



Ministry
of Defence

de&s



**DEFENCE EQUIPMENT & SUPPORT
ANNUAL REPORT AND ACCOUNTS**

2023-24

We equip our armed forces with the edge
to protect our nation and help it prosper

DEFENCE EQUIPMENT & SUPPORT
Annual Report and Accounts 2023-24

For the period 1 April 2023 to 31 March 2024

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2023-24 HIGHLIGHTS

The environment in which Defence Equipment & Support (DE&S) operates has changed significantly this year. Threats from state and non-state adversaries have increased, stresses on our supply chains have intensified and the global competition for skills and resources continued. Against this backdrop, DE&S has delivered a huge programme to support Ukraine and current operations, significant new platforms and equipment for the United Kingdom's (UK) Armed Forces and commenced a change to its ways of working to support greater pace and productivity in the future.

SUPPORT TO CURRENT OPERATIONS

Supporting UK military operations around the world continues to be DE&S' top priority. Highlights include:

- DE&S delivered vital battle-winning equipment to Ukraine to aid its fight against Russian invasion, worth over £900 million. This equipment, sourced from existing defence stocks and through new procurements, ranged from complex weapons to self-propelled guns, such as AS90, to air defence systems. We also provided millions of rounds of ammunition, as well as uniforms and medical supplies.
- We continued to support, maintain and repair equipment already operated by the Ukrainian Armed Forces, sourcing both modern and Soviet-era parts and munitions. This was achieved through a close working relationship with our partners across the Ministry of Defence (MOD), Strategic Command, British Army Headquarters and industry, and with military personnel deployed forward in Eastern Europe.
- UK defence stocks were also replenished, with more than £300 million of contracts placed during the year, taking the total replenishment commitment to almost £1 billion. And over £700 million was committed from resilience and readiness funding to increase industrial capability, remove the risks of supply chain bottlenecks and increase stockpiles.
- Our Weapons Operating Centre supported Royal Navy operations to protect maritime traffic in the Red Sea and Royal Air Force (RAF) strikes against Houthi sites in Yemen.

- Outside of combat operations, DE&S helped the RAF provide humanitarian aid to Gaza and continued to support increased North Atlantic Treaty Organisation (NATO) activity and the UK's contribution to large-scale NATO exercises across Europe.
- In the UK, our Logistics and Support Operating Centre and Defence Munitions sites swiftly delivered new ceremonial uniforms, equipment and gun salute ammunition for the coronation of His Majesty King Charles III.

IMPROVING OPERATIONAL OUTPUTS

The provision of support, including the maintenance, repair, training and logistics required to keep platforms available for our Armed Forces, is a pivotal aspect of DE&S' mission. Here we provide three case studies, which illustrate DE&S' work over the last year.

TYTAN - The Typhoon jet, also known as the Eurofighter Typhoon, is considered the backbone of UK combat air defence, along with European and international allies. The importance of ensuring that Typhoons are available and ready to go at a moment's notice cannot be overstated. The aircraft's value was underlined in February when four were called on to carry out precision strikes on two Houthi facilities in Yemen. This followed persistent attacks against merchant ships in the Red Sea and the deliberate targeting of HMS Diamond and US Navy vessels. Each front-line RAF squadron needs up to 10 jets, meaning 65 to 70 Typhoons must be available at any given time. It is the job of the Typhoon Total Availability eNterprise (TyTAN), managed by DE&S, to ensure this need is met. Since it was introduced in 2017, TyTAN has improved UK Typhoon fleet availability while reducing the costs of the support service. TyTAN has increased Typhoon flying hours to over 154,000 since the beginning and has met contracted flying hours for the last seven years.

“Supporting UK military operations around the world continues to be DE&S' top priority.”

“The pace at which you're operating, and what you're providing to Ukraine and all of the Armed Forces is phenomenal.”

Admiral Sir Tony Radakin, Chief of the Defence Staff



Soldiers of NATO's multinational Forward Presence Battlegroup training with the 1st Estonian Infantry Brigade. The two-week long exercise demonstrated the combined arms capabilities of UK, France, Danish and Estonian forces.

TYPE 23 - In April, HMS St Albans headed back to sea following a comprehensive refit, a full three months ahead of schedule. The Type 23 warship left Devonport Naval Base for sea trials and is scheduled to return to front-line duties later in 2024. The St Albans was the second Type 23 frigate to successfully complete the Power Generation and Machinery Control Upgrade (PGMU), which improved the ship's performance and resilience, following HMS Richmond. HMS Sutherland is nearing completion of her PGMU upgrade and will complete in the near future. The DE&S Ships Support team oversaw the refit work, in collaboration with the Royal Navy and industry partner Babcock.

EXERCISE STEADFAST DEFENDER - DE&S provided extensive support to Exercise Steadfast Defender, NATO's largest military exercise since the Cold War. The Ships Support Team ensured that Royal Navy ships and aircraft were available for deployment through the provision of food, spares and clothing. Following a last-minute requirement, the team worked with Royal Navy and industry partners to make Queen Elizabeth-class carrier HMS Prince of Wales ready for operations within a week. The land element of Steadfast

Defender saw more than 2,000 vehicles mobilised by the DE&S Vehicle Support Team. These included hundreds of protected mobility vehicles, such as Jackal 2, Foxhound and Mastiff, along with Challenger 2 main battle tanks and an array of smaller support vehicles. DE&S and industry partner Team Leidos fulfilled over 15,000 demands to support Steadfast Defender, equating to more than 700,000 individual items, including over 200,000 days of rations and around 24,000 litres of oils and other lubricants.

Further examples of particular note include:

- The UK's Continuous At-Sea Deterrent was boosted through a new contract worth £1.85 billion, awarded to Thales UK by DE&S, for the in-service support of crucial maritime sensor equipment. This new equipment will sustain or create hundreds of UK jobs and ensure the long-term availability and resilience of critical assets, such as sonar masts, periscopes and electronic warfare equipment, used by Royal Navy ships and submarines.
- DE&S ensured the Royal Navy retained the edge to defeat our adversaries with three contracts to

upgrade and support the Sea Viper missile system. These contracts are worth £405 million and will sustain 350 UK jobs. Sea Viper missiles were used in 2024 to defend commercial ships under attack in the Red Sea.

- The 5,000 litre Small Capacity Aircraft Refueller vehicles, used to fuel and defuel a range of military helicopters, were upgraded and reached Initial Operating Capability (IOC)¹. In total, 90 vehicles will be delivered through a Life Extension Project with improved availability, flexibility and ability to deploy.
- DE&S delivered two new Sikorsky S-92A helicopters to the headquarters of British Forces South Atlantic Islands in the Falkland Islands. These will enable the transportation of people, spares and supplies, and represent a significant upgrade on the previous support aircraft.

INCREASING DEFENCE CAPABILITIES

DE&S continued to procure and deliver equipment that enhances the UK's defence capabilities, with the following examples of particular note:

- Five more F-35B Lightning fighter jets were delivered during the year, in addition to the 30 already supplied to the UK. In total, 48 F-35Bs will be provided by the end of 2025 to enable the stand-up of two front-line F-35B squadrons, able to operate from land or sea.
- The first prototypes of the UK's Challenger 3 main battle tank and Boxer armoured vehicle were delivered and began trials. This marked a major milestone, as DE&S worked to equip the British Army's Armoured Brigade Combat Team.
- The Armoured Cavalry Programme (known as Ajax) got back on track as DE&S delivered 44 armoured vehicles to the British Army for trials. The vehicles successfully travelled more than 20,000 kilometres and fired thousands of rounds of ammunition during their reliability growth trials.
- The new fleet of Apache AH-64E attack helicopters reached IOC, and DE&S is due to deliver the full 50-strong fleet by the end of 2024-25.



First UK Trade Mission to Kyiv Boosts Defence Cooperation

¹ The purpose of IOC is to formally declare that the military capability has reached the minimum level of capability or service that can be usefully deployable, as defined by the Senior Responsible Owner and user.

RAPID DELIVERY

To ensure the UK's Armed Forces had the right equipment at the right time to meet the demands of a fast-changing defence landscape, DE&S conducted a number of rapid procurements. Highlights of these include the following:

- We rapidly procured six Airbus H145 helicopters to provide aviation support for UK forces in Brunei and Cyprus. Replacing the capability currently fulfilled by Puma, the H145s will support UK troops conducting activities including jungle training, medical evacuation and aerial firefighting.
- DE&S negotiated an agreement with Sweden that allowed the UK to quickly procure 14 Archer heavy artillery systems, maintaining the Army's artillery capability requirement. The Archer systems are an interim replacement for the 32 AS90 artillery systems gifted-in-kind to the Ukrainian Armed Forces.
- DE&S procured, modified and delivered two new ships for the Royal Fleet Auxiliary (RFA) within 10 months. RFA Proteus will provide an ocean surveillance capability that will help safeguard critical seabed infrastructure, and RFA Stirling Castle will be a new mothership for autonomous mine-hunting vehicles.
- Following a rapid procurement process managed by DE&S, 500 HX support trucks will be delivered to the British Army in 2024. Thanks to an effective collaboration between DE&S and the British Army, the vehicles were acquired in just seven months. The trucks can be used to carry essential supplies, such as ammunition and water.

SPINNING IN NEW TECHNOLOGY

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

- We used spiral development² to test and develop new autonomous technologies for RFA Stirling Castle. Our Future Air to Surface Guided Weapons programme also employed a spiral approach to develop two new missile systems.

- Our Defence Equipment Sales Authority signed a partnership with The Royal Mint to provide an innovative solution for extracting and recycling precious metals from redundant electronic equipment.
- A prototype of the new European Common Radar System Mk2, which will be able to locate and jam an adversary's radar, was delivered to BAE Systems' Warton facility for integration on to a Typhoon fighter jet ahead of initial flight testing.
- DE&S negotiated contracts for the delivery of 16 Protector RG Mk1 remotely piloted aircraft. The first UK flight of a Protector, operated by an RAF crew, took place at RAF Waddington and was a success. This was a milestone for the UK's future surveillance, intelligence and precision strike capability.
- An autonomous drone from W Autonomous Systems, identified by DE&S for the Royal Navy, became the first uncrewed aerial vehicle to land and take off from a UK aircraft carrier.
- We have been embedding safe, ambitious and responsible Artificial Intelligence (AI) principles into defence acquisition. As a partner in the Defence AI Centre, we helped to stress-test the Defence Acquisition Safety process and worked with the Department for Science, Innovation and Technology on industry AI assurance.
- We embraced AI to drive efficiencies and compliance across DE&S by using a defence data-trained Large Language Model chatbot. This employed deep learning techniques and large data sets to understand, summarise, generate and predict new content for defence tasks.

DELIVERING VALUE FOR THE TAXPAYER

By ensuring our commercial activities and contract placements meet the needs of our organisation and our mission partners, we were able to stay ahead of our adversaries, while providing the best value for the UK taxpayer. In the last year, DE&S placed in the region of 760 new contracts, with a combined value of £7 billion, and managed approximately 2,648 contracts worth around £135.8 billion. Highlights included:

- We placed a substantial order for 155mm ammunition, as part of an initial £190 million contract increase under the long-term Next Generation Munitions

Solutions agreement. This order will result in an eightfold increase in UK productive capacity and create more than 100 new jobs in the UK.

- British Army battlefield mobility will be bolstered through a new £150 million contract for military-grade General Support Bridges as part of Project TYRO. This project will secure 300 UK jobs and provide a significant capability improvement for the British Army, keeping future Armoured Brigade Combat Teams mobile and enabling equipment to cross gaps in the terrain.
- We placed a contract worth £86 million to build a new storage facility, the size of 12 football pitches, in Longtown, Cumbria. This will provide safe and secure storage for equipment used by all three services and support approximately 450 jobs during the build phase across the UK.

OUR PEOPLE PRIORITIES

DE&S' commitment to operational excellence relies on a highly skilled, dedicated workforce. We have worked hard to create an inclusive environment where our people are engaged, empowered and inspired to be the best they can be to deliver the DE&S vision and mission. Highlights include:

- DE&S has continued to build the capabilities of its workforce, allocating a budget of around £9 million for learning and development. This included the continuation of our leadership programmes for under-represented groups, broader leadership skills training for all grades, and functional and technical learning to build capability across DE&S. We further improved our learning campus, which has greatly simplified employee access to learning products.
- We introduced organisation-wide upskilling in Agile decision-making principles and Lean Six Sigma process optimisation. This has been woven into our 'required learning' schedule, underpinning improved, more effective delivery for defence.
- Building on the momentum of the Reward Framework, introduced in 2022, an initial Capability Based Pay pilot ran throughout 2023-24. This helped ensure DE&S appropriately values and differentiates for the skills our employees bring to DE&S in Defence Munitions, British Forces Post Office and Ships Safety Equipment. Following the success of these pilots

we are planning to implement further Capability Based Pay pilots during 2024-25. DE&S takes pride in recognising those who go above and beyond, providing inspiration and innovation, and living our values through their work. In support of this, we have embedded our values in our reward approach by putting them at the heart of our recognition scheme.

- Creating a culture and environment where individuals can bring their true selves to work is important to DE&S. Following an independent review by the Disability Confident Scheme, DE&S was accredited at the highest level for its efforts to attract, recruit and retain people with disabilities. During National Inclusion Week 2023, DE&S launched a Diversity and Inclusion Charter in collaboration with our employee networks. This set out our commitment to working with our defence and industry partners to actively promote and embed a One Defence approach to diversity and inclusion.
- Delivery of our core mission continued to play an integral role in providing a positive employee experience and ensuring that we can sustain our workforce. Strong application rates for DE&S roles demonstrate that we remained an employer of choice, while low preventable attrition rates show that we were able to attract, recognise and retain the skilled and experienced people that are crucial for an organisation to succeed.

"The need to exploit cutting-edge technology and new ways of working has never been clearer."

CHAIR'S INTRODUCTION

MARK RUSSELL



I am delighted to introduce this report, which is the fifth during my tenure, and covers the tenth year of DE&S' operation as an Executive Agency within the MOD.

It remains an honour to serve as Chair of the DE&S Board, particularly now, as the scale and critical importance of our mission continues to increase, and our people step up to deliver it. A key part of my role, and that of my Board colleagues, is to support and challenge the DE&S Chief Executive Officer (CEO) and his executive team on every aspect of the organisation's business. This year, we have focused on improving corporate performance, effectively managing strategic risks and launching DE&S' new Strategy and Operating Model.

I have been impressed by the emphasis our people have placed on engaging the DE&S workforce, and the extensive network of wider defence stakeholders, during the design and build phases of our new Operating Model. There has been a great deal of attention given to understanding how we define and develop requirements, strengthen our supply chains, and deliver, maintain and dispose of equipment. This work, taken alongside our involvement in the broader Defence Design programme, will be pivotal to ensuring DE&S becomes a more efficient organisation, able to drive up pace, work in closer collaboration with partners and allies, reduce project delivery times and increase the availability of equipment.

In the context of increasing global tensions and against a backdrop of constrained finances, DE&S has been asked to do more than ever this year to deter our adversaries and protect the nation. With this

in mind, I have witnessed with pride how motivated my colleagues remain across the organisation. Their dedication has allowed DE&S to undertake significant and important work for Ukraine, while continuing to deliver more than 600 live programmes for our armed forces.

Alongside the successes outlined in the previous pages of this report, of which there are many, it is clear that we must keep improving our performance and be transparent about where we need to change. In September 2023, the House of Commons Defence Committee (HCDC) published a report into the UK's defence procurement system³, which highlighted a need to improve the wider defence acquisition process. In addition, a June 2023 Lessons Learned Review by Clive Sheldon KC into the Armoured Cavalry Programme⁴ (known as Ajax) identified department-wide systemic, cultural and institutional issues that, together, led to errors in judgement and optimism bias in programme reporting.

DE&S has welcomed the constructive criticism in these reports and has worked hard to implement recommendations. This in turn has driven positive changes across the organisation and wider defence enterprise. It is heartening to see that the Ajax programme has turned a corner and continues to progress well against its revised plan. I have also been greatly reassured by the appetite of my colleagues to continue learning, challenging and changing in pursuit of ensuring the security and prosperity of our nation and its allies.

Our people are the driving force behind DE&S' success. Our People Survey results for 2023-24 confirm that we are delivering against the commitments

made in the previous year in areas which really mattered to our people. We have improved our scores for pay and benefits, and in how easily our people feel they can access the right learning and development opportunities. Just one of the key themes, Organisation Objectives and Purpose, achieved a lower score than in 2022, decreasing by three percentage points. While disappointing, it is not surprising that this score and the overall Engagement Index score dropped slightly when considered in the context of the significant changes to the Operating Model and ways of working our people have faced this year. The results highlight the need to clearly communicate with, and support, our managers, leaders and all of our people so that they are informed, enabled and empowered while we continue delivering our strategy and building our new DE&S. Overall, I am encouraged by these results, and by the enthusiasm I see across DE&S to create a work culture where we can all thrive, and to keep supporting the defence mission.

We took a major step towards the full enterprise approach that we call 'One Defence' in April 2023 when we formally welcomed the Defence Electronics and Components Agency (DECA) into DE&S. DECA (now known as DE&S Deca) is a natural fit with DE&S and I am confident this merger will make both organisations stronger, more resilient and better prepared to meet the challenges ahead.

On behalf of the whole DE&S Board, I would like to acknowledge the hard work and determination of my DE&S colleagues in delivering our results throughout 2023-24. I look forward to the year ahead and to continuing to work together as we strive to keep the UK and our allies prosperous and safe.

"Our people are the driving force behind DE&S' success."



RFA Proteus, a new ship dedicated to monitoring the ocean depths, pictured alongside HMS Belfast in London.

³ Report of the UK defence procurement system dated 11 July 2023

⁴ Report of the Armoured Cavalry Programme (Ajax) Lessons Learned Review, dated 19 May 2023.



SECTION 1

— PERFORMANCE REPORT

RAF ATLAS C.1 (A400 M) transport aircraft at night at RAF Akrotiri in Cyprus.

“DE&S began the most important improvements to our ways of working in over a decade.”

OVERVIEW

Soldiers in Revised Weapons Mount Installation Kit (RWMIK) from Support Company, 3rd Battalion, The Parachute Regiment, during Exercise Haraka Storm, Kenya

CHIEF EXECUTIVE OFFICER (CEO) STATEMENT



This Annual Report and Accounts (ARAc) marks the end of the second financial year during which I have had the privilege to be CEO of DE&S and the UK's National Armaments Director. I am pleased to write that we end 2023-24 having responded well to the challenges of the last year, while preparing for those we are likely to face in the next.

THE CHALLENGING GLOBAL DEFENCE LANDSCAPE

The threats posed by potential state and non-state adversaries are increasing. They are becoming better coordinated and investing larger sums in capability development. The war in Ukraine has brought devastation to Europe's eastern border. In the past year we have seen cyber attacks on government bodies, our national infrastructure and industry partners, while British warships and merchant vessels have come under direct attack from hostile actors in the Red Sea.

These increasing threats have driven intensified global competition for essential skills and resources, both base materials and components. The defence sector has experienced high rates of cost inflation caused by issues such as the war in Ukraine and the impact of ongoing conflict in the Middle East on shipping routes. The timescales for key components have increased from weeks to years, as shortages and high demand change the dynamics of the industry. These factors have driven defence acquisition teams around the world to work more proactively with the defence industry to overcome potential delays and cost over-runs.

NATO'S RESPONSE AND THE UK'S ROLE WITHIN IT

We work alongside our allies through alliances, partnerships and agreements to keep the UK safe and prosperous. Foremost among these is NATO, where the UK is a leading member. The NATO Conference of National Armaments Directors, where I represent the UK, has worked hard over the last year to align our defence industrial strategies

for the greater good of the whole alliance. The Defence Production Action Plan, signed in July 2023, will ensure we better coordinate defence procurement and tackle supply challenges together.

NATO nations on both sides of the Atlantic have invested billions of pounds to strengthen the alliance's military capabilities. We have worked at a dramatically increased pace and, with the help of the NATO Industry Advisory Group, strengthened our partnerships with industry. Today we are more capable and better aligned, and our platforms more interoperable, than at any point since the end of the Cold War. And, as potential threats continue to grow, we will do more together to deter conflict and remain ready to protect our nations.

DE&S HEADLINES 2023-24

- 2,648 contracts managed
- 760 contracts placed in-year
- 615 live projects
- £2.7 billion of new assets delivered to our clients
- £907 million of equipment delivered to Ukraine
- 154 million items of inventory delivered
- 98% of strategic milestones delivered on time or early
- £122 million of in-year efficiencies realised
- £753 million of multi-year efficiencies realised
- £9 million under our operating budget

UK DEFENCE ENTERPRISE'S STRONG RESPONSE

Our work is complex and incredibly demanding, and it is only through effective partnering that we will continue to protect the UK and help it prosper. I am proud of the positive and proactive way the UK defence enterprise has responded to the challenges we have faced, and I want to thank all those working across our armed forces, the Civil Service and industry.

At the end of March 2024, DE&S teams, across more than 150 locations in the UK and around the world, were engaged in managing over 2,600 contracts, delivering over 600 projects for the UK's Armed Forces and Ukraine. With 28 of the Government's Major Projects in our portfolio, we are delivering more major projects than any other UK organisation. Over 154 million individual capital items, ranging from individual munitions to combat aircraft and ships, were delivered and 98 percent of our strategic milestones. We have delivered this programme of work £9 million under our operating budget while securing £122 million of in-year and £753 million of multi-year Equipment Programme efficiencies and are pleased to see customer satisfaction scores are the highest they have been in five years.

OUR SUPPORT TO OPERATIONS AND ALLIES

We supported UK Armed Forces operations throughout 2023-24.

We remained committed to supporting Ukraine's war effort. In addition to gifting-in-kind UK munitions and equipment, we rapidly sourced over £900 million worth of lethal and non-lethal aid for the Ukrainian Armed Forces. Since the invasion of mainland Ukraine, we have supported the British Field Army's efforts to train and equip Ukrainian troops; in total, we have taught crucial battlefield skills to over 34,000 personnel.

Our steadfast support to Ukraine this year went beyond immediate wartime needs. As part of wider UK Government and industry action, DE&S is helping the UK build a sustained partnership with Ukraine to assure its long-term stability and defensive capabilities. I was enormously proud to join the UK's first trade mission to Ukraine in December 2023 in my role as National Armaments Director. The mission saw us agree how British and Ukrainian companies will work together to enhance Ukraine's defence-industrial facilities and increase our collective capacity to deliver mission-winning defence systems, opening up opportunities for the UK defence industry. I was humbled that the Ukrainian Minister of Defence chose to directly thank our teams, describing us as one of their most trusted and reliable partners.

DELIVERING SAFE EQUIPMENT AND SAFE OPERATIONAL SUPPORT

The equipment and support we provide enables our armed forces to keep the nation safe. We do everything we can

to ensure that this equipment is as safe as possible for the military personnel who use it. DE&S personnel also do complex and potentially hazardous work, ranging from directly supporting operations and munitions manufacturing to complex equipment testing in extreme environments. We manage safety effectively to maintain the military advantage while protecting our people from harm. Our duty is to ensure they too are kept safe through effective safety management.

The accelerating volume and pace of UK operations over the past year has created a demanding context in which to assure the safety of our personnel and UK operations. In response, we have regularly highlighted the importance of safety to our staff and put in place guidance and structures to foster a psychologically safe environment in which they can feel confident raising concerns.

We have also maintained a close focus on safety through our 'three Lines of Defence' model and significantly increased the tempo of oversight through the DE&S Safety, Health and Environment Committee. For as long as the external threats and pressures remain, this will continue to be an area of increased attention for both the Executive Committee and the Board.

A ONE DEFENCE ENTERPRISE

The success of our Defence enterprise relies on how we work with our industry partners. We are committed to bringing them into more of our long-term discussions and to building our strategies together. We continued to develop the Defence Suppliers Forum (DSF) this year. The DSF, where I co-chair the Executive Group, is the main space for government-industry coordination. In September 2023, the DSF launched its new aims and objectives, which focus on shared actions that will deliver more collaboration, earlier engagement, and the swift development and greater availability of capabilities.

