639)</b>
<b>Non-current Liabilities</b>			
Trade and other payable due after one year	12	(1,580)	-
Provisions due after one year	13	(88)	(139)
<b>Total non-current liabilities</b>		<b>(1,668)</b>	<b>-</b>
<b>Total assets less total liabilities</b>		<b>(134,505)</b>	<b>(108,778)</b>
<b>Taxpayers equity and other reserves</b>			
Revaluation Reserve	Statement of Changes in Taxpayers Equity (SOCiTE)	3,054	1,545
General Fund	SOCiTE	(137,559)	(110,323)
<b>Total Reserves</b>		<b>(134,505)</b>	<b>(108,778)</b>

The Notes on pages 110-128 form part of these accounts..



**Andy Start** - Accounting Officer

18 July 2023

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2023**

	Note	2022-23 £000	2021-22 £000
<b>Cash flows from operating activities</b>			
Total net operating expenditure		(1,322,845)	(1,144,732)
<b>Adjustments for non- cash transactions</b>			
Communicated costs	7	105,768	103,118
Auditors remuneration	8	169	162
Amortisation/depreciation, impairment, write off/on and disposal	9 & 10	7,300	3,423
Movement in provision	13	(71)	(1,252)
(Increase) / Decrease in trade and other receivables	11	(2,075)	(498)
Increase / (Decrease) in trade and other payables	12	43,195	14,981
Adjustment for movements in payables relating to items not passing through operating costs		(7,791)	(3,398)
Gain on transfer by absorption		-	66
Use of provisions	13	(137)	(210)
<b>Adjustments for cash transactions</b>			
<b>Net cashflow outflow from operating activities</b>		<b>(1,176,487)</b>	<b>(1,028,340)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment <sup>47</sup>	9	(11,482)	(897)
Purchase of intangible assets <sup>48</sup>	10	(668)	(6,624)
<b>Net cash outflow from investing activities</b>		<b>(12,150)</b>	<b>(7,521)</b>
<b>Cash flows from financing activities</b>			
Capital element of payments in respect of leases	16	(1,035)	-
Net Parliamentary Funding – drawn down		1,189,672	1,035,861
<b>Net cash inflow from financing activities</b>		<b>1,188,637</b>	<b>1,035,861</b>
<b>Net Increase/(Decrease) in cash and cash equivalents in the period</b>		<b>-</b>	<b>-</b>

The Notes on pages 110-128 form part of these accounts

<sup>47</sup> Investing cashflow figure for purchase of property, plant and equipment is calculated as £18,909K capital addition (as per Note 9) plus cash payments to discharge opening liabilities of £6,023K less closing liabilities of £13,450K.

<sup>48</sup> Investing cashflow figure for purchase of intangible assets is calculated as £1,077K capital addition (as per Note 10) plus cash payments to discharge opening liabilities of £105,000K less closing liabilities of £514K.

**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2023**

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
<b>Balance at 31 March 2021</b>		<b>(104,798)</b>	<b>1,427</b>	<b>(103,371)</b>
Gain on transfer of function		66	-	<b>66</b>
Total net operating expenditure		(1,144,732)	-	<b>(1,144,732)</b>
Net Parliamentary Funding – drawn down		1,035,861	-	<b>1,035,861</b>
Non-cash charges – Auditors Remuneration		162	-	<b>162</b>
Non-cash charges – Communicated Costs		103,118	-	<b>103,118</b>
Net (loss)/gain on revaluation of property, plant & equipment		-	88	<b>88</b>
Net (loss)/gain on revaluation of intangible assets		-	30	<b>30</b>
Transfer between reserves		-	-	-
<b>Balance at 31 March 2022</b>		<b>(110,323)</b>	<b>1,545</b>	<b>(108,778)</b>
Gain on transfer of function	SoCNE	-	-	-
Total net operating expenditure	SoCNE	(1,322,845)	-	<b>(1,322,845)</b>
Net Parliamentary Funding – drawn down	Statement of Cash Flows	1,189,672	-	<b>1,189,672</b>
Non-cash charges – Auditors Remuneration	8	169	-	<b>169</b>
Non-cash charges – Communicated Costs	7	105,768	-	<b>105,768</b>
Net (loss)/gain on revaluation of property, plant & equipment	9	-	457	<b>457</b>
Net (loss)/gain on revaluation of intangible assets	10	-	1,052	<b>1,052</b>
Transfer between reserves	SoCNE	-	-	-
<b>Balance at 31 March 2023</b>		<b>(137,559)</b>	<b>3,054</b>	<b>(134,505)</b>

The Notes on pages 110-128 form part of these accounts.



# NOTES TO THE ACCOUNTS

## 1. STATEMENT OF ACCOUNTING POLICIES

The financial statements contained within this ARAC relate to the FY 1 April 2022 to 31 March 2023 (2022-23) with comparative analysis for the prior year, 2021-22. They have been prepared in accordance with the Accounts Direction given by HMT under Section 7 of the Government Resources and Accounts Act 2000 and in accordance with HMT guidance as set out in the FReM.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy judged to be most appropriate to the 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 2022-23 financial statements are the ninth 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 ARAC, 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 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, 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 DE&S operating costs in recognition 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 benefits driven by the activities of other MOD organisations that 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 2022-23, a guideline materiality threshold of £10,000 (2021-22 £10,000) was 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**

In previous years we have disclosed the effect of transfer of functions on the comparative figures in the accounts. However, this is not required in 2022-23 as there were no functions transferred in or out of DE&S in 2022-23.

#### **NEW ACCOUNTING STANDARDS**

##### **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 accounting period commencing on or after 1 January 2019. DE&S has adopted 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 has resulted in the recognition of right-of-use assets, measured at the present value of future lease payments, and a corresponding liability. The pattern of recognition of the expenditure results in depreciation of the right-of-use assets and an associated finance cost being recognised.

IFRS 16 has been implemented using the cumulative catch-up method. As a result, comparatives have not been restated and the measurement of the asset and liability balances recognised with effect from 1 April 2022.

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' operating leases 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 has brought right-of-use assets and liabilities on to the Statement of Financial Position (SOFP). On Transition, DE&S has used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease. DE&S has discounted lease liabilities at transition using the discount rate mandated by HM Treasury at transition of 0.95%. Accounting Note 1.22 describes the initial recognition and subsequent measurement of right-of-use assets and liabilities

There is no material difference between the IFRS 16 opening lease liability and the FY 21-22 operating lease liability.

## **CHANGES IMPACTING THE PREPARATION OF FUTURE ANNUAL ACCOUNTS**

### **2023-24**

The Defence Electronics and Components Agency merged to be part of DE&S on 1 April 2023 and the future DE&S Financial Statements will include their operations.

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 accounting periods 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 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. 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 more than those expected at the time of contract let. In these circumstances DE&S conducts an audit and enters negotiations with the supplier to determine the value of monies owed. This is known as post costing income and is recognised at the point both parties agree it.
- ii. The second source is within DM, where we undertake munitions processing on behalf of defence contractors. The income is used 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 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 (RN, RAF, British 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 the 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 the 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 the 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 costs these expenses 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 AND AMORTISATION

All assets are depreciated or amortised on a straight-line basis. The useful life of a PPE asset is based on the estimated out of service date and for intangible assets the estimated period of use. The Useful Economic Lives (UEL) of all assets are reviewed annually and revised where necessary to reflect changing circumstances. The principal asset categories, along with their useful lives, are set out in the table below.

Main category	Sub category	UEL
<b>Plant and machinery</b>	Equipment	5-25
	Plant and machinery	5-25
	Office machinery	3-10
<b>IT and comms</b>	Communications equipment	3-10
	Software licences	3-16
<b>Land and buildings</b>	Leases	Shorter of expected life and lease period

AUC are not depreciated or amortised. Depreciation or amortisation 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 the 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 are owned and reported in the MOD accounts as the risks and rewards of ownership are deemed to reside with the Commands and the 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, and for 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.

Loss allowances are made for expected credit losses for those financial assets not already held at fair value. DE&S follows the MOD practical expedient in IFRS 9 and applies a provisions matrix to determine percentages to estimate expected credit losses for different classes of receivables, such as trade receivables, staff receivables and bespoke receivables for asset sales.

The expected credit loss percentages are based on the actual bad debts incurred previously adjusted for future uncertainties. This adjustment is a multiplier factor

based on the MOD's judgement of the potential impact of events on future economic conditions. Sensitivity analysis was undertaken by the MOD to test the significance of changes to this judgement and the impact was not material.

In accordance with the FReM, the balances with core central government departments (including their executive agencies), the Government's Exchequer Funds, and the Bank of England are excluded from recognising Stage 1 and Stage 2 impairments. Expected credit loss provisions are also made against specific receivables.

### **1.18 EMPLOYEE BENEFITS**

A charge is made in these accounts for the value of employees' annual leave entitlements earned, but not yet taken as of 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 the MOD policy on recognition of untaken leave.

The 2022-23 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 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 on Office for Budget Responsibility Consumer Price Index forecasts for inflation and nominal rates for discounting).

### **1.22 LEASED ASSETS**

IFRS16: A right-of-use asset and a lease liability are recognised at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date; plus any initial direct costs incurred; and an estimate of costs to dismantle and remove the underlying asset; or to restore the underlying asset of the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.