We continued to emphasise our support for the UK's micro, small and medium-sized enterprises. These are incubators of innovation, highly agile in producing solutions and often crucial to their local economies. We are committed to supporting their growth and success. With our DSF colleagues and our partners in the defence trade associations, we are making it faster and simpler for micro, small and medium-sized enterprises and companies of all sizes to access defence procurement opportunities. In 2022-23, MOD spent just under £1.4 billion with micro, small

and medium-sized enterprises, equivalent to five percent of total MOD expenditure.

BECOMING OPERATIONALLY EXCELLENT

In the UK, a defence-wide process of acquisition reform, aiming for greater speed, scale, innovation and integration, has made important progress.

Guided by this, DE&S began the most important improvements to our ways of working in over a decade to become an organisation that balances resource constraints and delivers increased capability more quickly. Designed in collaboration with mission partners from the Front Line Commands (FLC) and defence industry, our new Operating Model incorporates international best practice.

Throughout 2023-24, we built and tested the Operating Model, and began implementing it. The new model will empower our teams to deliver increased productivity, improved efficiency and greater availability of and support for defence equipment. It sets up projects for success and allows them to move forward at pace, while ensuring our systems are integrated across the armed forces and built to be interoperable with our allies. Delivery will be grounded in spiral development principles, which guide teams to rapidly deliver minimum viable products and then iteratively upgrade based on new developments and in-service experience. The transition is due to complete in 2025.

THE YEAR AHEAD

The year ahead promises to be just as demanding and uncertain, but I am confident that, thanks to our hard work over the last year, we will overcome any challenges we face.

We will continue to support our Ukrainian allies with battlefield skills, equipment, munitions and technology, while helping to build a strong industrial partnership that benefits both nations. We will work to build a stronger NATO alliance and a more united deterrence by advocating for increased levels of interoperability, interchangeability and integration between nations.

We anticipate that our armed forces will need to maintain a high level of operational tempo, as we play our part in securing the UK and NATO's borders. This will continue to place significant demands on the DE&S teams tasked with keeping equipment available and commodities and spares supplied.

To support this, we will complete the roll-out of our new Operating Model and put in place the processes for its optimisation throughout the year. The increased productivity this creates will ensure we are able to maintain our outputs, despite challenging expected resource constraints. A highly skilled and agile workforce will power our Operating Model, delivering value where it matters most and driving efficiency to maximise availability of equipment for the armed forces.

We will digitise more of our end-to-end acquisition processes to provide greater insight and oversight of our supply chains, use AI to design-in more automation and remove the blockers that slow our work. It will allow us to work more effectively with industry, better support exports and increase pace.

We will continue to strengthen our armed forces by delivering vital new capabilities, including the Challenger 3 main battle tank, the E-7 Wedgetail aircraft and the Type 31 frigate. We will improve our support to Strategic Command's Integration Design Authority and Defence Digital, working together to ensure we maximise the impact of new systems. By driving forward innovation and exploiting emerging technologies, we will maintain the UK's battlefield edge. As part of this, our teams will explore novel areas including space, cyber and electronic warfare.

If we can achieve this, we will create a defence enterprise that is more competitive, innovative, productive, collaborative and secure, and which, ultimately, has a positive impact on our ability to protect the nation and help it prosper.

This ARAc is a testament to the hard work and dedication of our people, and to the power that is unlocked when we work together.

I have reviewed the 2023-24 ARAc and am satisfied that this document accurately reflects the financial status and corporate position of DE&S for the reporting period.



Andy Start, CEO and Accounting Officer
25 July 2024

CHIEF FINANCIAL OFFICER (CFO) STATEMENT

DAVID JOHNSON, FINANCE DIRECTOR



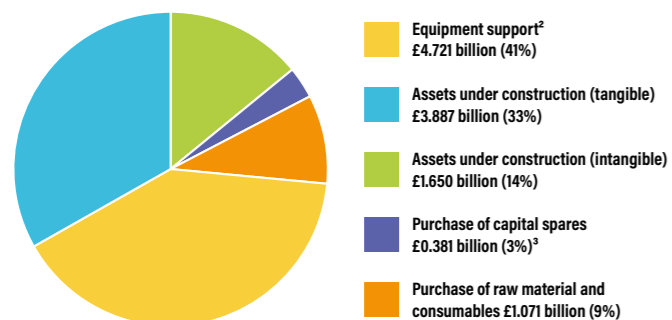
2023-24 is our tenth year of operation as an Executive Agency within the MOD, and our seventh consecutive year with unqualified accounts. This year we have continued to provide rapid support to Ukraine alongside our core objectives, securing some additional funding outside of our main budget to sustain this. We have welcomed DE&S Deca into the organisation and have merged their financial data into the FY2023-24 financial statements for DE&S.

THE EQUIPMENT PLAN

This year we spent £11.711⁵ billion on behalf of the armed forces to deliver against an in-year Equipment Plan (EP) budget of £12.106 billion. We delivered 747 new assets with a Gross Book Value of £2.711 billion to our clients, of which the largest were for the delivery of five F-35B Lightning Aircraft (£425 million), and the intangible assets relating to Spearfish Weapon upgrade development (£247 million) and to Mechanised Infantry Vehicle Design and Development (£219 million).

We out turned 3.3% under the overall in-year budget of £12.106 billion. Global supply chain challenges continue to impact through schedule delays to a number of our programmes.

DE&S BREAKDOWN OF EP SPEND FY23-24 £11.7BN¹



NOTES

- This is a breakdown of EP spend that we execute on behalf of the FLCs and is not included within the DE&S Financial Statements in Section 3.
- Also includes other miscellaneous spend such as digital, research and development and other raw material and consumable movements.
- DE&S EP spend excluding Operations and Future Combat Air System which is reported separately by MOD HO.
- In addition to this, operating costs directly associated with support to Ukraine outside of the core DE&S budget totalled £9 million.

Looking at the longer term, the projected 10-year costs of the EP from FY2024-25 to FY2033-34 to be delivered by DE&S increased by £8.445 billion (8%) from £111.544 billion to £119.989 billion. This increase was driven largely by programme scope enhancements requested from our customers (£5.385 billion), the impact of inflation (£1.379 billion) and foreign currency movements (£1.325 billion), and costs moving into the 10-year horizon (£1.194 billion). We have, however, continued to identify and deliver efficiencies, resulting in a saving of £753 million over the next 10 years.

Alongside our core equipment programme, DE&S has supported gifting-in-kind to help equip the Ukrainian Armed Forces, both through grants from our existing stores and through additional rapid procurement activity totalling £907 million. In-year, overall support to Ukraine, including equipment support costs and the UK contribution to the International Fund, amounted to £1.118 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 2023-24 totalled £1.359 billion⁵ against a final budget of £1.363 billion (0.3% under budget). The primary reason for underspending was linked to the introduction of restrictions on new Capital Departmental Expenditure Limit (CDEL) commitments in January 2024 which had a knock-on impact on our ability to deliver the full extent of our planned capital programmes.

INFRASTRUCTURE AND ENVIRONMENTAL ACTIVITY

Our Infrastructure Plan, which is delegated to DE&S and delivered by the Defence Infrastructure Organisation, outturned at £138 million, £5 million under the final budget of £143 million.

The major capital project, to sustain power at Defence Munitions Glen Douglas, continued this year. 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, upgraded lighting and power sources at a pilot site to be more energy efficient, and commenced delivery of solar installation for two MOD sites.

FINANCE FUNCTION – CONTINUOUS IMPROVEMENT

Throughout 2023-24 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 collaborate continuously with the department to improve project accounting, forecasting, and other aspects of finance.

This year our focus has been on using the skills developed through Lean Six Sigma⁶ training to identify and drive process improvements which will enable greater efficiency and effectiveness in how we work. This includes projects to streamline and digitise business cases, and to drive increased automation of financial accounting and inventory processes. Through these and other projects we are driving enhanced quality and increased productivity, to meet future resourcing challenges. We have continued to develop the Finance Diversity and Inclusion network supporting all our people and tackling barriers to development and progression in the function, including through a part-time workers' forum.

GOVERNANCE AND COUNTER FRAUD ACTIVITY

We continue to develop our counter fraud activities under the oversight of the DE&S Fraud Board. We have published our Fraud Risk Management Strategy and Response Plan which outlines our risk-based approach and the measures we are taking to combat fraud in DE&S. We have also continued to pursue improvements in the automation of key control processes including travel and subsistence and declarations of interest to improve compliance, streamline completion and reduce bureaucracy. We continue to promote the MOD Confidential Hotline and our DE&S Whistleblowing and Raising a Concern Policy, through which 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 AI capability within the organisation. We currently operate 115 live automation processes, using robotic process automation, optical character recognition and Office 365 approval and workflow automation. To date, we have delivered over 3,500,000 automated transactions, saving our workforce over 580,000 hours of automated benefit through transactional or workflow processing. We aim to keep building on this progress.

DE&S has also made great strides in the responsible development and application of AI-enabled solutions to; increase workforce productivity, gain insight and actionable decision making from extraordinarily large datasets and improving equipment readiness and availability for our armed forces. Amongst a number of user cases that have been delivered this year, we have embedded predictive maintenance and smarter detachment planning capabilities into our Merlin and Wildcat platforms through Project Motherlode, and we have used innovative techniques with Large Language Models within Typhoon to assist our engineering community to optimise its maintenance programmes.

OUTLOOK

Looking ahead to 2024-25, we expect continuing economic challenges, including pressure on internal operating budgets and on Civil Service workforce numbers. Our main response to these challenges, as well as to the overarching imperative to improve our ability to deliver our mission, will be through the implementation of our new Operating Model which will lead to a more effective, productive and agile organisation.

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

⁶ Lean Six Sigma is a method for improving performance by systematically removing waste and reducing variation that relies on a collaborative team effort.

ABOUT DE&S

The UK and our allies face increasing threats to our security and way of life. Our armed forces protect us from these threats, but they can only do that if they have the right equipment and support to carry out their duties. That's where we come in.

OUR MISSION

Our mission is to equip our armed forces with the edge to protect our nation and help it prosper.

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 world-class equipment and support services to the UK's Armed Forces.

A unique blend of military and Civil Service personnel, our teams bring their commercial, project management and engineering expertise to bear to meet defence requirements. Together we play a critical role in keeping our nation safe and prosperous, making sure the right kit is available at the right time.

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

WHAT WE DO

We procure and support equipment to meet the full spectrum of defence needs, from small drones through to aircraft carriers. We work closely with the FLCs, and the global defence industry in support of 'One Defence', 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 also provide critical services to support operational outputs such as storage and supply of munitions to the armed forces and provisions of marine salvage and emergency response. 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. 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.

Following our merger with DE&S Deca⁷, we now provide secure access to assured onshore maintenance, repair, overhaul, upgrade, associated Post Design Services, and managed services for an extensive range of electronic and general engineering equipment for air, land and sea platforms.

Everything we do is safety focussed, working very closely with our clients as well as MOD HO and the Submarine Delivery Agency (SDA).

HOW WE DO IT

Our culture: If we want to protect the nation and help it prosper, we need the whole of the defence community to break down barriers and work together as one defence to build a community where everyone can be their true selves and thrive.

Whether we are in DE&S, MOD HO, the FLCs, other MOD agencies or industry, what unifies us is our dedication to protecting the UK and its allies.

That is why, in DE&S we work with our partners to build a culture based on high trust, where improved leadership breeds authenticity, confidence and respect – all day, every day. An inclusive working environment that empowers diversity, making every voice count. And colleagues who feel safe to challenge constructively and are nurtured to reach their full potential – all while delivering the best possible outcomes for defence.

Our values: To unlock a better today, tomorrow, and truly make a success of our future DE&S, we all share responsibility for ensuring the values below underpin every decision we make and action we take.



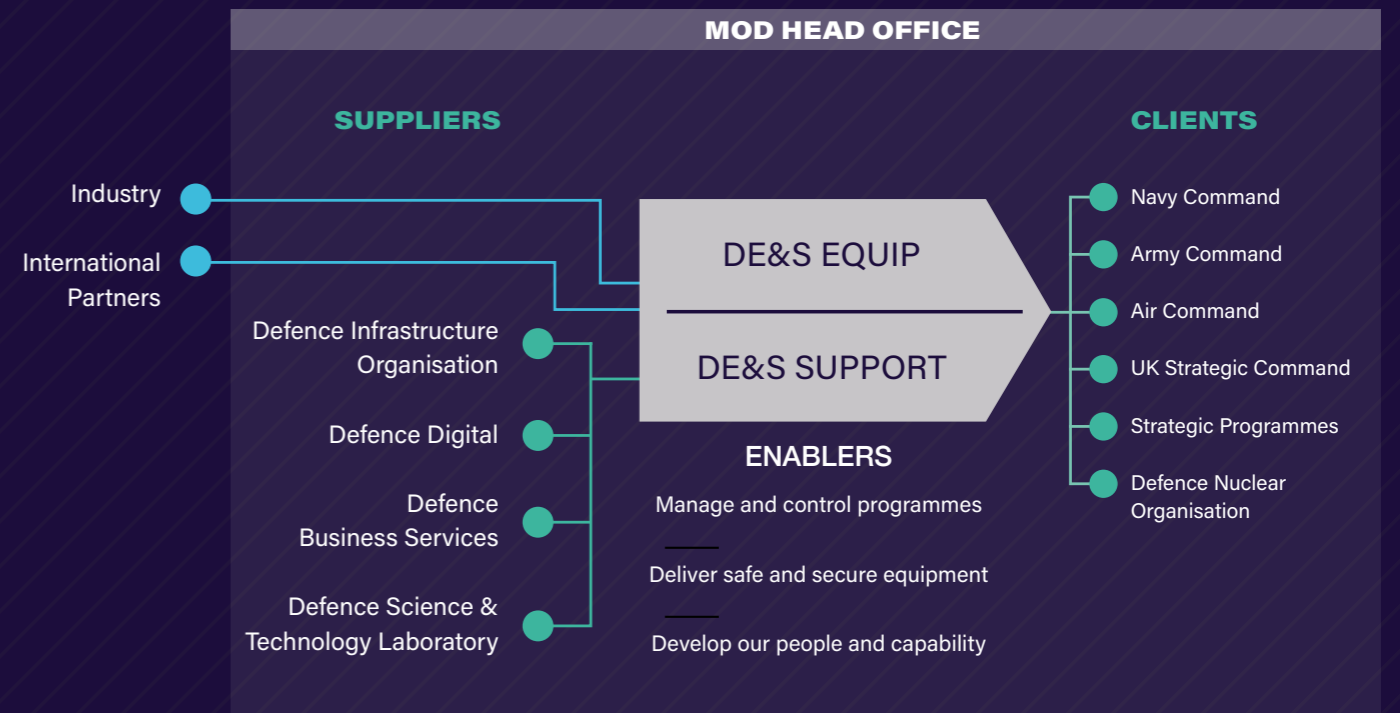
WORKING WITH INDUSTRY

Our defence industrial supply chain is a critical part of the defence enterprise and has a fundamental role to play in keeping our nation safe.

We work with businesses, ranging from large, established international companies to small, specialist niche providers, to help us deliver on our collective mission. We work together to ensure quality and value for money for our clients, and drive pace into delivery of military capability -making every day count.

Together, we deliver a vast array of programmes and projects. We are on track to deliver £120 billion of the Defence EP over the next 10 years, including the next generation of uncrewed autonomous systems, new laser directed energy weapons, the Challenger 3 battle tank and the Type 26 global combat ship.

HOW WE OPERATE



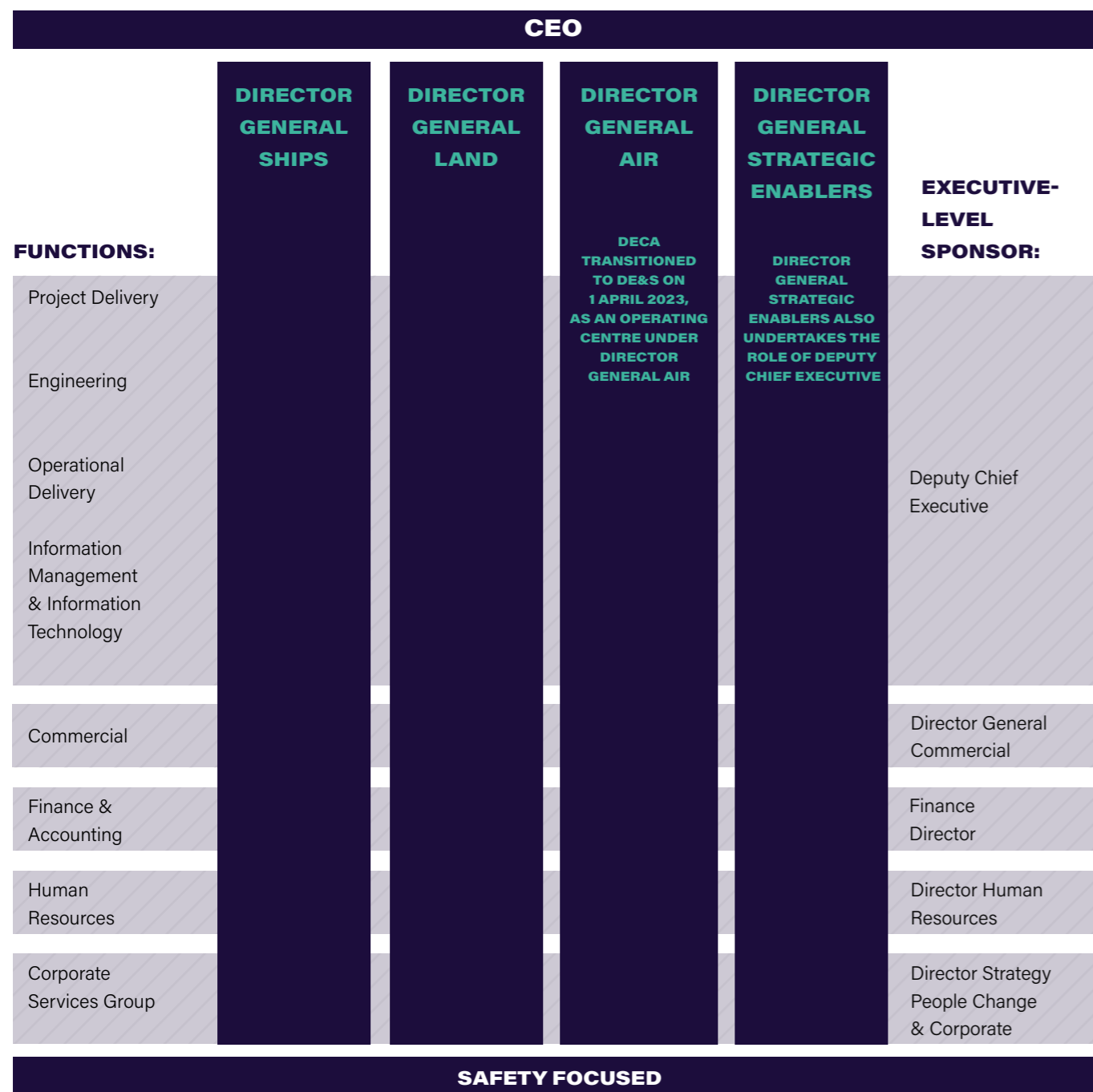
⁷ Refer to Note 2 to the Accounts on page 124 (Transfer of Functions on 1 April 2023) for further information on DE&S Deca and its transfer into DE&S on 1 April 2023.

HOW WE WERE ORGANISED FOR THE YEAR ENDING 31 MARCH 2024

Over the last year we have operated as 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 2024



DE&S ORGANISATION IN THE FUTURE

Our Operating Model reform will be implemented during 2024-25 which will significantly change how we are organised. This will be a critical year for DE&S as we change the way we operate to meet increasing global threats and move to a better way of working for our stakeholders and our people. More detailed information about our priorities and how we will achieve them under a new Operating Model can be found under the Strategy section on page 26.

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 EP and Equipment Support Plan (ESP), 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 support⁸ other programme costs and capital additions. We also reflect within the accounts,

notional communicated costs, which cover the services that are incurred through activities with other MOD organisations.

The financial statements at section 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 (HM) Treasury, and we observe the standard financial processes and rules set out by the MOD Director General (DG) Finance.

OPERATING AS AN EXECUTIVE AGENCY

DE&S was launched as an Executive Agency within the MOD in April 2014, with unique management freedoms delegated by HM Treasury and the Cabinet Office. Whilst we are an integral part of the MOD, and remain fully accountable to the Defence Board, we have an additional advisory board governance structure which ensures we use our targeted 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.



A Town Hall launch event for the new DE&S strategy, held in the innovation bridge at Abbey Wood.

⁸ 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 118

OUR STRATEGY

Since the launch of our DE&S 2025 Strategy in 2021, the environment in which DE&S operates has become increasingly challenging, with conflict, supply chain and economic challenges becoming part of our daily lives.

To respond to these challenges and the increasing threats that we face, there has been a need to reposition our strategy so that we are able to deliver more of what matters and increase the outputs defence needs today and into the future.

In 2023 we refreshed our DE&S Strategy, which encapsulates the decisions taken in the Integrated Review Refresh and the Defence Command Paper 2023 and sets out the strategic direction for the business.

Our Strategic Outcomes below (**Today, Tomorrow, Together**) outlines the need to change DE&S in order to sustain and grow our abilities into the future. Strengthening how we work collaboratively with our partners to be able to deliver more from our supply chain, faster and more effectively for our available budget.

OUR STRATEGY

UNLOCKING OUR CAPACITY TO INCREASE DEFENCE'S OUTPUTS

Our strategy is built upon delivering more of what matters for our armed forces and the UK. To achieve this, our strategy has three strategic outcomes, each with ambitious targets to be achieved by the end of 2025:

Delivering the outputs our armed forces need TODAY.

- Supporting UK Defence priorities, including operational support to Ukraine.
- Increasing the availability and resilience of in-service military platforms and systems, so they can be deployed, safely and securely, wherever and whenever they are needed.
- Increasing our capacity to more quickly meet our existing promises, including our current commitments on social value and climate change.
- Harnessing digital technology to improve our business operations and defence outputs, and accelerate and integrate capability.

Sharpening Defence's edge for TOMORROW.

- Outpacing our adversaries with rapid updates to our capabilities and advances in science and technology.
- Maximising our professional expertise to become an intelligent, market-informed supplier, better able to inform Defence's upfront decision-making.
- Modernising our business to become even more skilled in integrating military capability.
- Playing a leading role in optimising Defence's future through-life acquisition system.

Driving efficiency and competitiveness TOGETHER.

- Significantly increasing Defence's outputs by working as a true partner to industry, our armed forces, defence colleagues and our allies, as One Defence team.
- Strengthening the resilience of our industrial supply base, with a particular focus on export success and overcoming shared challenges, including high inflation, skills shortages and materials shortages.
- Collaboratively driving excellence across Defence by creating a high-trust, values-led environment to face down the threats we can see clearly and those yet to emerge.
- Focusing on improving international collaboration and enabling secure allied integration to increase our interoperability and our combined deterrent against our adversaries.

We will measure our strategy's success through the improvements we will deliver for soldiers, sailors, marines and aviators, and the positive engagement of our people and suppliers.

Throughout 2023-24 we have successfully made progress implementing the changes needed to deliver the DE&S Strategy and achieve our mission. This has included:

Optimising our Operating Model to bring it in line with our strategy.

Collaborating with wider defence, we are moving away from FLC facing domains (Air, Ships, Land) to a new structure based on four key business areas - Gateway, Core Delivery, Corporate, and System Integration. This will enable us to deliver to our armed forces quicker with less duplication, greater consistency, and more efficient processes.

As part of this work, approximately 1500 of our people from across DE&S, Industry and UK Armed Forces have been involved in designing our new Operating Model, through a process that has been truly 'by us, for us,' as we change the way we work and strive for operational excellence.