The lease liability is initially measured at the present value lease payments not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments.
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
- Amounts expected to be payable by the lessee under residual value guarantees.
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option.
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets that do not meet the definition of investment property are presented in 'property, plant and equipment' and lease liabilities are presented in 'loans and borrowings' in the statement of financial position. DE&S has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. Leases are not

identified where the value of the asset (or grouped asset) is below £25,000. Grouping would only occur if assets had the same contract start and end dates. DE&S recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

In the comparative period, as a lessee, DE&S classified leases that substantially transfer all the risks and rewards of ownership as finance lease. As such, DE&S did not have any leases meeting this definition, either in the comparative period or previously.

In the comparative period, assets held under other leases were classified as operating leases and were not recognised in the SoFP. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Vehicle leases recognised as operating leases until 31 March 2022 are now recognised as right-of-use lease assets in Note 17, and payables in Note 11. Office printer leases recognised as operating leases until 31 March 2022 are not now recognised as leases; payments are recognised as Other Programme Costs (OPC) in the SoCNE.

The portfolio of short-term leases committed to at the end of the reporting period is not dissimilar to the portfolio of leases for which comprises the short-term lease expense in Note 16.3

DE&S does not operate as a lessor.

## 2. TRANSFER OF FUNCTIONS ON 1 APRIL 2022

There were no functions transferred in or out of DE&S during 2022-23. No adjustment is, therefore, required to comparative figures.

## 3. STAFF NUMBERS AND RELATED COSTS

### 3.1 STAFF COSTS COMPRISE:

	2022-23			2021-22		
	Permanently Employed Staff £000	Contingent Labour £000	Total £000	Permanently Employed Staff £000	Contingent Labour £000	Total £000
<b>Salaries and Wages</b>	503,321	121,507	624,828	464,097	95,780	559,877
<b>Social Security Costs</b>	54,578	-	54,578	47,202	-	47,202
<b>Other Pension Costs</b>	150,327	-	150,327	140,877	-	140,877
<b>Total</b>	<b>708,226</b>	<b>121,507</b>	<b>829,733</b>	<b>652,176</b>	<b>95,780</b>	<b>747,956</b>
<b>Paid to:</b>						
<b>Armed Forces</b>	121,163	-	121,163	112,315	-	112,315
<b>Civilian</b>	587,063	-	587,063	539,861	-	539,861
<b>Contingent Labour</b>	-	121,507	121,507	-	95,780	95,780

Costs for permanently employed staff, including salary, social security, and pension costs, have increased by £56 million. Contingent labour has increased by £25.7 million.

The increase in salaries and wages reflects the recent pay review, reward review and performance award, which was higher than in FY 21-22. This better aligns our pay structure to the MOD's. There was also a significant increase due to the temporary change in National Insurance rates. Contingent Labour demand has increased due to additional activity from our Clients (FLCs) as Annual Budgeting Cycle, Options and Formal Change Requests. Additionally, DE&S workforce supply is impacted by recruitment challenges in the Bristol area following continued recruitment cycles at pace, which have depleted the local market requiring continuing usage of Contingent Labour.

### 3.2 AVERAGE NUMBER OF FULL-TIME EQUIVALENT STAFF EMPLOYED:

	2022-23			2021-22		
	Permanently Employed Staff	Contingent Labour	Total	Permanently Employed Staff	Contingent Labour	Total
<b>Employed by DE&amp;S</b>	<b>11,338</b>	<b>971</b>	<b>12,309</b>	<b>11,318</b>	<b>657</b>	<b>11,975</b>
Of which:						
<b>Armed Forces</b>	1,080	-	<b>1,080</b>	1,046	-	<b>1,046</b>
<b>Civilian Personnel</b>	10,258		<b>10,258</b>	10,272		<b>10,272</b>
<b>Contingent Labour</b>	-	971	<b>971</b>	-	657	<b>657</b>

This increase in Contingent Labour is required to meet the increased activity requirements as detailed in 3.1 above.

## 4. PRIVATE SECTOR SUPPORT

	2022-23 £000	2021-22 £000
<b>PSS Contractor Support - Other</b>	180,919	154,089
<b>PSS for programmes in concept and assessment phases</b>	7,406	3,983
<b>PSS for programmes in demonstration and manufacture phases</b>	34,026	26,013
<b>PSS for programmes in in-service support and disposal phase</b>	76,293	44,109
<b>Consultancy Support (Project management, organisation design, finance &amp; legal)</b>	5,853	8,449
<b>PSS Other Professional Services</b>	2,150	-
<b>Total</b>	<b>306,647</b>	<b>236,643</b>

DE&S PSS has increased by £70 million.

The increase in PSS Contractor Support of £26.8 million is primarily driven by:

- Increased Independent Safety Environment Advisor services for a number of ship platforms (£6.4 million).
- Increased throughput against in year milestones to Typhoon Technical support (£6.2 million) using the Engineering Delivery Partner.
- Engineering Delivery Partner Support for a new Helicopter Rotary Wing Enterprise contract (£3.7 million).
- Increased deliverables in year by the DES Digital Project Delivery Partner Support (£2.9 million) to support projects relating to Logistics and Asset Management Systems.