The first part of our new DE&S Operating Model, the Gateway, stood up in March 2024 which marked a major step towards realising our future DE&S. This Gateway brings work into DE&S, commissioning it on behalf of defence for implementation by our teams in Core Delivery. Corporate and Core Delivery areas are due to stand up from Summer 2024, shortly followed by System Integration in Autumn 2024 with the future DE&S Operating Model fully operating by Spring 2025.

Tackling defence-wide challenges together through the delivery of three Capability Centres.

Our three Capability Centres achieved IOC in December 2023. These are the Defence Availability Centre, Digital Engineering Centre and Battlespace Integration Centre which will use transformative digital capabilities to significantly improve data-sharing, speed up project delivery and ensure the equipment we procure is interoperable by default.

The Capability Centres, based at Abbey Wood, are incorporated into the new DE&S design as part of System Integration, providing a critical lever through which DE&S can monitor and improve equipment availability, engineering and integration. They will add value to projects and programmes across the whole

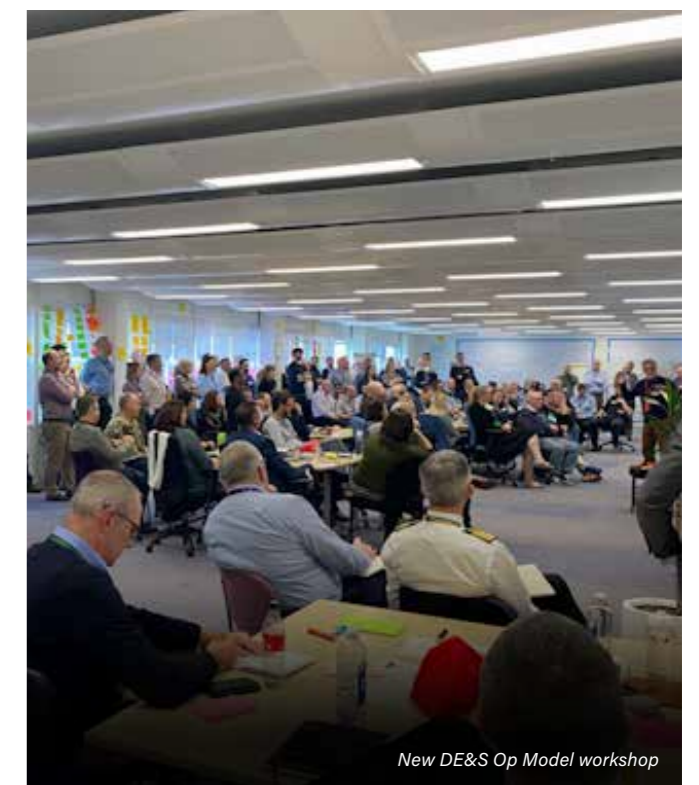
model and throughout a solution's life-cycle; from interrogating environment interoperability during the commissioning process, to monitoring and solving availability issues during operation, to testing spiral development by digital engineering when an upgrade is required.

OUR NEW OPERATING MODEL

In response to the emerging threat landscape, increasing requirements to support our armed forces and allies and budgetary constraints, transforming our Operating Model is mission critical.

By transforming our Operating Model, we will seek to support defence in the following ways:

- Higher Productivity: A DE&S delivering more for less.
- More Pace: Halving the time to contract.
- Higher Availability: Providing more availability from our existing fleets.
- More Lethality: Creating a more integrated defence system that delivers far more effect.
- More Resilience: Driving greater interoperability and less fragile supply chains.
- More Prosperity: Increasing global share of defence exports.



New DE&S Op Model workshop

WHAT WILL THE FUTURE DE&S LOOK LIKE?

We have committed to three priorities for the year ahead:

- Continuing to deliver support to operations (including Ukraine).
- Implementing our new Operating Model.
- Improving delivery performance (by accelerating time to contract and improving supplier delivery).

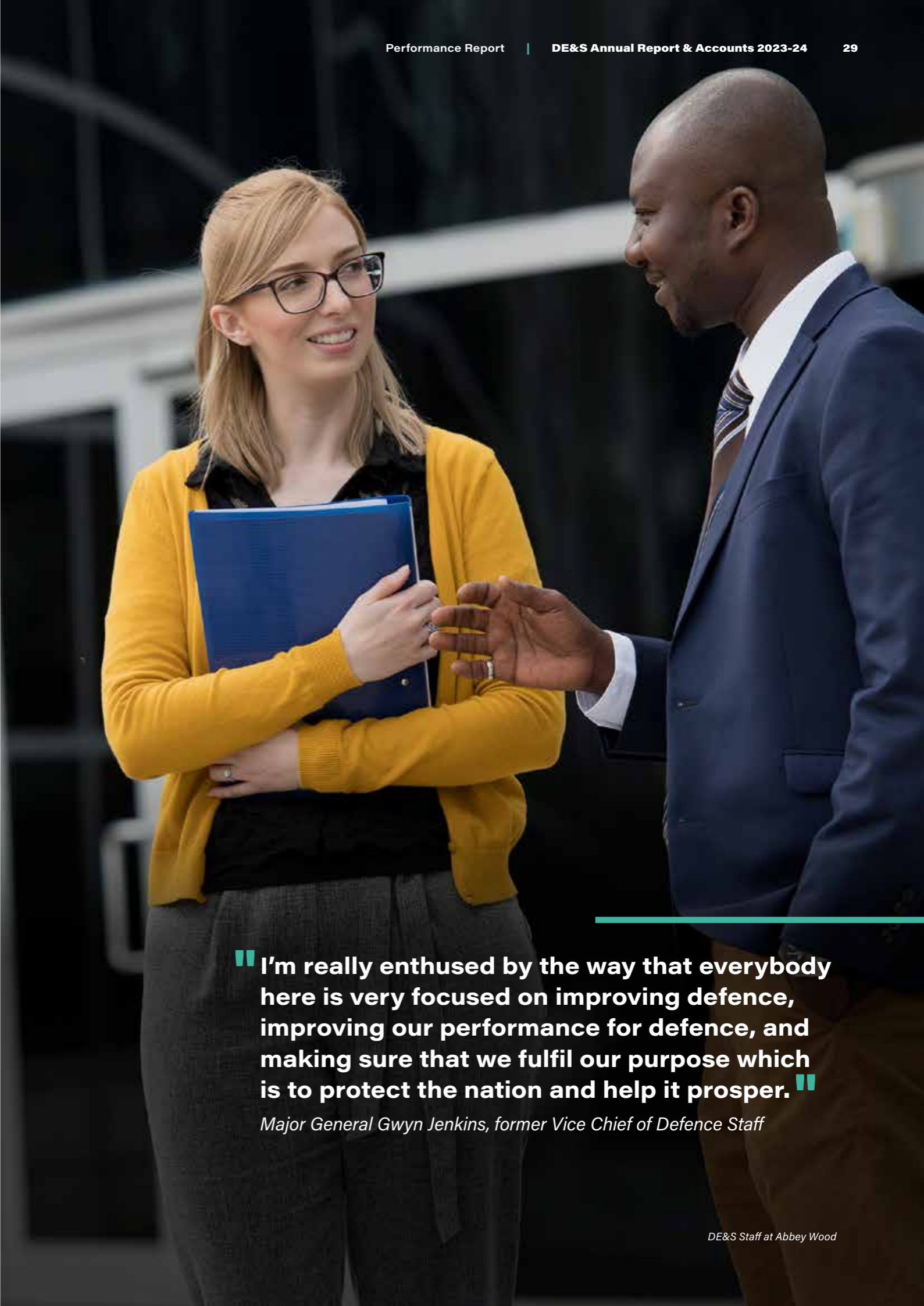
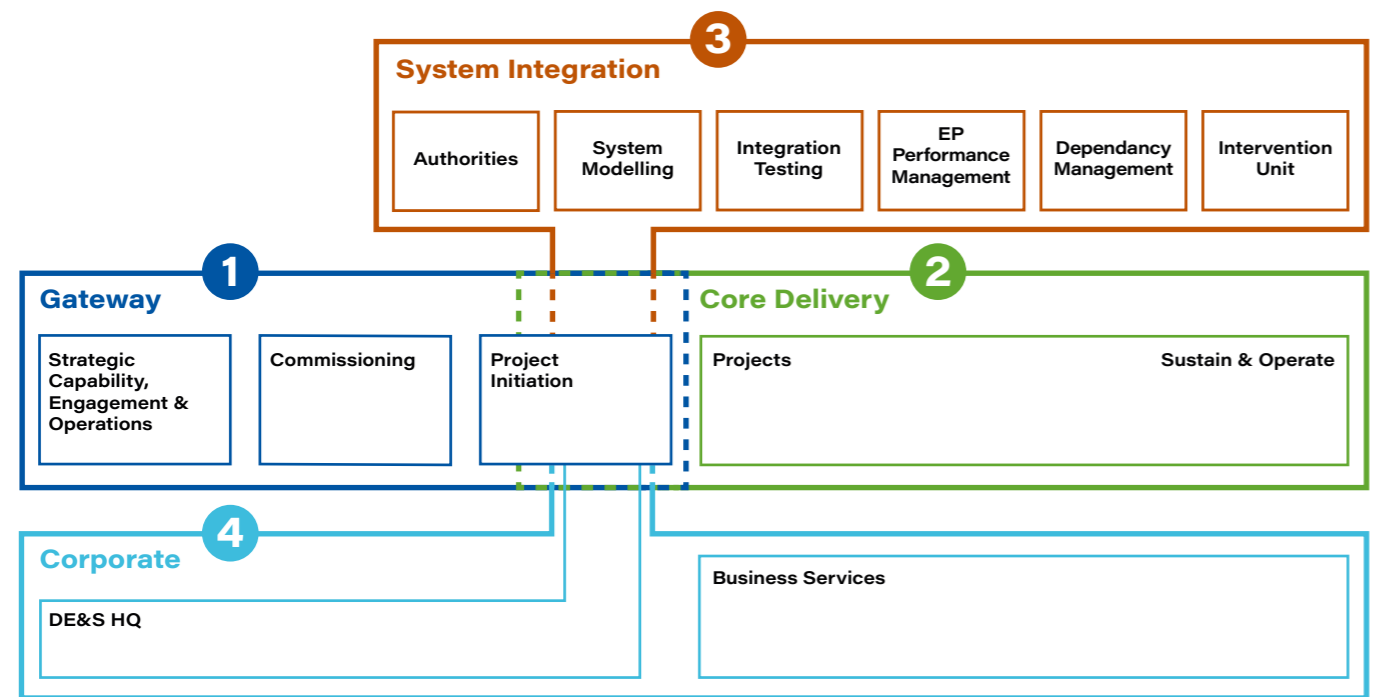
To achieve these priorities, we have started building the future DE&S based on a design created by our people, with our clients and partners, for us all. The diagram below outlines four new areas within DE&S – the Gateway, Core Delivery, Corporate and System Integration.

1. The Gateway will provide a single entry-point to DE&S for our clients, it will engage and inform wider-defence early on, provide insight and support to the FLCs to prioritise and set up projects for success from the start. This new way of working will speed up decision making and resourcing of work.

2. Core Delivery will then deliver the work, sustaining and operating equipment and services for our armed forces. This will be the beating heart of DE&S where delivery teams focus on providing what our clients need, maximising equipment availability and safety, in a highly repeatable, standardised, optimised and automated way that makes DE&S easy to work with.

3. System Integration will make sure all the platforms, systems and services we deliver can talk to each other and integrate - rather than disparate solutions that become obsolete within a decade.

4. Corporate, and the services it provides, will be home to the professions who support the rest in keeping the wheels of delivery turning fast and steady, as well as the strategic planning for our long-term direction.



“I’m really enthused by the way that everybody here is very focused on improving defence, improving our performance for defence, and making sure that we fulfil our purpose which is to protect the nation and help it prosper.”

Major General Gwyn Jenkins, former Vice Chief of Defence Staff

DE&S Staff at Abbey Wood

IMPROVING OUR DELIVERY

CHANGE AND CONTINUOUS IMPROVEMENT

Our approach to change management has evolved to meet the challenges and complexity of the Strategy Implementation Programme⁹, launched in February 2023. We developed new governance and structures, with a Senior Reporting Officer accountable for overall delivery and performance of the change programme. We determined an incremental approach to delivering change and established business-led teams to drive the implementation through a “by us for us” methodology. A small central team has focused on coordinating a single, integrated plan to drive delivery of the strategy through to programme conclusion, ensuring benefit realisation, by March 2025.

We have continued to develop our approach to business planning to deliver 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

The Defence Command Paper 2023 set out a renewed vision for “forging a new alliance” with industry, recognising the critical role that our defence industrial base plays in supporting the national defence endeavour through providing equipment that our armed forces use as well as providing vital services.

The Strategic Partnering Programme (SPP) is a central MOD team, within Defence Commercial, whose role is to support strong and effective relationships with the MOD’s largest and most strategically important suppliers. The SPP works closely with DE&S to help projects and programmes to collaborate with suppliers to improve performance. This has, for example, involved the development of two joint initiatives to improve delivery confidence (referred to as the Joint Schedule Assessment of Readiness and an Integrated Baseline Review). Alongside this, process improvements have been made following a review of dependencies and Government Furnished Assets. The Supply Chain Directorate (within which SPP sits) is also working with DE&S to develop and roll out SCRIPT, the MOD’s supply chain mapping and resilience analysis tool.

The SPP works with the Defence Suppliers Forum, which is co-chaired by DE&S’ CEO and is the MOD’s primary collective industry engagement mechanism for discussion on strategic topics. Through this the MOD and industry are progressing key issues such as, embedding sustainability, more actively engaging with micro, small and medium enterprises, and promoting innovation to solve together the capability challenges for the future.

Looking forwards, the Supply Chain Directorate (via the Defence Supply Chain Capability Programme) is developing and rolling out a holistic pan MOD supplier management framework, which will support improvements to supplier management in DE&S through aligned processes that enable the MOD to speak with one voice and better supplier performance management tools.

MANAGEMENT INFORMATION STRATEGY

Our Management Information (MI) Strategy continues to provide organisation-wide solutions to the MI requirements of our business and our customers. Our data governance ensures that the information in our data warehouse can be used to support decision makers effectively. We continue to exploit modern analytical techniques and data science to improve the speed and quality of our decision making.

COMMERCIAL IMPROVEMENTS

The Director Commercial Change role has continued to mature, with the creation of a MOD wide Commercial Change Delivery Group (CCDG) and Commercial Change Committee, along with development of underpinning change delivery lifecycle methodology with approval gates. This new governance approach has allowed management of the commercial change portfolio to progress through greater challenge at the initiation stage; better alignment during implementation and more focus on benefits at completion. Further organisational change has seen more clarity emerge through new areas of responsibility, which are based around three change pillars (People, Ways of Working and Supply Chain). These pillars directly contribute to the delivery of the Commercial Director General sponsored MOD Commercial Strategy.

These governance and organisational changes have created an environment with successful acceleration of several change programmes, such as Tender Evaluation and Social Value, to successful outcomes and end state completion. This has allowed scarce resource to be reallocated and reprioritised to the next wave of change initiatives, such as Commercial X and Low Complexity Procurement. A significant milestone was achieved by early 2024 with over 300 contracts containing Social Value provisions. Our commercial exploitation team have streamlined the process by which revenues are received from Industry for export sales, arising from our earlier investment in military equipment development. This is now a well understood process, delivering returns on investment, while also allowing DE&S resources to be released. This is helping to consolidate how change should be efficiently resourced and managed, and good staff performance recognised.

Existing centres of expertise have continued to drive capability in key areas, such as Single Source Pricing, leading to a healthy return on investment in 2023-24. Additional projects have been initiated to join the portfolio based on establishing clarity around potential benefits and savings, such as Simplification (driving for efficiency opportunities). In addition, Low Complexity Procurement has progressed to join the portfolio through establishing clear goals for more effective routes to market for this category of spend. This is helping free up commercial resource to work on higher complexity programmes and developing an effective control framework around lower value electronic purchasing card expenditure. Approval to proceed to pilot for the first element, referred to as Tail Spend, has been received from both the CCDG and the joint two-star Finance and Commercial Governance Board, and it will now go live across both DE&S and wider MOD in FY2024-25.

The MOD-wide Supply Chain Resilience (SCR) and DE&S Supplier Relationship Management (SRM) 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 having captured the DE&S Government Major Projects Portfolio (GMPP)¹⁰ and will move forward as a key department tool in 2024-25. This has generated considerable interest from OGDs, other nations, and key suppliers, who will engage in the next stage of collaborative usage of the toolset. In addition, the SRM

programme is driving improved relationships with our strategic and critical suppliers through a joined-up ‘one customer’ strategy approach, as well as being integral to the success of the Defence SPP. Together the SCR and SRM 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.



Soldier carrying a Carl-Gustaf M4 recoilless rifle

⁹ The Strategy Implementation Programme covers the implementation of the Strategy and our new Operating Model.

¹⁰ The Government’s Major Projects Portfolio is overseen by the Infrastructure and Projects Authority and include the government’s most complex and strategically important projects.



PERFORMANCE ANALYSIS

DE&S has awarded BAE Systems a contract to develop its Striker II Helmet Mounted Display (HMD) for the Royal Air Force (RAF) Typhoon fleet.

OBJECTIVES GOALS STRATEGIES AND MEASURES (OGSM) 2023-24

The DE&S OGSM framework provides a robust mechanism which sets out what we intend to do and how we will measure progress against it. This in turn helps link our strategic objectives, listed in the Corporate Plan, to our individual contributions right 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.

Our OGSM is underpinned by our Corporate KPIs, which include the agreed performance targets that we have been working to over the course of this year. An overview of performance against these KPIs can be found over the next few pages of this report.

DELIVERING FOR OUR CLIENTS: OUR PERFORMANCE, RISKS AND ISSUES

Corporate performance for 2023-24 is set out in this chapter of the report. Corporate performance, including performance against our KPIs, financial performance, management of risk and safety performance, is regularly assessed by the Executive Committee and DE&S Board. Performance is also reviewed in detail at the 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 Functions¹¹ to account. We also hold regular CASP performance reviews with each of our clients.

More information on our governance structures and activity for 2023-24, as well as information on our key risks and issues, is set out in the Governance Statement which forms part of the Accountability Report.

CORPORATE KPI PERFORMANCE

Throughout the year we have continually measured our performance using KPIs categorised under four headings: finance, equipment acquisition, equipment support, and people.

Most of our KPIs have remained the same as 2022-23 with changes only under KPI 4 (People), where KPI 4.2 now focuses on Leadership, Skills and Growth.

DE&S as an organisation is undergoing a major transformational change, with FY 2024-25 a year of transition. Our KPIs for 2024-25 will therefore be significantly different, and we expect that they will evolve further in subsequent years.

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



Staff at work in one of the new collaboration areas at Abbey Wood.

¹¹ Delivery of DE&S business is supported by eight functions (Project Delivery, Engineering, Operational Delivery, Information Management and Information Technology, Commercial, Finance and Accounting, Human Resources, and Corporate Services Group).



Paratroopers from the 173rd Infantry Brigade Combat team (Airborne) execute aerial supply mission.

OGSM 1 – HITTING OUR NUMBERS

KPI 1 – FINANCE

Our Finance KPIs provide a measure of how well we operate within the in-year allocations of Operating Expenditure (KPI 1.1) and EP budgetary controls (KPI 1.2). KPI 1.2 tracks in-year forecast outturn against budget by each Command-facing area, and KPI 1.3 measures the stability of the forecast by Command over the 10-year planning period (FY 24-25 to FY 33-34). KPI 1.4 and KPI 1.5 measure the savings we have made due to efficiencies, tracking against targets agreed at the start of the FY. KPI 1.4 tracks against the in-year target with KPI 1.5 tracking across the 10-year planning period.

KPI 1.1 - OPERATING BUDGETARY CONTROL

DE&S	-£9M	Metric Green ≤ budget Red > budget
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The table above includes the Infrastructure Plan.

For 2023-24, DE&S continued to live within its means in relation to its Operating Expenditure budget, with expenditure out turning at £1.497 billion¹², £9 million (0.6%) under budget. The primary reason for this small underspend was a temporary departmental restriction on capital commitments which meant that some planned capital programmes did not achieve their forecast expenditure in-year.

KPI 1.2 - IN-YEAR EP BUDGETARY CONTROL

Navy	Army	Air	Metric Overspend: Red Underspend: Green <0% ≥-1.5% Amber <-1.5% ≥-2% Red <-2%
-£83M -2.6%	-£278M -8.7%	-£9M -0.3%	
UK Strategic Command	Strategic Programmes		
-£10M -1.0%	-£12M -1.1%		

Overall, the EP outturn was £11.711 billion against a budget of £12.106 billion, -3.3% under budget. The underspend is largely attributable to the impact of wider security and macro-economic conditions, including labour shortages in the defence supply chain and significantly increased lead times for some components and materials.

12 This excludes operating costs directly associated with support to Ukraine outside of the core DE&S budget totalling £9 million.

KPI 1.3 - FORECAST STABILITY TO BUDGET - 10-YEAR EQUIPMENT PROCUREMENT PLAN AND SUPPORT PROGRAMMES

Navy	Army	Air	Metric Green ≤ 0% Red > 0%
-£96M (-0.3%)	£431M (1.8%)	-£84M (-0.2%)	
UK Strategic Command	Strategic Programmes		
-£65M (-0.8%)	-£101M (-0.9%)		

DE&S 10-year EP saw an underlying cost increase of £86 million¹³, with cost reductions across Navy, Air, Strategic Command and Strategic Programmes, driven largely by the delivery of efficiencies. This was offset by a cost increase on one project in Army which was materially driven by circa £207 million of cost increases following revised industry cost estimates. Another material element was additional cost pressures relating to inventory, linked to maintaining ageing Army vehicle fleets and price increases due to increased global demand for parts and inflationary factors.

KPI 1.4 - REALISE IN-YEAR EQUIPMENT PROCUREMENT EFFICIENCY TARGETS FOR 2023-24

DE&S	£122M	Metric Green ≥ target Red <target
	target of £110M	

DE&S has realised £122 million of in-year efficiencies (reductions in actual in-year costs compared to forecasts at the start of the year), exceeding our efficiency target by £12 million.

KPI 1.5 - REALISE IN-YEAR EQUIPMENT PROGRAMME EFFICIENCY TARGETS ACROSS FY 2024-25 TO 2033-34

DE&S	£753M	Metric Green ≥ target Red < target
	against target of £665M	

DE&S has realised £753 million of efficiencies over the 10 year period, exceeding our efficiency target by £88 million.

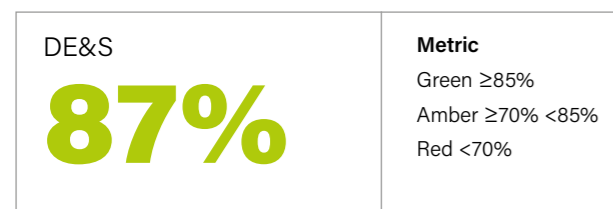
13 This figure excludes variations which are due to deliberate changes to the scope of programmes, to changes in inflation indices linked to contracts, and to changes in accounting treatment as a result of developments in international accounting standards.

OGSM 2 – PERFORM TO PROCUREMENT PLAN

KPI 2 - EQUIPMENT ACQUISITION

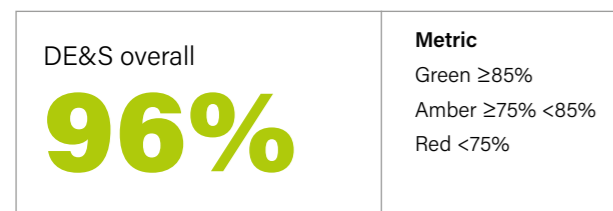
The Equipment Acquisition KPIs monitor performance in delivering all our major procurement projects. For KPI 2.1 Earned Value Management is measured for our highest profile acquisition projects those that feature in the GMPP, against agreed tolerance bands for both cost and schedule performance. Every year each CASP - the agreement we reach with each Command on delivery targets for the coming year - 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 in-year performance against cost (KPIs 2.3 to 2.4) and time (KPIs 2.5 to 2.6) targets for our major (over £20 million) post-Outline Business Case (OBC) and post-Full Case Business Projects (FBC).