The increase in PSS for programmes in concept and assessment phases (£3.5 million) is mainly driven by the commencement of a Weapons Availability Modelling task.

The increase in PSS for programmes in demonstration and manufacture phases (£8 million) mainly relates to an increase in A400M Engineering Delivery Partner Support driven by capability acceleration to facilitate the retirement of C130J aircraft.

The increase in PSS for programmes in the in-service support and disposal phase (£32.2 million) relates to:

- Engineering Delivery Partner support to Future Combat Air Systems delivery (£12.8 million) including bid recovery and initiation costs.
- Carbon Net Zero (£7.3 million) increase in activity in FY 22-23.
- Airseeker and C130J safety and airworthiness activity increase (£3.9 million).
- Project Delivery Partner support to Service Management Function Delivery Team (£2.1 million) for new projects being delivered in FY 22-23.
- Weapons Availability Modelling (£2 million) new contract in year to evaluate the feasibility of Artificial Intelligence in munitions management.

There was a new category PSS, Other Professional Services, this financial year. These costs were previously mapped to OPC Other Costs.



## 5. OTHER PROGRAMME COSTS

	2022-23 £000	2021-22 £000
<b>Staff travel and subsistence costs</b>	17,874	8,145
<b>IT and telecommunications</b>	46,189	31,022
<b>Other infrastructure expenditure</b>	6,129	8,420
<b>Staff training costs</b>	7,904	5,924
<b>Rentals</b>	3,983	2,605
<b>Regulatory safety costs</b>	1,356	1,678
<b>OPC Defence Science &amp; Technologies Laboratories (DSTL)</b>	13,018	15,735
<b>Other costs</b>	10,524	8,854
<b>Total</b>	<b>106,977</b>	<b>82,383</b>

DE&S OPC has increased by £24.6 million. IT and telecommunications has increased by £15 million; the most significant element of this is an increase of £7.6 million due to Project, Programme and Portfolio Management (P3M) systems activity. A further £3 million relates to a new contract in year to support data quality, dashboards, and security projects and £2 million relates to a new service contract to provide SECRET connectivity between MOD and industry. Travel and Subsistence has increased by £9.7 million; this is primarily due to the lifting of COVID-19 travel restrictions.

There have been a number of small increases and decreases within other OPC categories.

## 6. PROGRAMME INCOME

	2022-23 £000	2021-22 £000
<b>Defence Munitions commercial revenue</b>	8,263	6,241
<b>Logistics Commodities Services Revenue (Including British Forces Postal Office)</b>	1,056	1084
<b>DE&amp;S BTE corporate receipts</b>	21,998	18,824
<b>Other Programme Income</b>	2,386	1,552
<b>Total</b>	<b>33,703</b>	<b>27,701</b>

Almost all DE&S income falls within scope of IFRS 15 – Revenue from contracts with customers. Income has increased by £6 million, with the main driver being the fluctuating income from post costing receipts (£3.1 million) and an increase in DM revenue (£2 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. DM undertakes 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.

## 7. COMMUNICATED COSTS

The following costs have been incurred by other MOD organisations in support of DE&S activities. These costs have been included as a non-cash DE&S SoCNE to ensure a complete representation of DE&S 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	2022-23 £000	2021-22 £000
<b>UK Strategic Command</b>	Defence Digital Information systems and communication services	Number of DE&S users relative to MOD users	55,462	52,135
<b>Defence Infrastructure Organisation</b>	Infrastructure and facilities management costs	Cost per employee at DE&S headquarters extrapolated to DE&S total head count	20,124	23,311
<b>UK Strategic Command</b>	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	1,631	1,638
<b>Defence Infrastructure Organisation</b>	MOD Guard Service	Costs of main DE&S geographical locations extrapolated across total DE&S headcount	14,515	14,223
<b>Defence Business Services</b>	Personnel and Payroll Services	Number of DE&S employees relative to total MOD	12,961	10,894
<b>HO and Corporate Services</b>	Various	Based on actuals	1,075	917
<b>Total</b>			<b>105,768</b>	<b>103,118</b>

Overall Communicated costs have increased by £3.6 million. The variance is driven primarily by an increase in Defence Digital spend and an increase in Defence Business Services spend due to MyHR and payroll and expenses projects. This is offset by a Defence Infrastructure Organisation reduction in facilities management costs as several programmes to improve local infrastructure and facilities were completed last financial year ; the largest of which was the refurbishment of the pedestrian footbridge.

## 8. AUDITOR'S REMUNERATION

DE&S is audited by the Comptroller and Auditor General. The £168,500 charge reflects the costs incurred by the auditor in respect of the audit of the DE&S 2022-23 ARAC. This is a notional, non-cash charge and is reflected in the SoCNE. The auditor's remuneration paid in FY 21-22 was £162,000.