KPI 2.1 - EARNED VALUE MANAGEMENT



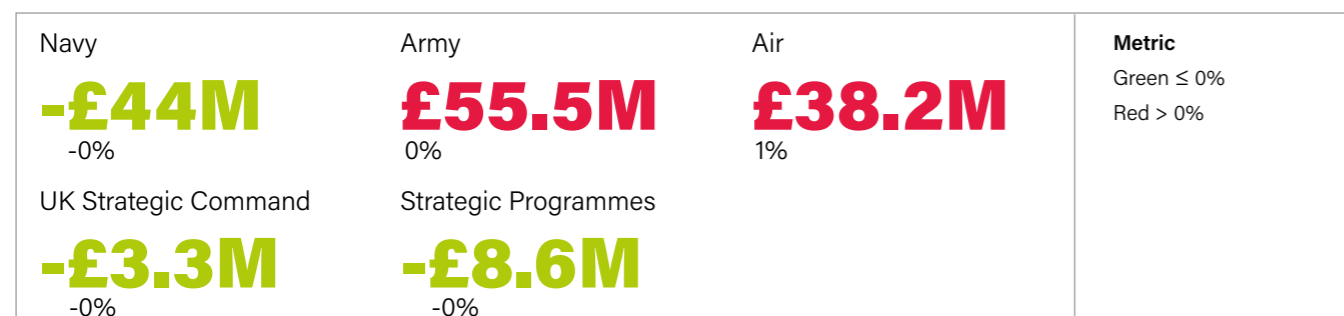
KPI 2.1 measures the value we are earning against the schedule and cost performance baseline of our top acquisition projects. Projects are required to be within the Cost Performance Index (CPI) or Schedule Performance Index (SPI) tolerance of 0.9 – 1.3 by the end of the reporting year to score green. Out of 23 projects, 19 were within tolerance for both CPI and SPI. 21 projects were within tolerance for CPI and 19 projects were within tolerance for SPI, resulting in a score of 87%. Four projects reported outside tolerance, predominantly due to global supply chain delays and project integration issues.

KPI 2.2 - CASP STRATEGIC MILESTONES (EQUIPMENT PROCUREMENT)



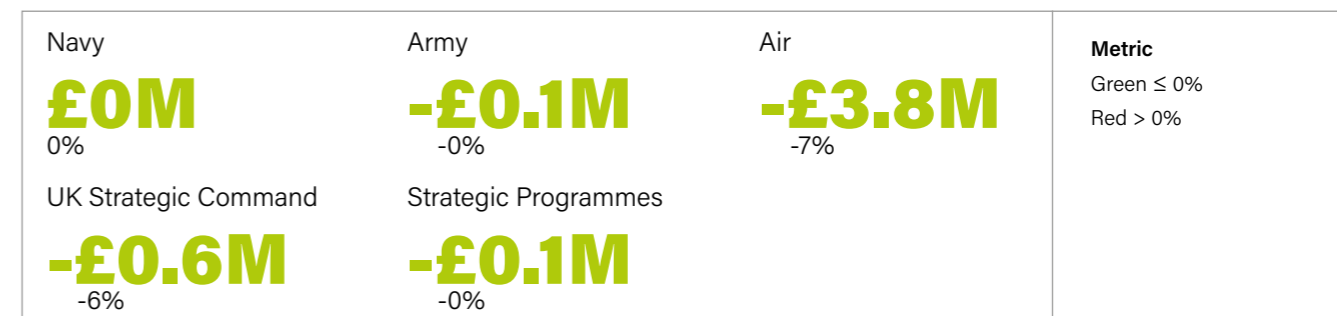
DE&S successfully delivered 24 of 25 Procurement CASP strategic milestones either early (22) or on time (two).

KPI 2.3 - FULL BUSINESS CASE PROJECT COST



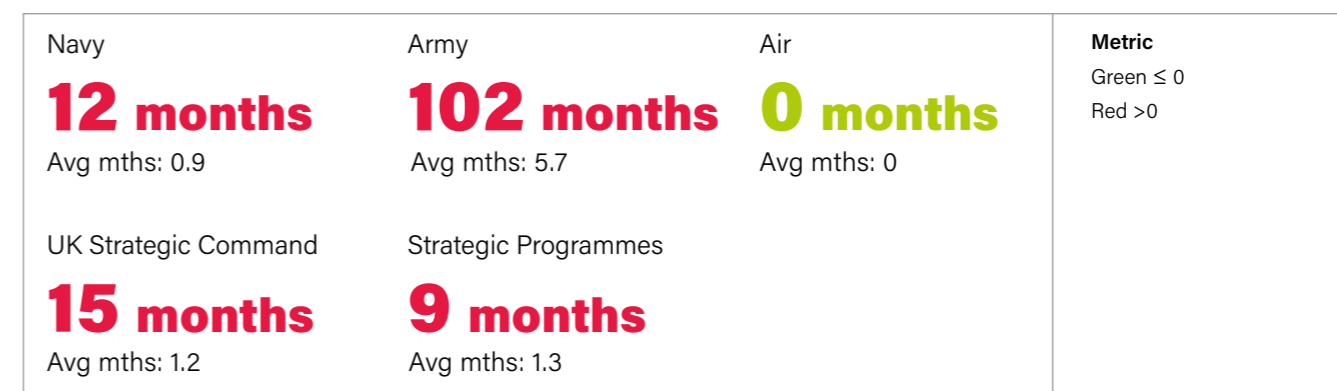
This KPI tracks in-year cost variances of projects that have received FBC approval, and shows how much the forecast cost to complete this phase of work changed during the year. KPI 2.3 is monitored against each of the five FLCs. Cost increases in the year were largely a consequence of schedule delays.

KPI 2.4 - OUTLINE BUSINESS CASE PROJECT COST



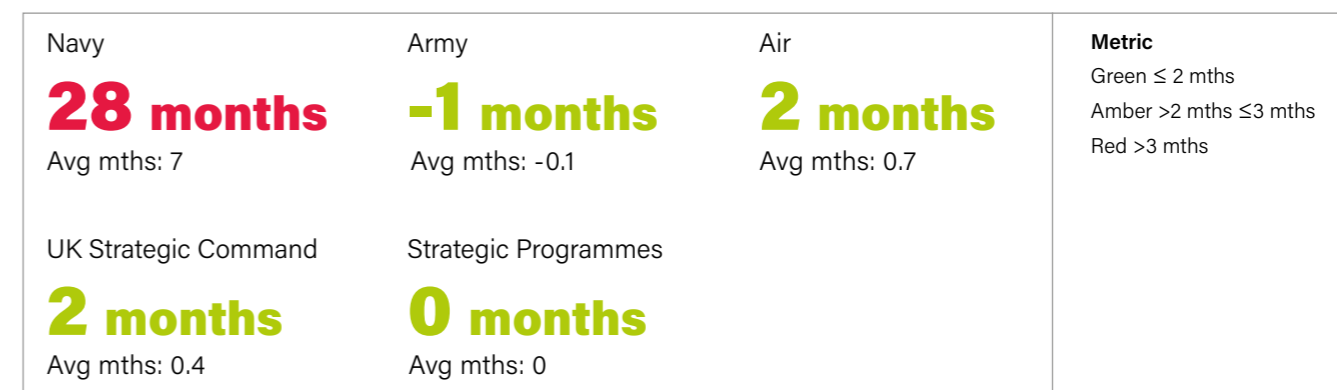
Much like KPI 2.3, this KPI tracks in-year cost variances for projects at an earlier stage which have received their OBC approval but have not yet reached FBC approval. Like KPI 2.3 it is monitored against each of the five FLCs.

KPI 2.5 - FULL BUSINESS CASE PROJECT TIME



KPI 2.5 tracks in-year time variances to achieving approved Equipment Delivery Dates for projects that have received their FBC approval. For four out of five FLCs we reported net increases to forecast schedule durations. In many cases these increases reflected the impact of the wider security and macro-economic environment described above, as well as unexpected technical issues on some projects.

KPI 2.6 - OUTLINE BUSINESS CASE PROJECT TIME



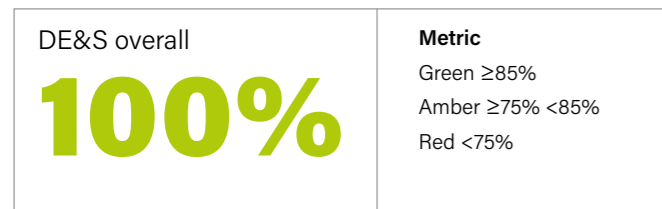
This KPI tracks in-year time variances on OBC projects. The time variances show how much the forecasted time to complete this phase of work changed over the year. This year's outcomes were within tolerance for all commands except the Royal Navy where the time slippage was predominantly attributable to a strong desire to apply Learning From Experience from an associated delayed project.

OGSM 3 – SAFE & OPTIMISED SUPPORT

KPI 3 - EQUIPMENT SUPPORT

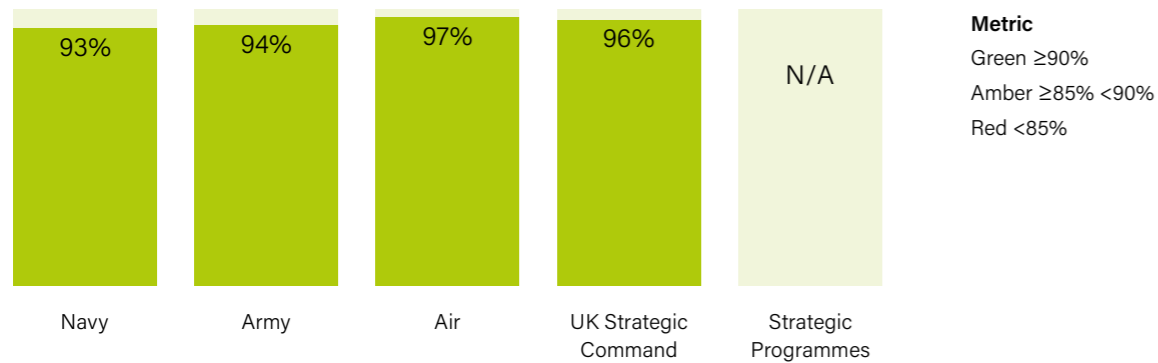
KPI 3 focusses on our support of in-service equipment against targets set in each CASP. KPI 3.1 measures performance against ESP strategic milestones that are due to be delivered in-year. Inventory (KPI 3.2) measures stock available to satisfy common and predictable demands. We also measure Availability, Reliability and Sustainability (KPI 3.3-3.5), and the currency and timeliness of our delivery of safety case reports or assessments (KPI 3.6).

KPI 3.1 - CASP STRATEGIC MILESTONES (EQUIPMENT SUPPORT)



In total DE&S delivered all 21 agreed Support CASP strategic milestones early or on time. 18 milestones were achieved early and three were achieved on time.

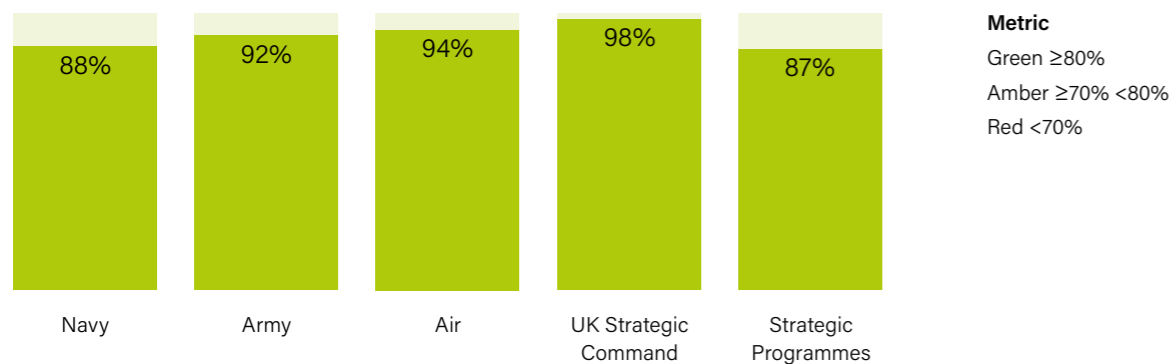
KPI 3.2 - INVENTORY (ON-TIME ISSUES)



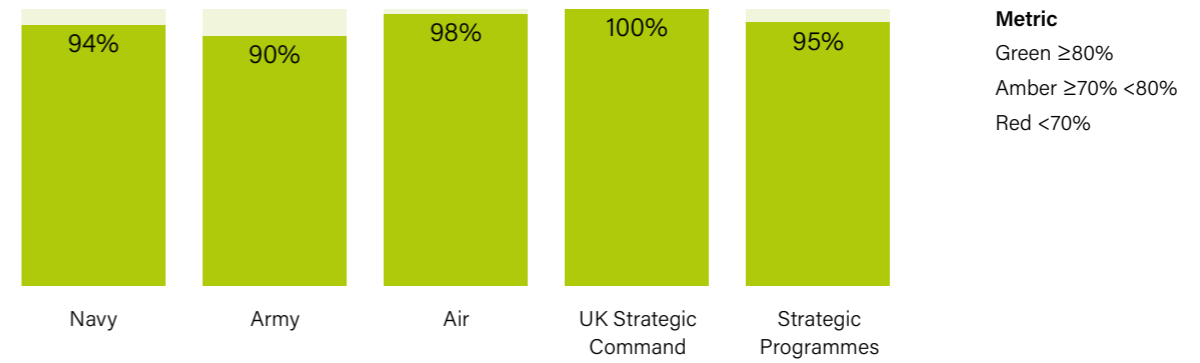
KPI 3.2 measures the percentage of demands which can be allocated from available stock (by an issue voucher) within 24 hours. For all four Commands we exceeded the 90% target.

EQUIPMENT SUPPORT PERFORMANCE

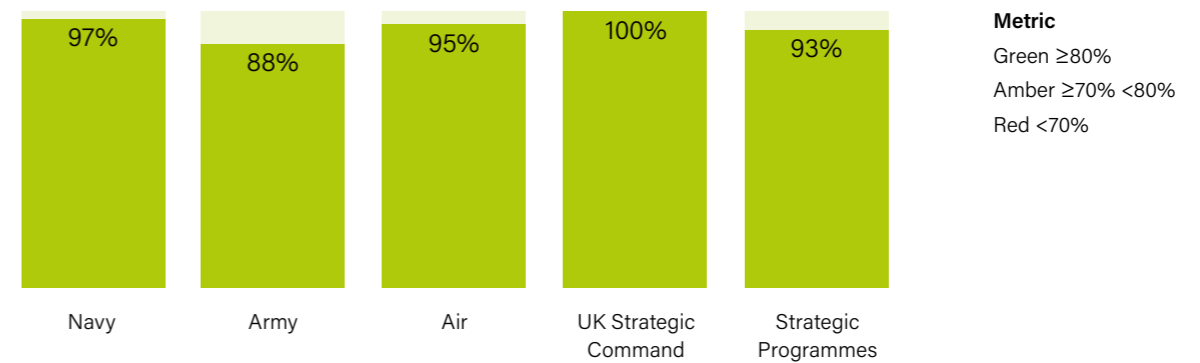
KPI 3.3 - AVAILABILITY



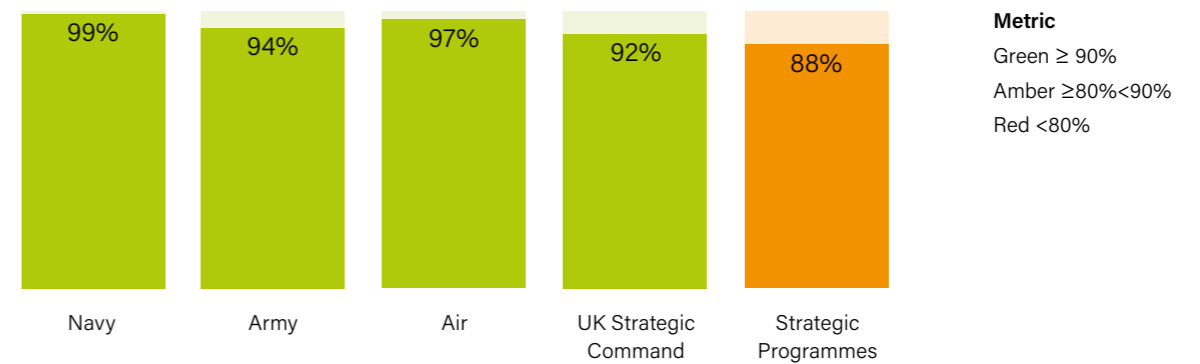
KPI 3.4 - RELIABILITY



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 Strategic Programmes falling short, achieving 88%.

OGSM 4 – DELIVERY THROUGH PEOPLE

KPI 4 – PEOPLE

Delivery through People is measured through KPI 4. These metrics cover diversity representation in each function (KPI 4.1), and leadership, skills and growth are tracked through completion of directed upskilling packages (KPI 4.2). In addition, we track employee engagement based on the 2023 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



This KPI reflects the strategic intent to make DE&S increasingly representative of society. It is based on sub-targets set by each of our eight functions for two protected characteristics relevant to that function. The outcome is a slight increase on last year's performance with two additional targets being met. Of the seven targets that were not met, five nonetheless achieved improvements compared to their baseline positions at the start of the year.

KPI 4.2 - LEADERSHIP, SKILLS AND GROWTH



This KPI reflects the strategic intent to upskill our organisation to support the DE&S Operating Model. We prioritised three training packages – Lean, Agile, and Commercial Awareness – and measured completion of that training by our workforce.

KPI 4.3 - EMPLOYEE ENGAGEMENT



This year our Employee Engagement score decreased by one percentage point, to 59%, matching that of 2021, but falling short of the target of 62% that we were aiming for. In-depth analysis reveals the increasing importance of engaging in three key areas: valuing our people; leading change; and connecting individual contributions to organisational objectives, pride and purpose. These are being addressed through an organisation-wide action plan.

KPI 4.4 - PEOPLE ACTIVITIES



This KPI identified the maximum size of workforce (of civil servants, fixed term appointees, workforce substitutes and military personnel) we could realistically achieve for the year, taking account of affordability, recruitment, and retention factors, derived from a collaborative business planning process. It then measured the size of the shortfall against that target. On average through the financial year the resource gap was -0.58%, demonstrating effective workforce supply processes including talent acquisition and deployment, as well as improved retention.



On the 30th of September 2023, The new Royal Air Force (RAF) Protector MQ-9B Aircraft was delivered to RAF Waddington

PERFORMANCE ANALYSIS - CLIENT SATISFACTION AND SAFETY

KPIs for Client Satisfaction and Health, Safety and Environmental Protection were retired as part of our simplification of performance management for 2021-22. This does not, however, mean they are less important. Both 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 listen and respond to client needs and issues. The survey provides an annual assessment of DE&S' delivery to clients across nine thematic areas.

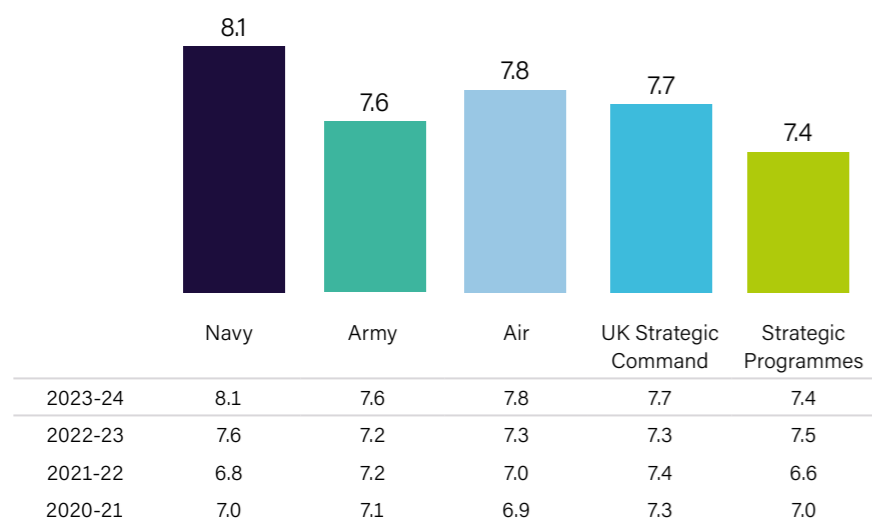
Our client views across these nine themes are important to us as we always want to hear about what DE&S is doing well as an organisation and where we could do better. That's why it is pleasing to see that our engagement rate was much improved this year at 83%, an increase of 25% from 2022-23. This shows how much our clients are willing to give us feedback.

Examples of key findings and analysis include:

- This year our overall Client Confidence Index score¹⁴ was 7.8 against an in-year target of 7.2, which represents an increase of 0.5 from last year. This is the highest score achieved to date and is a year on year increase since 2020-21.
- The largest improvements were seen in Air and Navy where their individual client scores increased by 0.5, followed by Army and Strategic Command where their scores went up by 0.4. Strategic Programmes saw the only decrease, down by 0.1, although it's worth noting all scores remained above the in-year target of 7.2.
- While scores rose against all nine themes, the two lowest scoring remained Management Information and Flexibility.

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

2023-24 CUSTOMER CONFIDENCE INDEX BY CLIENT



THEME GROUP SCORE

Challenge	7.9 (+0.50)
Management Information	6.8 (+0.10)
Communication	8.3 (+0.60)
Consultation	8.2 (+0.70)
Collaboration	7.9 (+0.30)
Expertise	7.7 (+0.30)
Flexibility	7.3 (+0.40)
Value	7.7 (+0.40)
Satisfaction	7.7 (+0.30)

CLIENT CONFIDENCE SCORE

7.8 2023-24 Score **7.3** 2022-23 Score **0.5** variance

¹⁴ The Client Confidence Index 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 10 the most positive.

KEY THEMES FOR IMPROVEMENT

- Management Information: Despite MI remaining the lowest scoring theme, the improving picture in this area continues year on year, reflected in the score of 6.8, up 0.1 on last year. Although survey comments have remained positive overall, they indicated improvements were required in relation to access to our client facing MI dashboard¹⁵, the metrics used, and the timeliness of MI. As a result, action has been taken, in collaboration with our key stakeholders, to make sure correct access is made available to the dashboard and to agree metrics used. Work continues to ensure that the data contained within remains accurate, relevant and utilised.
- Flexibility: The flexibility thematic score has increased from 6.9 to 7.3; however, clients continue to feedback that challenges exist with resourcing projects and programmes to deliver key outputs. Action is already underway to address this through a new approach to resourcing under the new Operating Model, alongside the implementation of Capability Centres. This will begin to address the need to appropriately resource demands, flexing supply where appropriate.

A number of other actions to address the findings of the survey have been endorsed by the DE&S Board, which will be taken forward during 2024-25 as part of our DE&S Strategy.

SAFETY & ENVIRONMENT

In previous years, the DE&S ARAc included a combined view of performance across both Safety and Environment, which was measured by applying the Defence Safety Management System (SMS) referenced in Joint Service Publication (JSP) 815. For reporting this year, Safety and Environment have been specifically and deliberately separated, and so the assurance assessment of each has been considered in turn. This follows the publication of JSP 816, the Defence Environmental Management System, which will now be used alongside JSP 815. Both JSPs adopt a common 12-element framework but consider different aspects in the context of Safety and Environment.

A full assessment of DE&S' performance has been provided in the 2023-24 DE&S Annual Assurance Report (AAR), which concluded that the organisation was Limited Assurance for both Safety¹⁶ and Environment¹⁷. For Safety, the DE&S annual assurance assessment recognised that while there was a mature system of internal controls which were operating effectively, there were some significant weaknesses linked to resource constraints. The annual assurance assessment for Environment recognised that this was a developing area, and while controls were in place their relative immaturity resulted in a Limited Assurance.