## 9. PROPERTY, PLANT AND EQUIPMENT

	IT & Comms £000	Plant Machinery and Vehicles £000	Transport £000	AUC £000	Total £000
<b>Cost or Valuation</b>					
<b>As at 31 March 2021</b>	<b>2,241</b>	<b>3,636</b>	-	<b>2,344</b>	<b>8,221</b>
Additions	44	-	-	6,184	6,228
Disposals	-	-	-	-	-
Impairments & Adjustments	-	-	-	-	-
Revaluations	8	130	-	-	138
Reclassifications	-	2,532	-	(2,532)	0
<b>At 31 March 2022</b>	<b>2,293</b>	<b>6,298</b>	-	<b>5,996</b>	<b>14,587</b>
Additions	-	314	-	18,595	18,909
Disposals	-	-	-	-	-
Impairments & Adjustments	(1)	-	-	-	(1)
Revaluations	142	777	3	-	922
Reclassifications	-	370	115	(484)	1
<b>Balance as at 31 March 2023</b>	<b>2,434</b>	<b>7,759</b>	<b>118</b>	<b>24,107</b>	<b>34,418</b>
<b>Depreciation</b>					
<b>Balance at 31 March 2021</b>	<b>(1,159)</b>	<b>(1,051)</b>	-	-	<b>(2,210)</b>
Charged In Year	(357)	(951)	-	-	(1,308)
Disposals	-	-	-	-	-
Impairments	-	-	-	-	-
Revaluations	(1)	(49)	-	-	(50)
Reclassifications	-	-	-	-	-
<b>At 31 March 2022</b>	<b>(1,517)</b>	<b>(2,051)</b>	-	-	<b>(3,568)</b>
Charged In Year	(356)	(1,291)	(24)	-	(1,671)
Disposals	-	-	-	-	-
Impairments	-	-	-	-	-
Revaluations	(114)	(351)	-	-	(465)
Reclassifications	-	-	-	-	-
<b>At 31 March 2023</b>	<b>(1,987)</b>	<b>(3,693)</b>	<b>(24)</b>	-	<b>(5,704)</b>
<b>Net Book Value</b>					
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
<b>Balance at 31 March 2023</b>	<b>447</b>	<b>4,066</b>	<b>94</b>	<b>24,107</b>	<b>28,714</b>

There were no impairment reversals, therefore, the impairment line only includes impairments.

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. DOSG test equipment comprises £3.8 million of in-year additions to Assets under Construction. Further in-year movements principally relate to the purchase of a Mobile Security Asset (£6 million), Net Zero activity (£5 million) and construction of the new storage facility (£3.7 million AUC addition). Both the Net Zero activity and the new storage facility will be transferred over to the Defence Infrastructure Organisation upon completion. In year revaluations in Plant Machinery and Vehicles relates to multiple minor revaluations across DOSG test equipment.



## 10. INTANGIBLE NON-CURRENT ASSETS

	Software £000	AUC (Development Costs) £000	Total £000
<b>Cost or Valuation</b>			
<b>Balance at 31 March 2021</b>	<b>19,435</b>	<b>6,528</b>	<b>25,963</b>
Additions	142	4,549	4,691
Disposals	-	-	-
Impairments/Adjustments	-	-	-
Revaluations	49	-	49
Reclassifications	9,831	(9,831)	-
<b>At 31 March 2022</b>	<b>29,457</b>	<b>1,246</b>	<b>30,703</b>
Additions	621	456	1,077
Disposals	(643)	-	(643)
Impairments/Adjustments	(273)	(1,220)	(1,493)
Revaluations	1,956	-	1,956
Reclassifications	-	-	-
<b>At 31 March 2023</b>	<b>31,118</b>	<b>482</b>	<b>31,600</b>
<b>Amortisation</b>			
<b>Balance at 31 March 2021</b>	<b>(13,707)</b>	<b>-</b>	<b>(13,707)</b>
Charged In Year	(2,115)	-	(2,115)
Disposals	-	-	-
Impairments	-	-	-
Revaluations	(19)	-	(19)
Reclassifications	-	-	-
<b>At 31 March 2022</b>	<b>(15,841)</b>	<b>-</b>	<b>(15,841)</b>
Charged In Year	(3,146)	-	(3,146)
Disposals	643	-	643
Impairments	9	-	9
Revaluations	(904)	-	(904)
Reclassifications	-	-	-
<b>At 31 March 2023</b>	<b>(19,239)</b>	<b>-</b>	<b>(19,239)</b>
<b>Net Book Value</b>			
Balance at 31 March 2021	5,728	6,528	12,256
Balance at 31 March 2022	13,616	1,246	14,862
<b>Balance at 31 March 2023</b>	<b>11,879</b>	<b>482</b>	<b>12,361</b>

There were no impairment reversals, therefore, the impairment line only includes impairments

DE&S holds software to the value of £12.361 million, this includes the MyHR software tool (£8.4 million NBV), licenses for the P3M Release 4 suite of Oracle tools (£1.4 million NBV) and a DOSG ricochet assessment software tool (£1.5 million NBV). In year additions primarily relate to an extension to the P3M license (£0.6 million NBV). Impairment in year is primarily driven by write-off of the ASPIRE programme from the Air Domain (£1.2 million).