DE&S remains committed to improving. However, organisational resource challenges, driven by constraints on operating expenditure, recruitment and work force substitutes, primarily contributed to these assessments. These challenges, coupled with an increase in resource demand from FLCs have also placed additional pressure on DE&S safety resources. This was mitigated by targeted reductions in delivery activity in order to manage the safety risk across DE&S.

The challenge of ensuring that FLCs are provided with equipment that is safe to operate is an enduring one. The recent Improvement Notice for the Royal Navy's surface fleet is but one example, where DE&S is responsible for providing in-service support to the fleet. Recent crown censures served on the British Army following fatalities related to Warrior, Scimitar and Jackal vehicles, each included recommendations relating to the safe design and support of the equipment. This increased the demand for safety specialists in DE&S to further improve equipment design and in-service support. These challenges were pro-actively managed in-year, including 'return to green' management plans which are intended to support the organisation achieving a Substantial Assurance in the future.

¹⁵ Following previous surveys, a DE&S client facing MI dashboard was launched in January 2023 to provide a single version of the truth to clients

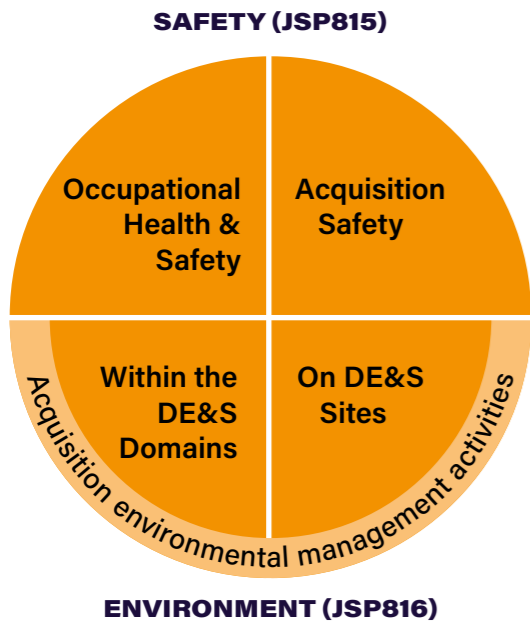
¹⁶ Safety covers both Occupational Health and Safety and Acquisition Safety.

¹⁷ Environment covers both acquisition environmental management activities within DE&S Domains and occupational environmental management on DE&S Sites.

Work on our new Operating Model is providing an opportunity to improve safety management systems by undertaking a full review of the activities with the business delivery value chains while balancing resources. Work on the Operating Model is also pulling together a number of initiatives to drive improvement across DE&S with a view to achieving operational excellence.

DE&S assessments for Safety¹⁸ (using JSP 815) and Environment (using JSP 816) have been calculated using a defined scoring methodology and were endorsed by the DE&S Safety, Health and Environment Committee (SHEC)¹⁹. Safety and Environment assessments are shown below alongside the 12 SMS elements used in their calculation. Although these latest assessments show a deterioration from last year, it has not been possible to do a like for like comparison due to the change in reporting methodology.

2023-24 ASSESSMENT AGAINST JSP815 (SAFETY MANAGEMENT SYSTEM) AND JSP816 (ENVIRONMENTAL MANAGEMENT SYSTEM)



- 1 Leadership, Governance and Culture
- 2 Organisation and Dependencies
- 3 Legislation, Policy, Regulations and Guidance
- 4 Risk Assessment and Safety Cases
- 5 Supervision, contracting and control of Activities
- 6 Personnel Competence, Resource and Training
- 7 Equipment Design, Manufacture and Maintenance
- 8 Infrastructure Design, Build and Maintenance
- 9 Performance, Management Information and Reporting
- 10 Incident Management and Continuous Improvement
- 11 Communications and Stakeholder Engagement
- 12 Assurance

KEY: ASSURANCE LEVEL DEFINITIONS²⁰

Full	System of internal control established and operating effectively.
Substantial	System of internal control established and operating effectively with some minor weaknesses.
Limited	System of internal control established and operating effectively except for some areas where significant weaknesses have been identified.
No	System of internal control poorly developed or non-existent or major levels of non-compliance identified.

ORGANISATIONAL IMPROVEMENT THROUGH OPTIMISATION

As part of DE&S' optimisation work, a safety value stream was created to ensure that safety, and safety considerations, were designed into the new DE&S Operating Model. The creation of a Gateway²¹, which will provide a single front door for all new business, will assess the resources required to safely deliver the desired capability; if this is not achievable the project will not progress without detailed review and agreement. This approach, combined with a more consistent approach to assurance, will drive the necessary improvements against the requirements of JSP 815. The Gateway also provides the opportunity for environmental aspects to be considered earlier in the acquisition lifecycle, enabling equipment requirements and solution choices to be informed by environmental considerations.

At the heart of our improvement is the ongoing focus and reinforcement of a psychologically safe culture within DE&S, which was highlighted as a key theme within the Sheldon Report on Ajax. These improvements centre around empowering and encouraging all colleagues with safety concerns to speak up, especially those in senior positions, and to be curious and ask questions. As part of this work, there has been a CEO initiative publicised on an online portal to encourage everyone to "Speak up for Safety", which provides the opportunity for any DE&S employee to raise a safety concern. In addition, the rollout of new safety training for executives draws lessons from the Boeing 737 Max accidents, which seeks to understand the drivers and behaviours behind it.



2nd Battalion The Parachute Regiment's Mortar Platoon fire the 81mm Mortar during a training exercise.

¹⁸ DE&S Deca returns are included within the Safety (JSP815) assessment following their merger with DE&S in April 2023.
¹⁹ The SHEC provides oversight and assurance of Health, Safety and Environmental Protection performance and advises the CEO on the actions required as the senior accountable person.
²⁰ These definitions are aligned to JSPs 815 and 816 but have since been revised by the Government Internal Audit Agency.
²¹ An Organisational Safety Assessment to support IOC of the Gateway was approved on 19 March 2024.



SAFETY, SUSTAINABILITY AND SECURITY

British Army Construction Materials Technician

OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION

DE&S remains committed to providing safe equipment to the armed forces and protecting the environments in which equipment operates. We are also committed to reducing the risk of harm to our people and customers as much as is reasonably practicable. This means 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. The 2022 Environmental and Safety strategies have continued to be implemented against agreed schedules. The forthcoming DE&S Operating Model Refresh provides opportunities to embed some of the initiatives across the organisation; the aim is to achieve International Organisation for Standardisation (ISO) 45001 (Occupation Health and Safety Management) and ISO14001 (Environmental Management) certification by 2025, building on our ISO9001 (Quality Management) certification.

The DE&S Chief Environmental and Safety Officer provides competent advice, guidance, and support to help us meet legal, defence regulation, and policy responsibilities related to Occupational Health, Safety and Environment (OHSE). 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. More widely, in 2024-25 DE&S is expected to adopt the broader MOD reporting system, Defence Unified Reporting and Lessons System. This 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 will feature prominently in the ongoing DE&S optimisation work. 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' World Environment Day and Safety Day events are firmly established in the annual calendar, improving awareness and helping to reinforce continual improvement. In 2024-25 the intent is to engage with more staff across DE&S sites through a series of regional events to further raise OHSE awareness.

Wider engagement across DE&S will help further embed OHSE compliance into routine day to day business, while ensuring a consistent and coherent approach, across all sites and activities. This 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 Defence²² assurance model has been established and will be developed throughout 2024-25, to deliver further improvement and increase confidence that DE&S remains OHSE compliant across all aspects of its operations.

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 the 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 Sheldon Report into Ajax identified a number of specific recommendations aimed at improving the assessment of safety risks within the acquisition process. The specific recommendations were addressed by policy and process improvement to ASEMS. However, there were a number of other lessons which have formed part of an improvement programme looking beyond the technical aspects of the process; these actions are being implemented as a specific campaign, but also being embedded into the DE&S optimisation work as part of the value stream activity.

²² 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.

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 improvements, based on the following nine goals:

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

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

- Applying our revised Acquisition Safety Policy and expanding its coverage. This has defined the roles and responsibilities and Suitably Qualified and Experienced Personnel (SQEP) requirements for those individuals who hold Letters of Delegation, reinforcing the responsibility for safety decisions.
- Continued improvements to safety tools to support better decision making.
- Continued development of a new suite of safety courses to support colleagues involved in safety. This includes a new Safety and Environment Executive Module which has been designed and rolled out for senior leaders to explore their role in promoting a strong safety culture within DE&S, and to critique the principles behind System Safety and Environmental Management.

The continued adoption of a Safety Case Maturity Tool and Safety Dashboard has also allowed DE&S to baseline the safety artefacts across major projects. 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 to operate.

OUR ENVIRONMENTAL IMPACT

DE&S also continues to focus on its environmental responsibilities. To help measure progress, in June 2023 an inaugural biennial Environmental Culture Survey was conducted. It indicated the DE&S environmental culture is 'reactive.' Using this baseline, an Environmental Cultural Improvement Plan is being implemented with the target of achieving improvement within two years.

Net Zero is a core component of DE&S strategies. We continue to develop our understanding of the emissions of our operations and infrastructure. Key to this is improving the integrity of the supporting data: an environmental dashboard has been developed to enable the monitoring of emissions and historical analysis. Further work is planned to pull through scope 3 emission categories²³ in 2024-25. Trajectory analysis has also been undertaken separately to support decision making and prioritisation of interventions to reduce our greenhouse gas emissions through the implementation of the Greenhouse Gas Emissions Management Hierarchy.

DE&S has been proactively working across government to enable our tree planting ambitions. As a result, planting commenced at Gosport in April 2024 and will expand to more DE&S sites during 2024-25. This initiative is expected to provide a strong social value to society in the short and longer term. We have also awarded contracts for two solar farms at our Aberporth and Pendine sites (Wales) which are due to be commissioned in 2024-25. Design works for pilot sites at Defence Munitions Plymouth and Defence Munitions Crombie also continue as does work to understand third party funding opportunities for the wider DE&S estate. Despite funding constraints, we intend to further develop our nature-based solutions, such as additional tree planting, peatland recovery and blue carbon to be net-zero ready while further improving bio-diversity net gain.

TASK FORCE CLIMATE-RELATED FINANCIAL DISCLOSURE

In July 2023 HM Treasury issued guidance²⁴ for all government departments regarding compliance with Task Force Climate-Related Financial Disclosure (TCFD) recommendations. DE&S is required to provide

a separate disclosure to the wider MOD as it is an Executive Agency and publishes separate accounts.

DE&S welcomes the TCFD initiative given the steps already taken to better understand the impacts of climate change on our support to the FLCs operations and other activities. We have already established processes for identifying and reporting climate change related impacts against earlier initiatives such as the Greening Government Commitments (GGC) and the implementation of a Defence Climate Risk Assessment Methodology (DCRAM), following the wider MOD Departmental processes. For the DE&S estate, we have had a Climate Impacts Risk Assessment Methodology (CIRAM) in place for several years for the majority of our sites at various levels of maturity. The output from the CIRAM tool was used to inform inputs to the DCRAM, to develop DE&S portfolio climate change risks which have been initially qualitatively assessed. These tools and associated policy and procedures will be further developed to support delivery of full disclosure in future years which will include progress against TFCO metrics.

TCFD COMPLIANCE STATEMENT

DE&S is reporting on climate related financial disclosures consistent with HM Treasury TCFD guidance which interprets and adapts the framework for the UK public sector. DE&S has complied with all the TCFD recommendations for Phase 1 disclosures around Governance either as part of this disclosure or elsewhere within the ARAc and wider information to highlight its commitment to environmental matters and current progress. TCFD metrics have not been included this year due to wider MOD system changes which temporarily impacted data access. This is expected to be resolved for 2024-25 when inclusion of these metrics will be mandatory.

TCFD GOVERNANCE

Within DE&S the Operations and Infrastructure Environmental Protection Steering Group (OIEP SG) is the primary non-acquisition environmental governance forum which provides oversight of climate related issues. The OIEP SG is a sub-committee of, and accountable to, the DE&S SHEC, which in turn reports to the DE&S Executive Committee where key environmental or climate related risks will be raised. The DE&S SHEC also subsequently reports into the MOD Defence Safety and

Environmental Committee chaired by the 2nd Permanent Secretary, who is also the lead MOD Board Member for climate related issues, enabling DE&S environmental and climatic risks to be reviewed or escalated further.

The role of the OIEP SG is:

- To ensure DE&S is legally compliant, and meeting its environmental protection related 'statutory and regulatory compliance obligations' associated with its operations and infrastructure;
- To seek assurance that environmental and climate related issues and risks are effectively mitigated and managed across the DE&S estate, in line with a robust and effective EMS;
- To monitor achievement both against targets placed on it by legislation, the Government and/or the MOD, such as the GGCs; as well as against DE&S Environmental Strategy Goals;
- To direct the development and implementation of strategy, policy and plans and processes that generate strong management, and to motivate and promote an improved environment related culture throughout DE&S, as defined by the DE&S Environmental Strategy and Safety and Environmental Management System (SEMS).

Other committees that will in future support the management of climate change within DE&S include the DE&S Infrastructure Steering Board responsible for prioritising infrastructure investment, as well as the DE&S Audit and Risk Assurance Committee and the Finance Committee. This will support the identification and mitigation of climate risk and support the embedding and prioritisation of investment, financial risk and financial planning decision making. DE&S is currently developing a strategic risk for climate change, adaption, and resilience, ensuring DE&S has a clear line of sight for climate related risks and enable prioritisation and risk mitigation activities, where considered necessary.

TCFD METRICS

DE&S is unable to publish its CO2e emissions or progress towards the Greening Government Commitments (GGC) targets due to a system change that is temporarily impacting data access. This is

²³ all other indirect emissions that occur in producing and transporting goods and services, including the full supply chain.

²⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1173407/TCFD-aligned_disclosure_application_guidance_-_Phase_1.pdf

anticipated to be resolved within 6 months, with metrics being made available for inclusion in the ARAc next year.

DE&S continues to develop its understanding of its scope 1, 2 and 3 emissions²⁵, with initial previous priority on scopes 1 and 2 and a limited subset of scope 3. Where there are omissions, these are primarily in scope 3. In the forthcoming year, DE&S intends to improve the data integrity of its identified emission sources and expand the range of scope 3 emissions monitored and

tracked. The maturity and level of integrity with such data will continue to be iterated over the coming years, starting with a series of data verification exercises over the forthcoming year FY2024-25. This data will be hosted on DE&S' environmental dashboard, that has previously been developed and will be continually expanded to meet the needs of the organisation.

EMBEDDING CONSIDERATION OF CLIMATE CHANGE - OVERVIEW BY TCFD THEME

Key Progress made to date	Next Steps planned
Governance	
DE&S has progressed the DCRAM and supporting framework to improve integration of climate risk into DE&S' existing risk governance structures, ensuring that in future the SHEC and Executive Committee have clear line of sight of climate related issues.	Fully integrate climate risk Governance into DE&S risk processes as business as usual through our structures, tools and processes. Gain DE&S Executive Committee endorsement for strategic climate change and resilience risk(s).
Risk Management (for inclusion in the disclosure from 2024-25)	
DE&S will apply MOD methodology for identifying and assessing climate-related risks. We will establish a climate risk working group to improve the understanding of impacts on DE&S operations and develop mitigations and investment proposals for prioritisation by MOD.	Establish a process for managing physical and transition risks to DE&S: To include a system for horizon scanning. Continue to mature our processes and data, and further develop our approach to quantifying climate related risks.
Metrics and Targets (for inclusion in the disclosure from 2024-25)	
Disclose DE&S identified emissions.	Continue working with our stakeholders and wider supply chain to better understand our share of their emissions and how we can work together to set target reductions.
Disclose progress against GGC targets where data is accessible.	
Trend analysis for delivering Net Zero by 2040 and against other environmental targets.	Report progress in identified Scope 3 emissions.
Strategy (for inclusion in the disclosures from 2025-26)	
DE&S will adhere to MOD direction following the publication of the Climate Change and Sustainability Strategic Approach.	Develop an understanding of the impact of climate related risks and opportunities to the DE&S's operations and provision of support to our customers, our strategy and financial planning (to include DE&S's resilience, under different climate scenarios).
DE&S has begun to identify the climate risks and opportunities for MOD as well as developing an understanding of some Scope 3 emissions.	

²⁵ **Scope 1:** direct emissions from owned or directly controlled sources.
Scope 2: indirect emissions from the generation of purchased energy.
Scope 3: all other indirect emissions that occur in producing and transporting goods and services, including the full supply chain.

ACQUISITION ENVIRONMENTAL MANAGEMENT

Defence accounts for 50% of the UK Government's Greenhouse Gas emissions, the majority of which relate to military equipment. The decisions we make in DE&S in the acquisition and support of products, systems and services have a significant influence on the MOD's overall environmental impact, both in terms of mitigating the risk of harm to the environment but also in ensuring long-term environmental sustainability.

At the start of 2023-24 we established a dedicated team focused on improving Environmental Protection and Sustainable Acquisition. This was to recognise the differences between environmental management and safety management, and to align with similar changes made in MOD HO.

With the publication of Safety and Environmental Leaflet 18/2023²⁶ we have defined how we will ensure that products, systems and services delivered by DE&S to our customers represent the best practicable environmental options through the application of Sound Environmental Performance. Specifically, we have defined the four environmental outcomes that DE&S business areas should use as measures of success:

- That the product, system or service fulfils its environmental compliance obligations.
- That the product, system or service prevents or mitigates the potential for unintended events which could result in adverse environmental impact(s).
- That opportunities are used to enhance environmental performance of the product, system or service and support sustainable procurement.
- That the product, system or service is resilient to changing environmental conditions and can therefore maintain operational capability.

Work is underway to develop targets for each of the measures, along with an Environmental Performance Assessment Tool to enable DE&S business areas to baseline and improve their environmental performance and maturity. We have also clarified the lay-down of executive and senior environmental responsibilities and developed role-specific environmental training. Environmental roles and responsibilities will be refined and updated to reflect and enable organisational changes introduced through DE&S optimisation.



The flagship of the Royal Navy, the HMS Queen Elizabeth leaves the port of Gibraltar.

²⁶ See 20230825 - S&EP Leaflet 18 2023 - O.pdf (mod.uk)

SECURITY

DE&S delivers the edge for our armed forces and allies to bring stability and security in an increasingly volatile world. Our security focus remains the delivery of equipment and support which meets the resilience demands of our armed forces. This is set against growing threats from sophisticated hostile actors who aim to acquire or undermine our defence capabilities through both overt and obscured methods. We continue to protect our One Defence team, including the supply chain and broader industrial base, from espionage, interference, coercion, sabotage, disinformation, cyber operations, and intellectual property theft.

Our foundation is a safe and secure organisation and a culture in which security conscious behaviours are core to how we work. We continue to promote strong ongoing personnel security controls across our enterprise and foster a community that seeks to minimise any insider risk. We have processes that support an improved understanding of the threats we face, the mitigations we already have in place, and the improvements required to adapt to change, absorb disruption and continue to deliver our critical outputs. We aim to create too much risk for our adversaries to attack us; this level of deterrence is our ultimate strategic outcome.

Digital innovations help us to continue to work smartly and collaboratively, but we recognise that this brings threats as well as opportunities. Our culture and processes are critical to help us stay safe. A key enabler for this is our strong information governance and management of information risk through improved responsibility, accountability and transparency at all levels. Our DE&S Digital team continues to improve this space and maintain our certification against the ISO 27001 standard for DE&S Corporate IT. We are in the processes of expanding our ISO 27001 scope to include key Logistics IT services provided by DE&S to MOD.

Our Principal Security Advisor's (PSyA) team continues 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 our clients. Our Equipment Cyber Resilience team continues to support our delivery teams to embed the principles of through life cyber risk management, ensuring that military capability owners understand the residual risk to make informed cyber

related decisions. This is key to delivering equipment that is secure by design and resilient to attack when in use as intended on operations.

Our Internal Technical Support (ITS) team continues to deliver a technical security service that is responsive to the needs of our delivery teams. This offers DE&S managed projects better access to extremely scarce cyber and security specialists on a rapid task-based arrangement through a single streamlined process. ITS security experts help teams to understand and apply the most appropriate security frameworks for their projects, including those developed by national technical authorities in the UK and allied countries. We have a Cyber Training Pathway to increase specialist capability across all parts of the organisation.

Our Executive Committee continues to affirm our commitment to managing security and resilience through the recognition of our strategic risks for protective security and cyber. With help from the PSyA, the DE&S Security Committee has reframed our protective security risk to bring more clearly into focus the sources of security risk and how we may further strengthen our means to protect our most critical, sensitive and vulnerable assets from compromise. This helps DE&S balance the need to invest in our security and resilience while delivering the best possible value from public money.

DE&S continues to deliver the Industry Security Assurance Centre, which helps to build a high-trust One Defence team with the parts of the defence supply chain engaged in highly classified work. This is one of five Cabinet Office sponsored Government Security Centres delivering a large-scale portfolio of advice and assurance services, including: the Facility Security Clearance (FSC) programme, providing security assurance for sensitive industry facilities in the defence supply chain; the Industry Personnel Security Assurance (IPSA) programme, empowering defence companies to manage the vetting and aftercare for their staff and bolster their insider risk mitigation; the Defence Industry Warning Advice and Reporting Point (WARP), providing industry partners with critical advice and support with security breach and incident management; and the International Visits Control Office administering clearance for industry partners for the purpose of inward and outward foreign defence visits.

The PSyA team continues to develop a new IT system to manage our wide-ranging portfolio of assurance services. The first two modules launched to support the control of international visits and delivery of the IPSA service; while a third module is planned to support delivery of the FSC service. 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.

We continue to support the development of the Defence Security Function in conjunction with the wider Government Security Profession, aligning our roles and sharing our knowledge and expertise. This aims to aid the recruitment and development of security specialists across defence and wider government.



An Army Commando (right) and Ministry of Defence Police Officer (left) during a security patrol at MOD Abbey Wood.



SECTION 2

ACCOUNTABILITY REPORT

DE&S staff break out for an informal discussion in one of Abbey Wood's atria.



CORPORATE GOVERNANCE REPORT

Engineer sat in the back of a Chinook helicopter on International Women in Engineering Day during June 2023.

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

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

DIRECTORS' REPORT

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

MANAGEMENT

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

DIRECTORSHIPS AND OTHER OUTSIDE INTERESTS

We have an automated process in place to enable the declaration and management of outside interests which might present a perceived, potential, or actual conflict. DE&S follows the MOD policy set out in JSP 492 (Defence Ethics, Propriety and Standards), which is in line with the requirements set by the Civil Service Management Code. 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. Our DES 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. No members of the Senior Leadership Group (SLG)²⁷ have declared that they hold outside employment, work or appointments (paid or otherwise remunerated). Those members that have declared that they hold outside appointments have confirmed that they are not remunerated. A list of DE&S Board members' outside interests can be found on page 63.

PERSONAL DATA RELATED INCIDENTS

There were no data protection incidents, reportable to the Information Commissioner's Office under Article 33 of the UK General Data Protection Regulation, during 2023-24. DE&S continued to proactively support the Data Controller's (MOD) compliance with UK Data Protection Laws, pursuing continuous improvement during the reporting period.



CEO, Andy Start.

²⁷ The SLG comprises of all grades at Senior Civil Service level Band 1 and above.

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed DE&S to prepare for each financial year, 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 HM Treasury on 14 December 2023. 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 financial year.

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

- Observe the Accounts Direction issued by HM Treasury, 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 FReM, have been followed, and disclose and explain any material departures in the accounts.
- Prepare the accounts on a going concern basis.

The Permanent Secretary of the MOD, as Principal Accounting Officer, has designated the CEO as Accounting Officer for DE&S. His responsibilities include the propriety and regularity of the public finances, keeping proper records, and safeguarding DE&S assets, as set out in HM Treasury'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
25 July 2024



The DE&S Board meeting in the iBridge, at Abbey Wood.