## 11. TRADE AND OTHER RECEIVABLES

	2022-23 £000	2021-22 £000
<b>Amounts falling due within one year</b>		
Accrued Income	1,509	1,097
Deposits and advance payments	35	-
Other Receivables	1,388	805
Trade Receivables	135	358
Prepayments	3,160	1,788
<b>Staff Loans and advances</b>	-	<b>104</b>
<b>Total Current Receivables</b>	<b>5,664</b>	<b>3,797</b>
<b>Amounts falling due after more than one year</b>	563	355

The increase of £2.1 million this FY is primarily driven by P3M licenses increases. 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

	2022-23 £000	2021-22 £000
<b>Amounts falling due within one year</b>		
PSS accruals	(76,946)	(54,139)
Direct staff accruals	(76,819)	(67,682)
Other liabilities	(27,614)	(16,363)
<b>Lease liability</b>	<b>(1,130)</b>	-
<b>Total Current Liabilities</b>	<b>(182,509)</b>	<b>(138,184)</b>
<b>Amounts falling due after more than one year</b>		
<b>Lease liability</b>	<b>(1,580)</b>	-

There has been a £45.9 million increase in liabilities. This is primarily driven by an increase in payables due to the volume of Engineering Delivery Partner and Project Delivery Partner PSS contracts. Payables balances fluctuate throughout the year depending on the timing of payments to suppliers. Due to the introduction of IFRS16 accounting for Leases in the accounts this year, this is the first time a lease liability has been included within liabilities.

## 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

	2022-23 £000	2021-22 £000	<b>Analysis of expected timing of discounted cash flows:</b>		
	2022-23 £000	2021-22 £000		2022-23 £000	2021-22 £000
<b>At 1 April</b>	<b>627</b>	<b>2,089</b>	Due within one year	<b>331</b>	<b>488</b>
Increase/(Decrease) in Provision	(64)	(1,267)	Due over one year and less than five years	88	139
Provisions used	(137)	(210)	Due over five years	-	-
Unwinding Discount	(7)	15	<b>Balance at 31 March</b>	<b>419</b>	<b>627</b>
<b>Balance at 31 March</b>	<b>419</b>	<b>627</b>			

## 14. CONTINGENT LIABILITIES AND ASSETS

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

Descriptions and Key uncertainties	31 March 2022 £000	Increase/ Decrease In Year £000	Liabilities Crystallised In Year £000	Obligation Expired In Year £000	31 March 2023 £000
Legal Claims (personal)	119	37	(10)	(29)	117
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 2023 £000	31 March 2022 £000
<b>Property, plant and equipment</b>	2,857	121
<b>Intangible</b>	975	-
<b>Total</b>	<b>3,832</b>	<b>121</b>

The increase in Capital Commitments is primarily driven by commitments (£2.7 million) relating to construction of a Storage Facility begun this financial year and (£0.975 million) for a Tri-Service Anthropometric Survey.

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 2023 £000	31 March 2022 £000
Not later than 1 year	58,727	27,435
Later than 1 year but not later than 5 years	1,084	2,991
Later than 5 years	-	-
<b>Total</b>	<b>59,811</b>	<b>30,426</b>

Financial commitments have increased by £29.4 million. This is driven by increased use of our Project Delivery Partner and Engineering Delivery Partner contracts this financial year.

## 16. LEASES

As explained in Note 1.4 the MOD has adopted IFRS 16 – Leases for the first time from 1 April 2022 and, as permitted by HMT, has applied the transitional arrangements without restating prior year figures. Vehicle leases recognised as operating leases until 31 March 2022 are now recognised as right-of-use lease assets (see table below) and payables in Note 11. None of the assets included in the value of right-of-use assets at 31 March 2023 were previously recognised under finance leases. DE&S lease contracts comprise leases of buildings (homes for DE&S staff and their families who have relocated to the USA) and transport (a fleet of vehicles for hire by DE&S employees on business travel).

### 16.1 RIGHT-OF-USE ASSETS

	Dwellings £000	Vehicles Costs) £000	Total £000
<b>Cost or Valuation</b>			
<b>At 31 March 2022</b>	-	-	-
Initial Recognition	494	1,615	2,109
Additions – New Leases	835	756	1,591
Disposals	(26)	-	(26)
Impairments/Adjustments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
<b>At 31 March 2023</b>	<b>1,303</b>	<b>2,371</b>	<b>3,674</b>
<b>Amortisation</b>			
<b>At 31 March 2022</b>	-	-	-
Charged In Year	(393)	(580)	(973)
Disposals	-	-	-
Impairments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
<b>At 31 March 2023</b>	<b>(393)</b>	<b>(580)</b>	<b>(973)</b>
<b>Net Book Value</b>			
Balance at 31 March 2022	-	-	-
<b>Balance at 31 March 2023</b>	<b>910</b>	<b>1,791</b>	<b>2,701</b>

### 16.2 LEASE LIABILITIES

The following values for leases are included within Note 12 payables.