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 our risk management practices comply with the Orange Book's²⁸ five principles and we have also 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 Document²⁹ 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 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.



²⁸ The Government's Orange Book lays out the management of risk principles and concepts.
²⁹ 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 advice to the CEO and other executives of DE&S and is a forum of independent, non-executive support, advice and constructive challenge.

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 Representative³⁰, the MOD Principal Accounting Officer and Minister for Defence Procurement.

The Board takes regular written reports from the CEO, the Chief Finance Officer (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 2023-24. Deep dives were conducted on the DE&S Strategy (including Operating Model work), the Sheldon Report outcomes, Shipbuilding Strategy, Human Resource (HR)/People and Digital and Organisational Changes.

The table below includes current DE&S Board members and those whose tenures ended during 2023-24. The figures represent the number of meetings attended with the total number of meetings available to attend in brackets.

Name	Number of meetings attended
Mark Russell	9(9)
Andy Start	8(9)
David Johnson	9(9)
Angela Williams (left 31 March 2024)	8(9)
Claire Hawkings	9(9)
Tony Meggs	7(9)
Lieutenant General Rob Magowan	7(9)
Carolyn Battersby	9(9)
Andy Lord	8(9)
Nick Folland (from 1 April 2023)	9(9)
Marc Overton (from 1 April 2023)	9(9)
Iain Lanaghan (left 30 June 2023)	2(2)
Dr Ros Rivaz (left 30 June 2023)	0(2)



DE&S BOARD DECLARATION OF INTERESTS AS AT 31 MARCH 2024

The table below includes all current DE&S Board members and those whose tenure ended part way through 2023-24.

Name	Name Of Company Or Organisation	Position Held	Type Of Interest	Other Relevant Information
Mark Russell	UK Government Investments	Senior Advisor	Business	
	Angel Trains	Chair	Business	
	Great British Nuclear	Board member	Business	
Andy Start	Capita	N/A	Previous employer	Shares held in Capita PLC sold in August 2022 prior to taking up appointment in September 2022.
	Amorosso Consulting	N/A	Personal	Wife is a Director. Amorosso Consulting provides client-side consulting advice to Defence Digital, through PA Consulting.
	MKC Training	N/A	Personal	Wife is a Non-Executive Director. MKC provides training at the Royal School of Military Engineering.
	The National Museum of the Royal Navy	N/A	Personal	Wife is a Trustee. The museum is a single non-departmental public body.
	Expleo	N/A	Personal	Youngest son's employer. Expleo is an engineering technology and consulting service provider, holding some MOD contracts. Youngest son was previously employed by BMT Group.
	Defence Digital (MOD)	N/A	Personal	Elders son's wife is an employee of Defence Digital (MOD).
	Institute of Engineering and Technology	Chartered Member	Other	The Institute is partnered with DE&S.
	RAF Club	Member	Other	A private member's club.
	Royal Automobile Club	Member	Other	A private member's club.
	Pilgrims Society of Great Britain	Member	Other	An exclusive dining club.
David Johnson	Royal Aeronautical Society	Fellow	Other	The Royal Aeronautical Society is partnered with the MOD.
	Women in Defence UK	Member of the Strategic Advisory Board	Other	DE&S is a signatory of the Women in Defence Charter.
	Acorn Education Trust	Non-Executive Director (Trustee) and Chair of People and Well-being Committee	Business	
Angela Williams (left 31 March 2024)	British Army	Non-Executive member of the Army Audit and Risk Assurance Committee	Other	A British Army single-service management committee, sponsored by the MOD.
	Cundall	N/A	Personal	Son's employer. A construction engineering consultancy company (sometimes sub-contractor of MOD Prime contractors).
Angela Williams (left 31 March 2024)	Angela Williams Consulting, Advisory and Interim Services Limited	Director	Business	
	ANDigital Limited	Non-Executive Director	Business	
	Sovereign Housing Limited	Non-Executive Director	Business	
	Northcoders Plc	Chair	Business	
	Corsearch Incorporated	Chief People Officer	Business	
	BMJ Limited	Non-Executive Director	Business	

³⁰ MOD is the Sponsor Government Department for DE&S, supported by UK Government Investments (UKGI) which undertakes Corporate Sponsor responsibilities.

Name	Name Of Company Or Organisation	Position Held	Type Of Interest	Other Relevant Information
Claire Hawkings	Ibstock Plc	Non-Executive Director	Business	
	Freelance Consultant (Business Strategy and Sustainability)	Consultant	Business	
	James Fisher and Sons Plc	Non-Executive Director	Business	
	First Group Plc	Non-Executive Director	Business	
Tony Meggs	S2G Limited	Advisor	Business	
	Sellafield Limited	Chair	Business	
Lieutenant General Rob Magowan	65 Degrees North	President	Other	A registered charity.
	The Worshipful Company of Plasterers	Liveryman	Other	A trade guild of the City of London.
Carolyn Battersby	UK Government Investments Limited	Executive Director	Business	
Andy Lord	Transport for London	Commissioner	Business	
	Crossrail Limited	Director	Business	
	Crossrail 2 Limited	Director	Business	
	Transport Trading Limited	Director	Business	
Nick Folland (from 1 April 2023)	HM Prison and Probation Service	Independent Non-Executive Director of the Audit, Risk and Assurance Committee	Other	A government department.
	JCF Consultants Limited	Director	Business	
	Marks and Spencer Plc	Director and Secretary	Business	
	Marks and Spencer Group Plc	Secretary	Business	
	Marks and Spencer Simply Foods Limited	Director	Business	
	Marks and Spencer (A2B) Limited	Director and Secretary	Business	
	Marks and Spencer Holdings Limited	Director and Secretary	Business	
	Marks and Spencer International Holdings Limited	Director	Business	
	Marks and Spencer (Investment Holdings) Limited	Director	Business	
	Gist Limited	Secretary	Business	
	Marks and Spencer Scottish Limited Partnership	General Partner Committee Member	Business	
	Ruby Properties (Long Eaton) Limited	Director	Business	
	Ruby Properties (Hardwick) Limited	Director	Business	
	Marks and Spencer 2005 (Chester Store) Limited	Director	Business	
	NERC/BAS Operation & Safety Assurance Group (NBOSAAG)	Member	Business	

Name	Name Of Company Or Organisation	Position Held	Type Of Interest	Other Relevant Information
Marc Overton (from 1 April 2023)	Dassault Systèmes UK Limited	Managing Director Northern Europe	Business	
	MDSOL Europe Limited	Director	Business	
	Dassault Systèmes Ltd (Ireland)	Director and Chair of the Board	Business	
	Dassault Systèmes Belgium SA	Delegated Director	Business	
	Dassault Systèmes AB (Sweden)	Director and Chair	Business	
	Dassault Systèmes Oy (Finland)	Director and Chair	Business	
	Dassault Systèmes ApS (Denmark)	Director/, Managing Director and Chair	Business	
	Dassault Systèmes Norway AS	Director	Business	
	Assistant Chief Defence Staff (Reserves and Cadets)	Major General	Other	The senior reservist of the British armed forces.
	MO Advisors Limited	Owner and Director	Business	
	The Royal British Legion Poppy Factory Limited	Vice Patron	Other	Supports members of the armed forces on their journey into employment.
	1st Battalion London Guards	Regimental Lieutenant Colonel	Other	The British Army Reserves for the Guards Division.
	Commandant Royal Signals Executive Committee	Honorary Colonel	Other	Colonel Commandant is a Corp level advisory role on the Royal Signals Advisory Committee.
	Signals Specialist Group Information Systems Royal Signals	Honorary Colonel	Other	A Specialist Reserve Unit providing IT expertise to the British Army and wider Defence.
Iain Lanaghan (left 30 June 2023)	Scottish Water	Non-Executive Director and Chair of Audit Committee	Business	
	Iain M Lanaghan Consultancy	Owner and Director	Business	
	KPMG	N/A	Personal	Son's employer.
	North Sea Transition Authority	Non-Executive Director and Chair of Audit Committee	Business	
	Scottish Water Horizons Holdings Limited	Non-Executive Director	Business	Subsidiary of Scottish Water.
	Scottish Water Business Stream Holdings Limited	Non-Executive Director	Business	Subsidiary of Scottish Water.
	UK Supreme Court	Lead Non-Executive Director	Business	The final court of appeal in the UK.
	Computacenter	Senior Independent Director and Chair of Remuneration Committee	Business	
Dr Ros Rivaz (left 30 June 2023)	Victrex Plc	Senior Independent Director	Business	
	Aperam SA	Lead Independent Director	Business	
	Nuclear Decommissioning Authority	Chair	Business	
	Faithfull and Gould (Atkins – SNC Lavalin)	N/A	Personal	Son's employer.

BOARD PERFORMANCE

BY MARK RUSSELL, DE&S CHAIR

The DE&S Board cycle includes six all-day meetings a year, with one-hour remote calls being convened in the intervening months. This format allows more in-depth review and discussion of a range of key issues, not least the work to refresh our strategy and Operating Model. Our annual engagement programme has continued to add value and provide the opportunity to review activities at a range of sites including DE&S Deca, BAES Warton, Portland Port and General Dynamics. An internal Board Effectiveness Review was completed this year, in line with Corporate Governance best practice. This review rated the overall performance of the Board as ‘Good’ and confirmed that the Board and its sub-committees collectively form an effective, efficient and professional governance system, capable of supporting and scrutinising DE&S’ activities. In terms of process and impact, the majority of Board members were in agreement that the last 12 months had been successful across a range of areas. Relationships and communications remained positive and engagement continued to increase through various mechanisms. On areas for improvement, there was a theme regarding the need to further increase NED involvement and engagement across the business. A number of actions was therefore highlighted to help improve visibility and awareness in this area. In summary, 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 2023-24

- Strategy deep dive sessions held in July and September 2023.
- A further deep dive session was held in March 2024 to discuss wider organisational changes, including Operating Model work.
- Discussion of strategic issues throughout the year relating to our clients and wider stakeholders and our status in the wider-MOD and external environment.
- Tracked progress of the ARAc 2022-23 (published July 2023).
- Reviewed the DE&S Accountability Annex in May 2023.
- Regularly received military operational updates.
- Gained a broader understanding of cross Government and wider MOD issues, with updates on the Defence Command Paper Refresh and Future Operating Concept brief.
- The Board receive safety updates at each meeting.
- Other topics discussed over the year include reputation and communications strategies, Board Engagement sessions and a Future Combat Air Systems brief.


DE&S BOARD SUB-COMMITTEES


The DE&S NEDs attended the following sub-committees. The table below includes current DE&S Board members and those who left during 2023-24. The figures represent the number of meetings attended with the total number of meetings available to attend in brackets.


Name ³¹	Audit & Risk Assurance Committee	Remuneration Committee	Nomination Committee	Programme Review Committee
Mark Russell	5(5)	4(5)	3(3)	4(5)
Angela Williams (left 31 March 2024)	N/A	5(5)	2(3)	N/A
Claire Hawkings	5(5)	N/A	N/A	5(5)
Tony Meggs	N/A	N/A	N/A	5(5)
Lieutenant General Rob Magowan	N/A	N/A	0(3)	0(5)
Carolyn Battersby	5(5)	5(5)	3(3)	5(5)
Andy Lord	N/A	N/A	N/A	2(5)
Nick Folland (from 1 April 2023)	5(5)	5(5)	N/A	N/A
Marc Overton (from 1 April 2023)	N/A	N/A	1(3)	2(5)
Tanya Coff (joined 30 October 2023)	2(2)	N/A	N/A	N/A
Iain Lanaghan (left 30 June 2023)	1(1)	N/A	N/A	0(1)
Dr Ros Rivaz (left 30 June 2023)	N/A	0(1)	N/A	N/A
Dr Ilona Blue (left 31 December 2023)	2(3)	N/A	N/A	N/A


Mark Russell is not a member of the Audit & Risk Assurance Committee, the Remuneration Committee, or the Programme Review Committee (PRC), but he attended these meetings. Lieutenant General Rob Magowan, Deputy Chief of the Defence Staff (DCDS) Military Capability, is not a member of the PRC but is invited to attend. Tanya Coff is a Restoration and Renewal Delivery Authority employee, appointed as a NED to the Audit & Risk Assurance Committee. 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 Nick Folland as the new Committee Chair from 1 April 2023.


³¹ Tanya Coff and Dr Blue were not members of the DE&S Board and only attended the Audit & Risk Assurance Committee.

 AUDIT & RISK ASSURANCE COMMITTEE	
Purpose	To support the Board and the Accounting Officer in their responsibilities for risk control and governance by reviewing the comprehensiveness, reliability and integrity of the DE&S risk and assurance framework.
Frequency	At least four times per year.
Membership	A NED Chair, at least one other NED, and the MOD Corporate Sponsor Representative. The CEO, Deputy CEO, Finance Director, Head of Financial Accounting and representatives from the National Audit Office (NAO) and the Government Internal Audit Agency (GIAA) ³² also have the right to attend, with subject matter experts called when appropriate.
Summary of discussions	Primary focus on DE&S' ARAc monitoring progress of implementing recommendations raised in the NAO management letters and deep dives of strategic risks. The committee also agreed the GIAA Internal Audit Plan and reviewed the GIAA outputs and findings of its core DE&S and MOD functional cross-cutting audits, while monitoring progress against Agreed Management Actions (AMAs) and the AAR. Other topics discussed included Government Furnished Equipment, the Risk Maturity Improvement Plan, gifts and hospitality, whistleblowing, and Assets under Construction. The committee met five times during 2023-24.

 FRAUD BOARD	
Purpose	The Fraud Board reports directly to the Audit & Risk Assurance Committee. It oversees a risk management approach to protect DE&S' business reputation, assets and finances from fraud, corruption, theft, and misappropriation.
Frequency	Four times per year.
Membership	Finance Director (Chair), Defence Function Commercial Director (from January 2024 Director Commercial People Change is now the nominated Commercial member), Director Engineering and Safety, Director Logistics & Support, Director HR, Deputy Director Finance, Director Ships Procurement, Director Helicopters, MOD Director Assurance, and MOD Head of Fraud Defence. Also normally in attendance are the Fraud Risk & Assurance Team, including the DE&S Fraud Focal Point and MOD Police Crime Command.
Summary of discussions	Primary focus on assessing fraud risks and the appropriate mitigation activities (policies, systems, and controls) including fraud risk maturity and appetite. The Fraud Board also receives updates on fraud, corruption, theft investigations and lessons learned. International Fraud Awareness Week which took place in November 2023 provided a focus for communications on our collective responsibility to prevent and detect fraud and how the organisation was tackling fraud. Met four times during 2023-24.

 REMUNERATION COMMITTEE	
Purpose	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 influenced or replicated by Senior Civil Service or MOD Departmental guidelines. As required, the Committee advises the Minister for Defence Procurement and Permanent Secretary on the CEO's remuneration.
Frequency	Normally four times per year.
Membership	At least three NED members, one of whom is Chair. One will also be a MOD NED on the DE&S Board. The Chair of the DE&S Board has a standing invitation to attend. Additional personnel may attend as required, as long as there are no conflicts of interest.
Summary of discussions	Discussion included 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 four times during 2023-24.

 NOMINATION COMMITTEE	
Purpose	Its purpose is to advise the DE&S Chair, the Corporate Sponsor Representative (MOD NED), and other NEDs. Specifically on the balance of skills and diversity of the Board, strategy development for DE&S and succession planning for DE&S Executives and independent NEDs. The Committee is also made aware of appointments to senior leadership roles within DE&S.
Frequency	As required, with at least one meeting per year.
Membership	A minimum of three NEDs, including the DE&S Chair who also chairs this meeting. Other individuals may attend as required.
Summary of discussions	Issues covered include senior level succession planning, NED and Executive recruitment, longer-term talent strategy development. The Committee Terms of Reference were reviewed in 2023. Met three times during 2023-24.

 PROGRAMME REVIEW COMMITTEE	
Purpose	Reviews the status, progress and management of critical programmes relating to the effective delivery of the Equipment Programme by DE&S. It focuses on areas that contribute to project performance and monitors initiatives designed to improve delivery. It monitors and reviews GMPP programmes and provides direction and guidance on how to conduct further assurance reviews where particular concerns arise. The PRC also provides early strategic advice to new programmes and advises on programme delivery improvement activities.
Frequency	Six times per year with additional meetings as required.
Membership	Four DE&S 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.
Summary of discussions	Discussions focused on NED led reviews of key defence programmes specifically around reasons projects fail. This covers improvements needed, for example, across project schedule and controls. Each meeting also focuses on a specific theme related to improvement initiatives ongoing in DE&S and assesses whether these 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 Directorate of Acquisition and Project Delivery. Met six times during 2023-24.

32 In April 2023, DIA transferred into the GIAA which provides consistent assurance and insight right across government.

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 DE&S Framework Document.

Changes since the last report are:

- June 2023 – Dr Jill Hatcher confirmed as Director Strategy, People, Change & Corporate.
- July 2023 - Rear Admiral Jim Higham retired and left DE&S with roles and responsibilities transferring to Dr Jill Hatcher.
- July 2023 – Paul Marshall was confirmed in the role as DG Ships following his appointment as DG Ships (Interim).
- December 2023 - Lieutenant General Simon Hamilton was appointed as DG Land.
- December 2023 – Chris Bushell retired as DG Land and left DE&S.

DE&S EXECUTIVE COMMITTEE AS AT 31 MARCH 2024

During 2023-24 the Executive Committee discussed/provided direction on the following key topics:

- DE&S Strategy.
- New Strategic Risks.
- Integration of DE&S Deca.
- DE&S Culture and Inclusion.
- People Survey Response Plan.

DE&S EXECUTIVE COMMITTEE AS AT 31 MARCH 2024



EXECUTIVE COMMITTEE SUB-COMMITTEES

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





PEOPLE COMMITTEE

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



DOMAIN PERFORMANCE COMMITTEE

Provides the forum for the CEO to review progress on each Domain's programme in terms of its delivery of equipment and support to agreed plans.



FUNCTION PERFORMANCE COMMITTEE

Provides executive level oversight of the Functions' performance in delivering the right capability and capacity to the balanced matrix and assuring function performance and process adherence in support of delivery performance and process adherence in support of delivery.



ENDORSEMENT COMMITTEE

Provides strategic direction and delivery endorsement/delivery confirmation for the development of DE&S delivered high risk/complexity/value/political interest investment proposals, before they are considered by the Investment Approvals Committee or Single Decision Meeting and, where directed, MOD Ministers and HM Treasury.



SAFETY HEALTH & ENVIRONMENTAL COMMITTEE

Provides support and advice to the CEO in his role as the Senior Duty Holder for DE&S, in the discharge of his delegations and as set out in his Letter of Delegation from the Permanent Secretary. It will assure 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

Provides oversight of security and resilience throughout DE&S, including policing and guarding, physical, personnel, information security (incorporating cyber), and equipment. This includes security assurance of DE&S sites, FSC (formally List X) and wider defence industry. The Committee's aim is to ensure that DE&S delivers proportionate and effective security and resilience throughout the Equipment Programme.

As part of its merger in April 2023, a **DE&S Deca Steering Committee (DSC)** was formed to accommodate changes in governance structures. The DSC advises the DE&S Executive Committee on the performance and long term development of DE&S Deca with risks and issues escalated to the DE&S Board as appropriate. The DSC is co-chaired by DG Air and Chief Defence Logistics Support and meets up to 3 times annually.

A range of other meetings to support the DE&S 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 programmes adhering to schedule and budget. It demonstrates a responsible approach to delivering for 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 outputs and targets, and which could expose the organisation to cost, capability, safety, environmental and reputational implications are regularly reviewed by the DE&S Board, Executive Committee and Audit, Risk and Assurance Committee. In addition, the DE&S Board mid-year and annual strategic risk reviews provide a dedicated focus on the totality of our risk position, facilitate discussion, enable greater challenge to our risk owners and inform decision-making.

Our NED sponsors continue 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 our risk response plans. The emphasis is on managing and reducing the likelihood and impact of 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, while maximising any benefits and opportunities.

We have assessed risk appetite and tolerance levels, and qualitative assessments have been agreed for all of 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 provides 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.

Sub-strategic risk management is embedded in delivery teams throughout DE&S. We are working to integrate DE&S Deca into our risk management framework following their transition into DE&S in April 2023 as an Operating Centre within the Air domain. Risk management is supported by risk professionals in the project delivery function. Extensive work undertaken to enhance the risk maturity of our organisation was recognised by an external risk industry award in November 2023. Our project delivery function is continuing to build on this success, seeking to further embed and expand positive risk behaviours, and adopt best practice across the organisation.

A significant programme of work is being led by Defence Risk and Assurance to reset the department's principal risks and risk management approach and this work remains ongoing. We are closely engaged and aligned with this work to ensure the DE&S Board are kept informed of progress, and the MOD Chief Risk Officer helped to facilitate the Board's annual risk stocktake. This continued engagement will enable identification and consideration of any new risks or opportunities that may arise.

PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2023-24

Strategic Risk	Potential impact	Progress
Potential flaws within Safety Cases	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.	<ul style="list-style-type: none"> Continued roll out of the Safety Case Maturity Tool has provided an opportunity to prioritise and target specific interventions, to ensure Safety Cases are being captured and recorded in an appropriate way. A new Executive Safety Responsible training course has been delivered focussing on psychological safety. Further awareness training has also been delivered and a new modular practitioner course will be released in the new financial year. Together, this will continue to improve the training offer in the safety space to help develop career management and utilisation of safety decision-makers, and safety managers. Ongoing work and contribution to the development of the pan-MOD Defence Legislation Support Tool. This will assist in identifying the necessary aspects of legislative compliance in the delivery of PSS. Delivery is targeted for 2025. All areas of the business are working to improve the management of safety-related records and information, including the dissemination of good practice and learning from experience.
Meeting future SQEP needs	An inability to define, meet and sustain DE&S's people requirements causing insufficient levels of SQEP, leading to a failure to deliver the DE&S mission.	<ul style="list-style-type: none"> Ongoing organisational upskilling programme in lean, agile, and commercial awareness. Providing this across the workforce will support improved, more effective delivery for defence as DE&S moves to a new Operating Model, with completion rates on target to achieve outcomes. More widely, there is increased investment on upskilling and exploitation of evidence-based learning planning by functions, and additional learning opportunities in leadership and management for people at all grades. Improvements have been made to capability reporting so that success profile self-assessment data can be better utilised to identify business needs. Further improvements have been made in MyHR, providing people with additional tools to grow their capability. This includes improved online support and greater ability to explore other DE&S roles and identify potential future development areas. Graduate and apprenticeship schemes ensure that the DE&S offer remains competitive, and the post-scheme career offer is both supportive and engaging for scheme leavers. Work has started to actively manage junior talent retention. Continuing utilisation of the Military Transition Scheme in the Operations Delivery Function and Engineering to attract second career candidates in areas of scarce capability, providing support and development to candidates at mid to senior grades. Succession planning has continued with a particular focus on improving gender and diversity representation at the Executive and Senior Civil Service (SCS) 2 level. Focussing on the SLG, 11 out of 12 hiring campaigns have achieved a minimum of 30% diversity representation at the shortlist stage. The Capability Growth Programme is progressing with a pilot completed. This programme is linked to the Employee Value Proposition, talent strategy development and capability-based pay progression. Further pilots are due to launch in April 2024.

PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2023-24

Strategic Risk	Potential impact	Progress
Continuity of supply	Supply chain interruption, capability loss, increased costs, delay to equipment delivery and damage to the DE&S reputation.	<ul style="list-style-type: none"> The SCR programme continues to develop across DE&S. This enables risks and emerging threats to be identified, intelligently assessed and mitigated. The SCR programme and supporting technical architecture is beginning to deliver in-house capability through the Supply Chain Resilience Intelligence Performance Tool and the Supplier Relationship Management (SRM) team. Supply chain mapping priorities have focussed on the DE&S element of the GMPP with a target for each capability to be mapped to Tier 1. Opportunities for broader data capture have delivered partial supply chain visualisation for a total of 30 projects to date. Fragility metrics enable identification and analysis of potential weaknesses in these supply chains, highlighting vulnerabilities and prompting the consideration of mitigation activity. Close collaboration with industry through the Defence Suppliers Forum Resilience Working Group focuses on supply chain resilience challenges and encourages the sharing of best practice. To further promote collaborative behaviours and facilitate resolution of systemic issues and risks, critical suppliers to DE&S now have appropriate executive level relationship leads agreed and a fully developed strategy or strategy in development. This work is driven by an SRM team focused solely on DE&S suppliers and leveraging key stakeholders. There is also close collaboration with our allies and DE&S currently being seen as a lead exemplar in this space. These novel solutions to identify and mitigate supply chain risks continue to receive considerable interest from OGDs, industry partners and allies. Synergies between defence, industry and delivery teams have also played a key role in supporting the MOD's response to the crisis in Ukraine and other emerging threats, as well as providing smart supply chain and supplier intelligence to DE&S.
Cyber resilience	Loss of confidentiality, integrity and/ or availability across our defence infrastructure, services and applications leads to reduced resilience, reduced safety, ineffective mission capability, loss of business services, financial impact and reputation.	<ul style="list-style-type: none"> There has been progress in the industry WARP, with the appointment of a team leader. A dedicated industry WARP team is an important part of assuring the security of our supply chain. Funding has been approved to assess the new Security Operating Centre (SOC) requirement, reflecting transfer of responsibility to DE&S from Defence Digital. The SOC will provide enhanced detection and incident management capabilities for cyber security. The Bridging the Gap obsolescence remediation project is forecast to be completed in July 2024. Continued improvement in network scanning expands knowledge of vulnerabilities and ability to patch them when they are discovered. The quality of data in asset registers is also improving, which will assist vulnerability patching. We are also working towards expanding the scope of our ISO27001 certification to include the Logistics IT portfolio. The DE&S Equipment Cyber Resilience (ECR) programme is focused on the enduring requirements that Delivery Teams need to comply with the MOD Secure by Design Policy and continuously manage cyber risks that affect them. An awareness campaign is managed and delivered, adapting to internal and external initiatives that provides opportunities to promote cyber security to delivery teams.

Table continued on next page.

PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2023-24

Strategic Risk	Potential impact	Progress
Cyber resilience (continued)		<ul style="list-style-type: none"> An equipment cyber training pathway is managed and maintained, with in house and external courses that develop our cyber expertise. A DE&S Equipment assurance team has been established to support internal governance and collaborates with 2nd Line of Defence MOD assurance policy as it matures and evolves; The ECR Programme is providing direct assistance to projects that require greater SQEP in what is a challenging and resource constrained environment by supporting over 140 DE&S projects this year.
Reputation	Failure or perceived failure to deliver on our major objectives and obligations, and the lack of a strong DE&S employee brand, causes DE&S to have a poor reputation with our clients, key stakeholders, and current and prospective employees, leading to an impact on our status, and freedoms as an Executive Agency, and our ability to recruit / retain the best people.	<ul style="list-style-type: none"> Delivery of a new communications strategy through five focussed multi-channel campaigns (Building the Competitive Edge, Support Worldwide Operations, Building UK Prosperity, Defence Experts, Supporting Global security) with activity including podcasts, more varied social media activity and media coverage in a broader range of publications. A more visible presence (exhibition stands, keynote speeches) and increased stakeholder engagement activity at industry events, including Defence and Security Equipment International and Defence Procurement Research Technology Exportability. The creation of a 'telling our story' page on the intranet, with resources including presentations and videos, for people to use when engaging with external stakeholders. Reporting on key reputational risks and opportunities to the DE&S Executive Committee and wider key stakeholder groups which includes daily media/social media analysis and monthly reputational reporting. Delivery of the internal and external communications plans for DE&S Strategy implementation. This includes regional roadshows, industry engagement events, FLC client briefings, live events for staff and client briefings. Advice and preparation provided by DE&S Corporate Communications and Policy Secretariat to those undertaking media interviews and appearing before Parliamentary Committees. Ensuring Parliamentary business and Freedom of Information request responses are timely, accurate, and follow departmental best practice. Recruitment of a Head of Stakeholder Engagement to develop stakeholder engagement plan and activities. Management of significant events that could impact reputation such as safety, environmental, legal and people issues.
Protective security	Loss of confidentiality, integrity and/or availability of critical or sensitive assets or dependencies, leads to reduced resilience, reduced safety, ineffective mission capability, loss of business	<ul style="list-style-type: none"> An automated access control system is now operational at Abbey Wood. Infrastructure improvements, including CCTV and fence capabilities, have been delivered at Defence Munitions sites. These tasks were prioritised through the Security Infrastructure Improvement programme. The Industry Personnel Security Assurance programme is now in its final year of its initial three-year assurance programme. This is a framework for vetting and aftercare for the management of personnel security in industry sites. This provides DE&S with assurance that industry partners are managing the insider risk appropriately.

PRINCIPAL STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2023-24

Strategic Risk	Potential impact	Progress
Protective security (continued)	services, financial impact and reputational damage.	<ul style="list-style-type: none"> Insider risk was identified as a driving component of the overall strategic protective security risk and is being mitigated through actions to improve culture, behaviours, and awareness in DE&S staff. Required security training, lunch & learn sessions and security events with a focus on insiders are ongoing. The project security community of interest has been set up with project security forums running quarterly which improve knowledge, awareness, and collaboration to reduce likelihood of an accidental insider event. A project security assurance framework has been produced, which is currently under review and will be used to assure project artefacts. A review of armed guarding capability is being carried out by the Principal Security Advisor's office which aims to identify ways of improving the security effect delivered to DE&S establishments. The Defence Suppliers Forum Security Steering Group has spawned some effective and collaborative sub-groups. Specifically, the culture and threats groups are well attended and productive.
Information and records management (IRM)	Sub-optimal 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"> The review of Paper Records Management Information is continuing across the Ships, Strategic Enablers and most of the Land Domain. The remainder (primarily from Corporate) will be completed in the next next financial year. Once complete, this will conclude an entire review of DE&S paper holdings with decisions in place for retaining, destroying or digitising these records. 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&S. These include: <ul style="list-style-type: none"> A five-year IRM compliance and audit programme. A functional maturity assessment to re-baseline and monitor consistent record declarations across DE&S. A series of data driven monitoring activities to assess volume and quality of new records. A programme of ongoing training, communications and reporting to improve attitudes and behaviours across the business to improve cultural change.
Knowledge Management (KM)	Poor KM 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"> There is continued progress in the roll out of KM awareness training, alongside the delivery of Learning from Experience (LFE) training. Work continues to support a MOD unified LFE tool delivered via Defence Digital during 2024. The tool has potential to offer a consistent & coherent approach to capture, manage & exploit DE&S LFE knowledge. Work has been conducted to update Success Profiles to ensure KM elements are captured within the Corporate Services Group, to include associated technical competencies and responsibilities. The maturity of SQEP in KM is being assessed and accredited. Work is underway to exploit options for a data visualisation tool to create digitised interactive histories, to incentivise people to record histories.

UPDATE ON PRINCIPAL STRATEGIC RISKS EXTANT IN 2022-23

The previous table outlines the principal strategic risks for 2023-24. These remain the same as those reported against in 2022-23 although some of the risk titles have been updated. We are reviewing the scope of our strategic risks on meeting future SQEP needs and continuity of supply to make sure that they accurately reflect the challenges of the dynamic national and international landscape in which DE&S is operating.

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 officer, 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 2023-24 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 2023-24 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 here³³

Our accounting is subject to detailed audit by GIAA and the NAO to test our compliance with departmental and HM Treasury 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 ensure 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 current BMS is transitioning towards an improved Integrated Management System. This will bring together the various management systems across DE&S (Environmental, Safety, Quality) through centralised certification to the required ISO (International Organisation for Standardisation) standards set out in the DE&S Framework Agreement. It will also align all management system policy and process through improved use of tools and a single point of access. Our Quality policy, consistent with that for the wider MOD in JSP 940 (MOD Policy for Quality), sets out intentions and direction for the management of Quality, which is approved by our CEO. It is aligned to the DE&S Strategy and the DE&S optimisation work. This provides a framework for our objectives, as well as guidance to ensure the right controls are in place to manage Quality.

ISO 9001 is the international standard by which organisations are measured to demonstrate their implementation of a sound QM system. It is a

requirement laid down by the MOD in our Framework Document. Following certification to this standard in December 2021, this year saw our final annual surveillance audit in the three-year cycle where it was demonstrated that we continue to improve and meet the requirements of this prestigious standard.

As we continuously improve our management systems, aimed at improving the quality of products and services supplied to the MOD and the attitude of suppliers towards Quality, we have focused supplier attention onto planning and assurance. This approach maximises the benefit that can be obtained from contracting with suppliers that have in place effective arrangements for the management of quality, environmental, safety and information security.

DE&S-led initiatives to improve Quality Assurance (QA) of the supply chain developing 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 non-conformity and top management engagement and commitment to customer focus.
- Improved MI and reporting ability across the supply environment through development of tooling and centralisation of information which will increase visibility of supplier performance and enable earlier intervention.
- The continuation of an annual MOD Quality Award for Supplier Quality Improvement sponsored by the Chartered Quality Institute (CQI), building confidence in the quality of our supply chain.
- Developing an improved understanding of the lay-down of both QM and QA SQEP resource across DE&S, utilising further developments of internationally recognised competency developed by the CQI to provide a more consistent approach across programmes.
- The use of a MOD Risk and Complexity Model across all MOD programmes with the Programme Evidence and Assurance Tailoring tool to flag the requirement for QA support, combined with the adoption of lifecycle-based capability assessments by the Defence QA Field Force for supply chain assurance

and QM support requirements 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.
- Improving a link between the performance of the supplier’s quality management and payment, strengthening 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 to DE&S, wider MOD and to deliver for our customers, including supporting operational requirements, the DE&S Commercial Corporate Function continues to invest in its commercial people. This has been achieved through career support, personal development, and learning and development programmes, as well as maintaining our critical recruitment programmes for new DE&S commercial entrants. Working with the wider pan-MOD Commercial Function, these activities and investments support the retention of commercial people, and strengthen the level of capability in the Function, which we are looking to further solidify in the new DE&S Operating Model.

We continue to support our objective of continuous development of our people through new guidance and accessible routes to commercial training, which are sensitive to hybrid working arrangements. Specifically for capacity, professionalism, learning and development and structured learning the following elements are highlighted:

- **Capacity** – During the first three quarters of 2023-24, we ran successful bulk campaigns at all grades with exceptional success in recruitment at Senior Professional and Senior Technical Specialist II

grades. Workforce controls meant that no campaigns were run in the fourth quarter. Alongside our campaigns we have been able to support a high level of internal moves across the DE&S business providing opportunities for existing staff to grow. The introduction of the Cabinet Office Assessment & Development Centre (A&DC) at Professional I grades and above has been embedded within our recruitment processes. We have reviewed 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** - This year we have seen significant progress on our levels of professionalism. At the Expert Professional I and Senior Professional grades, for Commercial people that require a delegation to operate, this has improved by 38%, with 79% accredited from reporting year 2022-23. At practitioner levels, Technical Specialist I to Professional II, 80% of our people are accredited. These are lower than the pan-MOD commercial professional targets, however, we continue to support our unaccredited people on their Chartered Institute of Procurement and Supply (CIPS) learning journey, offer learning programmes for our people attending Cabinet Office A&DCs and in-house guidance for practitioner panels.
- **Learning and Development** - We have successfully introduced a commercial awareness induction programme for non-commercial staff. This content continues to be developed and the events are well attended by targeted people at all levels across DE&S. We are preparing to roll-out this training in an enhanced version for the introduction of the new procurement regulations. This will be a key learning programme for our commercial people as well as many non-commercial staff. A new DE&S/SDA CIPS pathway to Member of the CIPS chartered status has been developed and introduced. The commercial training library continues to be updated and refreshed as these programmes move forward providing an up to date and extensive suite of learning material to all staff.
- **Structured Learning** - Currently 10% of our Commercial people are taking part in Structured

Learning. We continue to host and develop commercial graduates on a two-year programme, across several separate cohorts. Working with our colleagues in the wider MOD commercial function, we have introduced several changes to improve their experience on the Programme. Our Structured Learning Programme was successfully piloted and has been formally introduced into our learning portfolio. We also continue to support commercial apprenticeships. We are participating in a pilot for a pan-Defence Fastpath programme for new commercial staff at Technical Specialist I and above. This 10-week programme focusses on the commercial skills and learning required for new people to positively contribute to the work in the DE&S Teams and the Function.

INFORMATION AND RECORDS MANAGEMENT

Positive steps have been made in key areas across the mitigation programme associated with our IRM strategic risk, which continues to deliver improvements on the effective capture, management and exploitation of information and records across DE&S.

These steps have included significantly reducing paper record holdings following a review of artefacts held within DE&S and at the Government's record storage facility; ongoing improvements within the digital IRM landscape through prioritisation of key learning, and robust management of secure access and routine reporting at all levels to ensure visibility of issues and mitigation of risks.

Specifically, within the digital landscape, new tools for the management of core activities have been developed to ensure DE&S staff fulfil their commitments when managing and declaring information and records. These activities have contributed to further improvements in governance, assurance and compliance, which was recognised in a GIAA review of DE&S Record governance. This review was held in December 2023 and concluded with a 'moderate' assurance rating.

Digital staff within DE&S are fully engaged in Operating Model workshops to ensure IRM and Knowledge Management practices and lines of accountability are considered and embedded across the organisation. This will help ensure the organisation maintains a safe and legal operating position, promotes organisational learning through improved record keeping and knowledge

retention, and supports our IRM culture for the future. A focus remains on improving the culture and consistent record declarations across DE&S through various workstreams and delivery of ongoing and continuous training sessions across a range of IRM topics and tools.

QUALITY ASSURANCE OF ANALYTICAL MODELS

DE&S has continued to ensure that an appropriate Quality Assurance framework for modelling is effectively embedded across the business. To confirm this, the Project Delivery function conducted a QA review of the Business-Critical Models (BCMs) listed for 2023-24. All of the 31 BCMS declared were found to have conducted appropriate QA or have appropriate QA planned. The review identified two significant deviations from the prescribed processes, including a failure to notify a Model SRO (mSRO) of their appointment to the role, and an instance of an assurer not having completed the required training. Neither of these issues resulted in any errors in their respective outputs. There were also 11 instances of minor deviations, relating to mSROs including their responsibilities in their annual goals; model sign off; and completion of required training. It is of note that actions have been recommended to address the root cause of these deviations from the prescribed process. The overall conclusion from this review confirmed satisfactory QA exists in BCMS.

ANNUAL ASSESSMENT OF GOVERNANCE

The DE&S Audit and Risk Assurance Committee has provided oversight, advice and support to our governance and control frameworks, risk management structures and internal controls. They have reviewed the integrity of our assurance framework through the AAR. 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 and 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.

The AAR provides a view of the effectiveness of the assurance regime across our business and through which our assurance leads make evidence based self-

assessments to reflect compliance against our own, and wider MOD, functional policies and controls. 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 consistency in the evidence base within the finance internal control and assurance framework; the need to address security governance and risk management across the wider DE&S estate; embed a revised assurance regime in the support function following changes to operations delivery; and work to mature the assessment processes against the relevant JSP in relation to climate change and sustainability.

For our eight strategic risks, we continue to operate a robust assurance-based governance and control framework to review the progress and effectiveness of our response plans and controls. This provides significant confidence that our strategic risks are being effectively managed and helps us to identify where there might be areas that require attention and improvement, and that any issues are being appropriately addressed.

We have an agreed three year audit plan in place with the GIAA, 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 GIAA is 'Moderate' which reflects largely positive results in which our controls were assessed as operating effectively, with only isolated examples where improvement was required. Of the 15 audits that have reported this year, 13 are assessed as having Moderate or better assurance. The GIAA noted effective governance and assurance frameworks in a number of key business areas including financial, and programme and project controls, with a positive demonstration of robust physical security, and security incident reporting measures. Commercial controls were also assessed as being in the main effective, particularly in the management of performance, although there were some areas of weakness around the administration of contract expiry and closure. In some of the areas tested, GIAA also found that resource pressures were beginning to impact the delivery of some control objectives and assurance activities. It was noted that DE&S has maintained a robust process to track and ensure the completion of internal AMAs within the timeframes set and that these were routinely monitored and discussed at the DE&S Audit Risk and Assurance Committee.



Standing ready for launch, Bombardier Bridger readies his PUMA RPAS on a hilltop in northern Kosovo

CHAIR'S ASSESSMENT

MARK RUSSELL



I am confident that DE&S continues to operate within a robust governance framework, as reflected by an internal Annual Assurance Report assessment of 'moderate'. This aligns with the current GIAA audit opinion ratings and equates to 'substantial' under the previous Defence Internal Audit rating system. It maintains our position in previous years and is derived from an honest and appropriate review of our internal controls. The Board continues to regularly discuss and review our strategic risks to ensure they reflect the wider strategic defence landscape within which DE&S is operating and that appropriate mitigations are in place to support our mission to equip the armed forces with the edge to protect the nation and help it prosper.

The GIAA 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 Audit Management Actions. The GIAA's annual audit opinion of 'moderate' underpins our governance framework and controls. 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

DE&S staff at Abbey Wood.

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 MOD 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 2023-24, six members³⁴ of the DE&S Executive Committee had been members of the SCS and one member had been an employee of the Government Commercial Organisation³⁵. In addition, four³⁶ had been senior officers of the armed forces, one of whom³⁷ transferred to the SCS during the reporting period.

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 HM Treasury's Guidance for approval of senior pay, covering salary and allowances.

As at 31 March 2024 there were 11 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.



Staff in the grounds of DE&S HQ

³⁴ Andy Start, Adrian Baguley, Chris Bushell (to Dec 23), Dr Jill Hatcher (DHR to Jun 23 and DSPCC from Jun 23), Paul Marshall (from SCS Jul 23), David Johnson.

³⁵ Andrew Forzani.

³⁶ Vice Admiral Rick Thompson, Vice Admiral Paul Marshall (to Jul 23), Rear Admiral Jim Higham (to July 23), Lieutenant General Simon Hamilton (Dec 23).

³⁷ Paul Marshall

PERFORMANCE AND REWARD

The 2023-24 Statement of Comprehensive Net Expenditure (SoCNE) reflects payments made or due to Directors during the financial year. All salary and reward for Executive Committee members was considered by the DE&S Remuneration Committee.

This year, we have consolidated our approach to reward following the implementation of our Reward Review in July 2022. This required significant investment in raising pay ranges to maintain competitiveness internally and externally. This was in addition to delivering additional non-consolidated pay elements, including the Cabinet Office announcement in May 2023 of a one-off payment of £1,500 to eligible civil servants below SLG. These interventions have enabled us to address internal and external market pressures which has significantly reduced the amount of internal movement of employees to other Civil Service organisations, reducing churn, and leading to improved engagement scores in our pay and benefits section of the annual Civil Service People Survey. We have also delivered a first pilot of Capability Based Pay within our Logistics Execution roles across Defence Munitions, British Forces Post Office and Ships Safety Equipment, and we plan to rollout further pilots during 2024-25. Our reward offer remains market-informed and performance driven, and all our SCS, including members of the Executive Committee, are aligned to our SLG, although they have retained their shadow SCS pay band to support internal transfers with MOD and OGD and other processes such as talent management.

We repeated a periodical review of our most critical roles within the SLG in spring 2023, with the process endorsed by our Remuneration Committee, following which a total of four non-Executive SLG received salary increases to reflect their importance in delivering our mission.

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. We are currently negotiating the Pay 24 outcome for all civil servants with our Trade Unions (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 applicable from April 2024.

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 2023-24 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 2024 payroll.

All senior (two star and above) military officers' pay is dependent on their performance, time in rank and position on the pay scale. Further details are 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 Commission³⁸ 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.

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. 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.

Paul Marshall was confirmed as DG Ships on 3 July 2023 in SCS Pay Band 3 grade.

Chris Bushell, DG Land, retired from DE&S on 12 December 2023 and was replaced by Lieutenant General Simon Hamilton as DG Land. This role is expected to change significantly following changes to the DE&S Operating Model. As a result, a full and open competition is expected to be launched in 2024.

Dr Jill Hatcher relinquished her role as Director HR on 25 June 2023 and assumed the role of Director Strategy, People, Change and Corporate.

Rear Admiral Jim Higham, Director Strategy and Corporate Operations (Interim), retired from DE&S in July 2023, with roles and responsibilities transferring to Dr Jill Hatcher.

Following a competition, Rear Admiral Steve McCarthy was appointed on promotion as Director Ships Support in October 2023. This role had been held on an interim basis since January 2023 when Rear Admiral Jim Higham left post to take up his role as Director Strategy and Corporate Operations (Interim).

Roger West, Director Logistic Services retired from DE&S in May 2023, with roles and responsibilities transferring to John Farrow in June 2023 following a full and open competition.

Major General Darren Crook, Director Land Equipment, retired from the Army in March 2024. Acting Major General Elizabeth Faithfull-Davies was appointed in the

role in March 2024 and was subsequently promoted to substantial Major General in May 2024.