Amounts falling due	2022-23 £000
Less than 1 Year	(1,113)
1-5 Years	(1,550)
Greater than 5 Years	(47)
<b>Total lease liabilities</b>	<b>(2,710)</b>

### 16.3 AMOUNTS RECOGNISED IN THE SOCNE FOR LEASES

Lease values recognised	2022-23 £000
Depreciation	973
Interest expense	25
Low value and short-term leases	431
<b>Total</b>	<b>1,429</b>

### 16.4 AMOUNTS RECOGNISED IN THE CASHFLOW STATEMENT FOR LEASES

Lease values recognised	2022-23 £000
Interest expense	25
Repayment of Principal on Leases	1,035
<b>Total</b>	<b>1,060</b>

## 17. RELATED PARTY TRANSACTIONS

DE&S is a BTE, and Executive Agency 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 £13.0 million during 2022-23 undertaking business activities with DSTL (2021-22, £15.7 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 2022-23 this was £8.9 million (2021-22, £8.3 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 2023.

David Johnson, Finance Director, is a member of the Army FLC Audit Committee and Sir Simon Bollom, DE&S CEO up to 31 July 2022, is a NED on the SDA board. Vice Admiral Rick Thompson used to work for Sealand Support Services Ltd who are closely involved with DE&S, and Ros Rivaz, DE&S Board NED, is a Senior Independent Director of Computacenter. Andy Start, DE&S CEO, has a financial interest in Capita (a previous employer) who provide some services to DE&S.

In addition, the following individuals have close relations who worked for the following companies:

- Chris Bushell, DG (Land), had a close relation employed by Turner & Townsend (consultants).
- Andrew Forzani, DG (Commercial), has a close relation employed by KPMG.
- Andy Start, DE&S CEO, has a close relation employed by Amorosso Consulting (subcontractor of PA Consulting) while another is a MOD employee.



- Vice Admiral Paul Marshall, DG (Ships), had a close relation employed by BAE Systems Maritime Services.
- Jill Hatcher, Director Human Resources, had a close relation employed by Kuehne+Nagel a sub-contractor of Leidos.
- Iain Lanaghan, DE&S Board NED, had a close relation employed by KPMG.
- Air Marshall Sir Richard Knighton, Board Member up to 11 May 2022, had a close relation employed by Mills and Reeve.

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 FY22-23 this was £1,253 million, however our outturn position for the year was £1,230 million (£1,210million revenue and £20 million capital), a reduction against budget of £23 million.

The net revenue outturn position of £1,209.7 million is captured in the SoCNE and is made up of Direct Staff Costs, PSS Costs and OPC of £1,243.4 million offset by the income generated by DE&S in 22-23 of £33.7 million.

The capital outturn position of £20.0 million represents continued investment in Net Zero environmental activity and software, the start of construction of a storage facility and the construction of a mobile security asset; these are highlighted in the PPE and Intangible Asset Notes.

## 19. EVENTS AFTER THE REPORTING DATE

A couple of Board personnel changes have taken place as follows:

- Nick Folland joined DE&S on 1 April 2023 as a NED and will replace Ros Rivaz who will finish her tenure in June 2023.
- Marc Overton joined DE&S on 1 April 2023 as a NED and will replace Iain Lanaghan who will finish his tenure in June 2023.

From 1 April 2023, the former Defence Electronics and Components Agency (DECA) merged into DE&S, delivering electronics and components, general engineering support capabilities, and maintenance, repair, overhaul, and upgrade services across a range of defence systems and capabilities.

### 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
<b>AAR</b>	Annual Assurance Report	<b>HO</b>	Head Office
<b>AFPS</b>	Armed Forces Pension Scheme	<b>HR</b>	Human Resource
<b>AFU</b>	Armed Forces of Ukraine	<b>ICAF</b>	International Committee on Aeronautical Fatigue and Structural Integrity
<b>AI</b>	Artificial Intelligence	<b>IAS</b>	International Accounting Standards
<b>AMA</b>	Agreed Management Action	<b>IFRS</b>	International Financial Reporting Standard
<b>AP</b>	Accounting Period	<b>IED</b>	Improvised Explosive Device
<b>APS</b>	Active Protection System	<b>IOC</b>	Initial Operating Capability
<b>ARAC</b>	Annual Report and Accounts	<b>ISAC</b>	Industry Security Assurance Centre
<b>ASE</b>	Acquisition Safety and Environmental	<b>IRM</b>	Information and Records Management
<b>ASEMS</b>	Acquisition Safety and Environmental Management System	<b>ITS</b>	Integrated Technical Services
<b>AUC</b>	Assets Under Construction	<b>ITSS</b>	Integrated Technical Services for Support
<b>BTE</b>	Bespoke Trading Entity	<b>IR</b>	Integrated Review
<b>BMS</b>	Business Management System	<b>IT</b>	Information Technology
<b>CASP</b>	Command Acquisition and Support Plan	<b>ISAC</b>	Industry Security Assurance Centre
<b>CCI</b>	Client Confidence Index	<b>JSP</b>	Joint Service Publication
<b>CEO</b>	Chief Executive Officer	<b>KIM</b>	Knowledge and Information Management
<b>CETV</b>	Cash Equivalent Transfer Value	<b>KM</b>	Knowledge Management
<b>CFO</b>	Chief Financial Officer	<b>KPI</b>	Key Performance Indicator
<b>CPI</b>	Cost Performance Indicator	<b>MI</b>	Management Information
<b>DCDS</b>	Deputy Chief of the Defence Staff	<b>MIV</b>	Mechanised Infantry Vehicle
<b>DE&amp;S</b>	Defence Equipment and Support	<b>MOD</b>	Ministry of Defence
<b>DG</b>	Director General	<b>NAO</b>	National Audit Office
<b>DIA</b>	Defence Internal Audit	<b>NATO</b>	North Atlantic Treaty Organisation
<b>DM</b>	Defence Munitions	<b>NED</b>	Non-Executive Director
<b>DOSG</b>	Defence Ordnance Safety Group	<b>OBC</b>	Outline Business Case
<b>DRC</b>	Depreciated Replacement Cost	<b>OC</b>	Operating Centre
<b>DSIS</b>	Defence and Security Industrial Strategy	<b>OGD</b>	Other Government Department
<b>DSTL</b>	Defence Science and Technology Laboratory	<b>OGSM</b>	Objectives, Goals, Strategies and Measures
<b>ECR</b>	Equipment Cyber Resilience	<b>OHSE</b>	Occupational Health, Safety & Environmental
<b>EDD</b>	Equipment Delivery Date	<b>OPC</b>	Other Programme Costs
<b>EDI</b>	Equality, Diversity, Inclusion	<b>P3M</b>	Project, Programme and Portfolio Management
<b>EDP</b>	Early Departure Payment	<b>PCSPS</b>	Principle Civil Service Pension Scheme
<b>EPP</b>	Equipment Procurement Plan	<b>PPE</b>	Property, Plant and Equipment
<b>ESP</b>	Equipment Support Plan	<b>PRC</b>	Programme Review Committee
<b>EVM</b>	Earned Value Management	<b>PSS</b>	Private Sector Support
<b>EVP</b>	Employee Value Proposition	<b>PSyA</b>	Principle Security Advisor
<b>FBC</b>	Full Business Case	<b>QA</b>	Quality Assurance
<b>FGC</b>	Future Capability Group	<b>QM</b>	Quality Management
<b>FLC</b>	Front-Line Command	<b>RAdm</b>	Rear Admiral
<b>FReM</b>	Financial Reporting Manual	<b>RAF</b>	Royal Air Force
<b>FCG</b>	Future Capability Group	<b>RN</b>	Royal Navy
<b>FY</b>	Financial Year	<b>RFA</b>	Royal Fleet Auxiliary
<b>GIAA</b>	Government Internal Audit Agency	<b>SbD</b>	Secure by Design
<b>GFA</b>	Government Furnished Assets	<b>SCR</b>	Supply Chain Resilience
<b>HCDC</b>	House of Commons Defence Committee	<b>SCS</b>	Senior Civil Service
<b>HMRC</b>	His Majesty's Revenue and Customs	<b>SDA</b>	Submarine Delivery Agency
<b>HMT</b>	His Majesty's Treasury		

<b>Acronym</b>	<b>Definition</b>
<b>SHEC</b>	Safety, Health and Environmental Committee
<b>SLG</b>	Senior Leadership Group
<b>SOCiTE</b>	Statement of Changes in Taxpayers Equity
<b>SoCNE</b>	Statement of Comprehensive Net Expenditure
<b>SOFP</b>	Statement of Financial Position
<b>SPP</b>	Strategic Partnering Programme
<b>SQEP</b>	Suitably Qualified and Experienced Personnel
<b>SM</b>	Supplier Management
<b>SMS</b>	Safety Management System
<b>SM&amp;RT</b>	Supplier Management and Resilience Team
<b>SRO</b>	Senior Responsible Owner
<b>TU</b>	Trade Union
<b>UAS</b>	Uncrewed Aerial System
<b>UEL</b>	Useful Economic Lives
<b>UKGI</b>	UK Government Investments
<b>VAdm</b>	Vice Admiral
<b>VAT</b>	Value Added Tax







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