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 Primary 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 2023-24. 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	2023-24		2022-23		Total £000	Pension Benefits £000 ³	Benefits in Kind £000 to Nearest £100	Salary £000	Annual ² Performance Award £000	Benefits in Kind to Nearest £100	Pension Benefits £000	Total £000
	Salary £000	Annual ² Performance Award £000	Salary £000	Annual ² Performance Award £000								
Andy Start¹ (from 5 September 2022)	280-285	165-170	13.5	-	465-470	-	155-160 [275-280]	90-95	71	-	255-260 [375-380]	255-260 [375-380]
David Johnson	160-165	45-50	-	4	210-215	4	155-160	40-45	-	(34)	165-170	165-170
Adrian Baguley⁵	200-205	70-75	-	191	465-470	191	170-175	60-65	-	30	260-265	260-265
Vice Admiral Paul Marshall⁶ (from 22 September 2022 to 2 July 2023)	35-40 [145-150]	-	-	(94)	(60)-(55) [50-55]	(94)	75-80 [140-145]	-	-	75	150-155 [215-220]	150-155 [215-220]
Paul Marshall⁶ (from 3 July 2023)	155-160 [210-215]	40-45	3.3	-	200-205 [250-255]	-	-	-	-	-	-	-
Vice Admiral Richard Thompson	170-175	-	-	61	230-235	61	155-160	-	-	143	300-305	300-305
Lieutenant General Simon Hamilton⁷ (from 8 December 2023)	50-55 [160-165]	-	-	(33)	15-20 [125-130]	(33)	-	-	-	-	-	-
Andrew Forzani⁸	110-115	0-5	1.5	3	115-120	3	105-110	-	-	3	110-115	110-115
Dr Jill Hatcher⁹	150-155	55-60	1.0	160	365-370	160	125-130	50-55	-	4	180-185	180-185
Chris Bushell¹⁰ (to 12 December 2023)	170-175 [235-240]	30-35	-	-	205-210 [270-275]	-	230-235	60-65	-	-	295-300	295-300
Rear Admiral Jim Higham¹¹ (from 23 January 2023 to 2 July 2023)	30-35 [135-140]	-	-	(129)	(100)-(95) [5-10]	(129)	25-30 [130-135]	-	-	(27)	(5)-0 [105-110]	(5)-0 [105-110]
Sir Simon Bollom¹² (to 31 July 2022)	-	-	-	-	-	-	90-95 [275-280]	30-35	-	-	125-130 [310-315]	125-130 [310-315]
Krishna Dhanak¹² (to 29 January 2023)	-	-	-	-	-	-	85-90 [100-105]	5-10	-	33	125-130 [145-150]	125-130 [145-150]
Vice Admiral Sir Chris Gardner¹² (to 22 September 2022)	-	-	-	-	-	-	85-90 [170-175]	-	-	42	125-130 [210-215]	125-130 [210-215]

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 square 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 2023-24 relate to performance in 2023-24 and the comparative figures reported for 2022-23 relate to that performance year. Performance awards for the year 2023-24 are estimates, pending TU negotiation. Military terms and conditions do not include provision for a 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 for 2022-23 reflect the actual remuneration received during the appointment. The figures in square brackets reflect the annual equivalent salary. Andy Start is required to work and have permanent office locations in both MOD HO 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 these costs, the total value including the taxable benefit for the 2023-24 and 2022-23 Financial years is captured here.
- Adrian Baguley changed pension scheme during the year, the contributions above relate to his Principal Civil Service Pension Scheme (PCSPS) from 1 October 2023, and he also received contributions into his partnership pension account of £1,750 (2122 £19,200) for the period 1 April 2023 to 30 September 2023.
- Vice Admiral Paul Marshall undertook role of Director General Ships (interim) between 22 September 2022 and the 2 July 2023 when he left the Armed Forces. His salary and pension costs for both FYs reflect the actual remuneration received during the appointment. The figures in square brackets reflect the annual equivalent salary. Paul Marshall was confirmed in role as Director General Ships as a civilian employee from 3 July 2023. His remuneration is shown over two lines above to separate out the military and civilian aspects of his remuneration. Paul Marshall received authorised first appointment expenses having transitioned from the military to civilian during the year.
- Lieutenant General Simon Hamilton assumed the role of Director General Land on 8 December 2023. His salary and pension costs reflect the actual remuneration received during the appointment. The figures in square brackets reflect the annual equivalent salary.
- Andrew Forzani is currently employed by GCC Cabinet Office and the remuneration is in relation to DE&S contribution to his salary. Andrew is required to have two permanent office locations as he has roles in both MOD-HO in London and DE&S headquarters in Bristol. In line with dual workplace policy and HMRC benefit-in-kind requirements, The GCC Cabinet Office covers the cost of travel, accommodation to and from Bristol including the taxable benefit of those costs and DE&S contribute towards this.
- Dr Jill Hatcher received allowable benefit-in-kind in relation to exceptional requirements to attend the office during 2023-24.
- Chris Bushell left his role of Director General Land on 12 December 2023. His salary and pension costs reflect the actual remuneration received during the appointment. The figures in square brackets reflect the annual equivalent salary. Chris Bushell received contributions into his partnership pension account of £46,900 (2022-23 £34,400).
- Rear Admiral Jim Higham assumed the role of Director Strategy & Corporate Operations (interim) on 23 January 2023 and left DE&S on 26 June 2023. His salary and pension costs reflect the actual remuneration received during the appointment. The figures in square brackets reflect the annual equivalent salary.
- Sir Simon Bollom, Vice Admiral Christopher Gardner and Krishna Dhanak left DE&S during 2022-23 and therefore did not receive any remuneration in 2023-24.

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

DE&S Non-Executive Directors ¹	2023-24 ² £000	2022-23 ² £000
Mark Russell	145-150	145-150
Angela Williams	25-30	25-30
Claire Hawkings	25-30	25-30
Tony Meggs	25-30	25-30
Andy Lord	25-30	25-30
Marc Overton³	25-30	-
Nick Folland³	25-30	-
Tanya Coff⁴ (from 30 October 2023)	-	-
Lt Gen Rob Magowan⁵	-	-
Carolyn Battersby⁶	-	-
Iain Lanaghan⁷ (to 30 June 2023)	5-10 [25-30]	25-30
Dr Ros Rivaz⁷ (to 30 June 2023)	5-10 [25-30]	25-30
Dr Ilona Blue⁸ (to 31 December 2023)	0-5	0-5

Notes:

- None of the NEDs 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 square brackets reflect the annual equivalent fees for NEDs who have joined or left the DE&S Board during the year.
- Marc Overton and Nick Folland joined the DE&S Board on 1 April 2023.
- Tanya Coff joined as a NED on 30 October 2023 and received no remuneration for her role as she is an employee of the Houses of Parliament and Renewal Authority.
- 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 for her role as Corporate Sponsor Representative as she is a UKGI employee.
- Iain Lanaghan and Dr Rosalind Rivaz left the DE&S Board on 30 June 2023. The figures in square brackets reflect the annual equivalent salary.
- Dr Ilona Blue left the DE&S Board on 31 December 2023.

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

DE&S Executive Directors ¹	Total accrued pension at pension age [and related lump sum] as at 31 March 2024 [£000] ²	Real increase in pension [and related lump sum] in 2023-24 [£000] ²	Cash Equivalent Transfer Value (CETV) ³ as at 31 March 2024 or cessation of employment if earlier [£000] ⁴	CETV as at 31 March 2023 or date of appointment if later [£000] ⁴	Real Increase in CETV ⁵ [£000]
David Johnson	70-75 [195-200]	0-2.5 [(10)-(7.5)]	1,760	1,624	(17)
Adrian Baguley	75-80 [225-230]	7.5-10 [15-17.5]	2,012	1,670	192
RAdm Paul Marshall (from 22 September 2022 to 2 July 2023)	70-75 [200-205]	(5)-(2.5) [(15)-(12.5)]	2,088	2,394	(548)
Vice Admiral Richard Thompson	75-80 [220-225]	2.5-5 [(2.5)-0]	2,064	1,865	10
Andrew Forzani	-	-	-	-	-
Dr Jill Hatcher	70-75	7.5-10	1,241	1,007	129
RAdm Jim Higham (from 23 January 2023 to 2 July 2023)	75-80 [155-160]	(7.5)-(5) [(15)-(12.5)]	1,964	1,923	(152)
Lieutenant General Simon Hamilton (from 8 December 2023)	70-75 [195-200]	(2.5)-0 [(7.5)-(5)]	2,200	2,422	(467)

Notes:

- Andy Start is not a member of any DE&S pension scheme and no pension contributions have been made by DE&S. Chris Bushell is not a member of the Principal Civil Service Pension Scheme. 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 Interim DG Ships to 2nd July 2023. He is not a member of any DE&S pension scheme in his civilian role. Andrew Forzani is not a member of any DE&S pension scheme, DE&S has contributed to his GCC pension. Rear Admiral Jim Higham's pension contribution reflects his time as Director Strategy and Corporate Operations from 1 April 2023 to 2 July 2023. Adrian Baguley switched from a Partnership Pension Account on 30th September 2023. Adrian Baguley's PCSPS pension details are shown in the table above. DE&S contributed to his Partnership Pension Account for the period 1 April 2022 to 30th September 2023. Lieutenant General Simon Hamilton's pension contribution reflects his time as General Land (Interim) from 8 December 2023.
- 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.
- 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.
- All the Civil Service Pension & Military Pension values as at 31 March 2023 have been revalued by the pension provider to reflect the McCloud judgement. The values reported in the 22-23 account are as follows: David Johnson £1,507,000, Adrian Baguley £1,555,000, Paul Marshall £1,750,000, Richard Thompson £1,683,000, Dr Jill Hatcher £636,000, Jim Higham £1,703,000.
- This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee and uses common market valuation factors for the start and end of the period.

FAIR PAY DISCLOSURES (SUBJECT TO AUDIT)

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

Remuneration of the highest paid directors is based on annual equivalents which include salary, performance related pay and benefits-in-kind. It does not include severance payments, employer pension contributions the cash equivalent transfer value of pensions or the one-off cost of living payment paid during this year.

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 2023-24 was £172,500. This was 3.02 (2022-23 2.91) times the median remuneration of the military workforce, which was £57,186 (2022-23 £54,046). The military remuneration ratio is

slightly higher in 2023-24 due to an increase in the highest paid military director remuneration. The median remuneration of the military workforce has also increased in 2023-24 due to annual military pay rise.

The midpoint of the banded remuneration of the highest paid civilian director in DE&S during 2023-24 was £467,500. This was 11.07 (2022-23 9.61) times the median remuneration of the civilian workforce, which was £42,218 (2022-23 £39,285). This increase in remuneration ratio is driven by an increase in the highest paid civilian director remuneration, partially offset by an increase in the median workforce salary. The civilian workforce median increased in 2023-24 driven by the annual civilian pay rise and the inclusion of benefits-in-kind within the underpinning calculations which was not included in previous years. This was partially offset by the merger with DE&S Deca due to a higher proportion of industrial staff compared to the wider DE&S.

In 2023-24, zero (2022-23, zero) employees received remuneration in excess of the highest-paid director.

Military remuneration ranged from £15,325 to £172,500 (2022-23 £14,683 to £157,500). Civilian remuneration ranged from £17,000 to £467,500 (£18,278 to £377,500).

The calculations underlying the analysis below do not include the one-off cost of living payment made to all civil servants during FY23-24.

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

	Lower Quartile		Median		Upper Quartile	
	2023-24	2022-23	2023-24	2022-23	2023-24	2022-23
Military						
Salary £	50,330	47,205	57,186	54,046	71,420	67,075
Total Pay £	50,330	47,205	57,186	54,046	71,420	67,075
Civilian						
Salary £	33,224	31,402	40,851	38,528	49,949	47,155
Total Pay £	33,823	31,869	42,218	39,285	52,262	48,646

STAFF REPORT**STAFF NUMBERS (SUBJECT TO AUDIT) (SEE ALSO NOTE 3 TO THE FINANCIAL STATEMENTS)**

The number (headcount) of SCS within the DE&S and DE&S Deca SLG, as at 31 March 2024 is as follows:

SCS Pay Band	2023-24			2022-23
	DE&S	DE&S Deca	Combined total*	DE&S only
Band 1	89	1	90	87
Band 2	18	0	18	16
Band 3 and above	4	0	4	4
Total	111³⁹	1	112	107

* Data for 2023-24 shows a combined total for DE&S and DE&S Deca following their merger on 1 April 2023.

The substantive SCS head count as at 31 March 2024 has increased slightly since 2022-23, although gapped SLG posts are routinely filled by non-SCS staff on a temporary basis pending completion of external recruitment campaigns. The figures shown include one DE&S SLG who was on loan on 31 March 2023, three fixed term appointments, and 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, both civilian and military, are as follows. A more detailed breakdown can be found in Note 3.2 on page 126.

	2023-24			2022-23
	DE&S	DE&S Deca	Combined total*	DE&S only
Permanent Staff	11,580	438	12,018	11,338
Contingent Labour	905	22	927	971
Total	12,485	460	12,945	12,309

* Data for 2023-24 shows a combined total for DE&S and DE&S Deca following their merger on 1 April 2023.

Staff turnover for 2023-24 (reflecting all leavers from DE&S apart from transfers to SDA) was 8.3% compared with 10.9% for 2022-23⁴⁰

³⁹ Military personnel within the SLG total 19 (Band 1:12; Band 2: 5 and Band 3:2)

⁴⁰ 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.

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

Pay Changes	2023-24		2023-24
	Military	Civilian	
Salary & Allowances			
Highest paid director	9.52%	5.43%	
Staff average	6.01%	7.51%	
Performance Pay			
Highest paid director	N/A	81.23%	
Staff average	N/A	41.58%	

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

Military salaries do not attract performance pay or benefits-in-kind as these are paid by the single service TLBs outside of DE&S.

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
2023-24	3.43	3.02	2.42	13.82	11.07	8.95
2022-23	3.34	2.91	2.35	11.85	9.61	7.76

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

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

	2023-24					2022-23		
	Permanently employed staff £000 (DE&S)	Contingent labour £000 (DE&S)	Permanently employed staff £000 (DE&S Deca)	Contingent labour £000 (DE&S Deca)	Combined total £000*	Permanently employed staff £000 (DE&S only)	Contingent labour £000 (DE&S only)	Total £000
Salaries and Wages	562,013	121,848	15,223	857	699,941	503,321	121,507	624,828
Social Security Costs	59,391	-	1,429	-	60,820	54,578	-	54,578
Other Pension Costs	161,826	-	3,603	-	165,429	150,327	-	150,327
Total	783,230	121,848	20,255	857	926,190	708,226	121,507	829,733
Paid to:								
Armed Forces	126,285	-	-	-	126,285	121,163	-	121,163
Civilian	656,945	-	20,255	-	677,200	587,063	-	587,063
Contingent Labour	-	121,848	-	857	122,705	-	121,507	121,507

* Data for 2023-24 shows a combined total for DE&S and DE&S Deca following their merger on 1 April 2023.

Costs for permanently employed staff, including salary, social security and pension costs, have increased by £95 million. Contingent labour has increased by £1.2 million.

The increase in salaries and wages due to the DECA merger is £15 million arising from the transfer in of 440 civilian headcount. There was also a significant increase due to the one off £1,500 cost of living payment to staff totalling £15 million paid in August this FY. Additionally, there was a civilian pay increase of £26 million and a £10 million increase in performance award from previous years. Social security costs and Pension costs increased by £6 million and £15 million respectively driven by the above increases in salary and wages. Contingent Labour costs have remained relatively stable this has been driven by a reduction in contingent labour headcount offset by an increase in charging rates.

PRINCIPAL CIVIL SERVICE PENSION SCHEME

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Service and Other Pension Scheme, known as "Alpha", are unfunded multi-employer defined benefit schemes. DE&S is unable to identify its share of the underlying assets and liabilities. An actuarial valuation of the PCSPS was completed on 31 March 2020⁴¹.

Contributions to the PCSPS in 2023-24 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 2023-24 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 2023-24 period were aligned to those from 2022-23 and incorporate additional costs associated with the 2015 Remedy Programme, also known as the McCloud Judgement⁴².

From April 2024, a flat employer contribution of 28.97% will be applied for all members of the Alpha scheme. Employees can opt to open a partnership pension account; employer contributions are age related and ranged from 8% to 14.75%. Employers also match employee contributions up to 3% of pensionable earnings. 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 available⁴³.

41 <https://www.civilservicepensionscheme.org.uk/about-us/scheme-valuations/>
42 <https://www.civilservicepensionscheme.org.uk/your-pension/2015-remedy/>

43 <https://www.civilservicepensionscheme.org.uk/>

ARMED FORCES PENSION SCHEME

The AFPS is an unfunded, non-contributory, defined benefit, salary related, contracted out, occupational scheme. As such, this scheme is consolidated into separate accounts, details of which are available⁴⁴.

Employer's contribution rates are determined by the Government Actuary. For 2023-24, the employer's contribution rates remained unchanged from 2022-23 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 2024-25, where this is expected to increase to 71.5% of pensionable pay.⁴⁵

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 Supporting Health and Attendance policy, which was reviewed and re-published in February 2024. During 2023-24 the average number of days sickness absence per employee in DE&S (excluding DE&S Deca) was 5.18. This a downward trend on the previous year (2022-23) of 5.48 days per employee. The largest cause of sickness absence recorded by employees being anxiety, depression, or stress at 27.49% of the total. There were 1,703 sickness absence days recorded for confirmed COVID-19, representing 3.1% of all sickness absence. DE&S' average sickness absence rate compares favourably with the MOD average of 7.27 days.

In DE&S Deca the average number of days sickness absence per employee for 2023-24 was 6.7 days. This is a reduction from 2022-23 when the average was 9.2 days.

44 <https://www.gov.uk/guidance/pensions-and-compensation-for-veterans>
45 Armed Forces Pension Scheme Actuarial Valuation as at 31 March 2020 - Valuation Results (publishing.service.gov.uk)

It is possible that a prolonged period of industrial action within DE&S Deca impacted on the overall reported sick absence during a significant part of the year, which may have skewed figures. There were 2,925 sickness absence days recorded across all sickness types compared with 4,006 days in 2022-23. The largest cause of sickness absence recorded by employees was for psychological disorders which includes anxiety, stress, depression and bereavement in addition to mental health conditions, at 25% of the total. There were 115 sickness absence days recorded for confirmed COVID-19 cases, representing approximately 4% of the total absence.

The combined average number of days sickness absence per employee for 2023-24 for DE&S and DE&S Deca was 5.24 days.

In DE&S, 2023 marked the three-year anniversary of the establishment of psychological health resources based on a 'whole person' approach, as part of our Safety and Environmental Management System. DE&S has a cohort of fully trained Mental Health First Aiders across many of our sites, trained with skills such as non-judgemental listening and the ability to signpost to professional support and early intervention.

The Employee Assistance Programme (EAP) remains the main referral point for staff. This is a confidential service provided to help individuals deal with personal and professional problems that could be affecting their home or work life health and general wellbeing. It also offers a range of other mental and physical health resources. Reports from the EAP show the two most common sources for people finding out about the EAP is via their manager and via intranet comms, showing effective signposting from both.

DE&S and SDA have 13 Fair Treatment Ambassadors (FTAs), providing impartial, independent guidance to our civilian colleagues who feel they have been unfairly treated. In March 2024 the FTAs received refresher training on communications skills, psychological safety, mental health first aid, reasonable adjustments, unacceptable behaviours and an insight into the EAP via data reports.

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 is complementary to the DE&S Strategy, which was published in June 2023 and highlighted that our people are a key component in the organisation's successful delivery. In order to underpin this principle, a programme of activity was developed to enrich people's roles and careers.

Each element of the programme was assessed and prioritised to ensure alignment to the wider strategy and coherence with the organisational response to the People Survey 2022 outcomes. Three workstreams were formed to enable delivery;

- Continuously professionalising: Focussing on the skills and qualifications of our people, both now and into the future.
- Delivering a compelling employee value proposition: Focussing on the employee experience and benefits DE&S offers our workforce.
- Creating a culture and environment that is diverse, inclusive, and fun: Focussing on organisational values, behaviours, and how it feels to work for DE&S.

Programme health was monitored by a monthly governance board, and quarterly reporting was provided to the DE&S People Committee, with onward updates to the DE&S Board at relevant junctures. At the close of the 2023-24 reporting year, 96% of total workstream activities had been delivered.

INVESTING IN TALENT

This year we have continued to invest in the development of our skilled workforce, allocating a budget of around £9 million 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 was achieved through corporate leadership development, professional upskilling and functional (i.e. technical) learning, with the latter underpinned by comprehensive evidence-based learning plans and learner pathways for technical learning and accreditation.

At a corporate level we have strengthened our focus on building future talent. Our Talent Strategy was endorsed by the DE&S Nomination Committee in July 2023 and will be refreshed in light of our new Operating Model to ensure we are best placed to meet future skills needs. In-year focus was placed on cross cutting activities to drive senior and critical succession planning, deliver organisational upskilling in Lean, Agile and Commercial Awareness, and to invest in our Graduate and Apprenticeship schemes, along with maturing plans for the function specific interventions to build technical/functional capability.

This year, we have exceeded the OGSM 4.2 measure set at the start of the year for organisational upskilling across DE&S in Lean (94%), Agile (94%) and Commercial Awareness (93%) which are all set against a completion target of 85% by 31 March 2024. Further targeted learning is also underway for both Practitioner and Expert level capability in Lean and Agile to support DE&S in its ambitions.

We have continued to focus on developing leadership capability across DE&S at all grades, expanding our existing leadership offer (Leading Self, Leading Others, Leading Strategically). This includes the procurement of three brand new topics (Leading for Success, Future Engage Deliver and Creating Compelling Narratives) to enhance leadership capability for those at Professional I and Senior Professional grades.

Our 'Becoming' leadership programme for women at Professional II/ Professional I grades has been enhanced by offering this as a virtual programme. This has enabled us to increase the number of cohorts delivered from four to eight per year. Participant scores for the last four cohorts (aggregated) using this new delivery method remains above target, with 76% of participants providing feedback of increased confidence levels to support their progression. Following a pilot, we are exploring further suppliers to augment this offering for ethnic minority and disability cohorts.

We have continued to invest in our learning technology, to enable the right conditions for our people to develop and grow their capability. Acting as a central vehicle, the MyHR learning campus supports our ability to provide and deliver learning aligned to our organisational capability framework; with over 1,400 products now accessible. Further to providing a single front door, improvements have been made to the way in which learning is promoted and accessed, including targeting specific initiatives in areas recognised as critical and strategic. Such advancement of our business tools has been integral to our ability to track learner activity and deliver on related OGSM measures. Enhancing learner experience through improved online support and introducing job/ function specific learning communities remain key enablers of developing capability and growth.

In support of SQEP improvement and based on gap analysis, functions have identified technical competence requirements and created comprehensive learning plans. Other functional interventions and investments this year have included the following:

- The Engineering function has invested around £3 million in engineering and science, providing essential training in key technical skills and disciplines for engineering graduates and apprentices through sponsored and accredited qualifications. Improving professionalism, competence and compliance with legislation with new learning pathways, provision of mandatory acquisition safety training and sponsorship of continuing professional development to maintain skills currency and professional registration.
- Project Delivery has invested around £1 million providing the specified learning and external certifications recognised by the Government Project Delivery Profession accreditation scheme. In the Contract Management Capability Programme, an initiative was launched by the Cabinet Office to upskill our key Non-Commercial Contract Managers in effective contract management.
- Commercial Function has invested around £1 million supporting significant progress in our levels of professionalism. At the expert PI and SP grades requiring a delegation to operate, this has improved by 38%, with 79% accredited from reporting year 2022-23. At TSI to PII practitioner levels, 80% of our people are accredited. We continue to support

our unaccredited people with their CIPS by offering learning programmes for those attending Cabinet Office Assessment & Development Centres and providing in-house guidance for practitioner panels.

- Financial and Accounting (F&A) has invested around £475,000 in professional development and ongoing provision of the Finance Internal Scheme, which has allowed the function to continue providing professional Chartered Accountancy qualifications. In addition, support for unchartered qualifications (Association of Accounting Technicians) continues to be provided as the first step on the full qualification journey. Ahead of the centralised push towards Lean training, the F&A function was at the forefront of Lean Six Sigma⁴⁶ certified change management training. Formal training was provided in three cohorts towards achieving Green Belt status⁴⁷ and other specific awareness level training has been provided through on-demand videos.
- The HR function has invested around £155,000 in professionalism and capability development. This year 12 people undertook a study programme for Levels 3 and 5 qualifications through the Chartered Institute of Professional Development (CIPD), in addition to those already studying through the apprenticeship route. We have also invested in senior grades gaining and upgrading memberships through Experience Assessment and upgrading assessment routes. Collectively this represents a large uplift in SQEP for the function and helps maintain our Professional Development Partner status with CIPD. We have invested in more specialist and technical training, including masterclass workshops on written communication and have seen a further 18-20 people receive training specifically aimed at articulating complex concepts.

For 2023-24, we have managed the Entry Talent recruitment activity for 13 schemes across six functional areas which resulted in over 4,700 applications. This has enabled DE&S to successfully onboard 297 graduate and apprentice starters. These schemes offer development programmes ranging between two to five years, during which individuals gain professional qualifications and hands-on experience across the organisation. DE&S had over 600 graduates and apprentices during 2023-24 of which 225 graduated and secured roles across DE&S.

⁴⁶ A process improvement approach which systematically removes operational waste and reduces process variation.

⁴⁷ Green Belts are specialists in the implementation of Lean Six Sigma projects.

Our induction programme for Entry Talent, introduced in 2022-23, continues to receive positive feedback from learners. We are pleased that our improved retention for graduates and apprentices while on schemes continues; for example, the retention of engineering graduates has remained at 98% during 2023-24, an increase from 50% over the past 4 years.

Following the merger between DE&S and DE&S Deca in April 2023, activity to provide a consistent induction for DE&S Deca staff has taken place, which has included the design and delivery of a bespoke face to face corporate welcome.

ENGAGEMENT

An annual People Survey conducted for 2023-24, provided an opportunity for our people to highlight what they thought DE&S was doing well and where we needed to improve. It was pleasing to see that 77% of DE&S colleagues (9,300) completed the survey, noting that this was the first year DE&S Deca took part following their merger.

At the headline level, our overall Employee Engagement Index decreased by one percentage point from the previous year to 59%, matching that of 2021. Of the nine key themes measured in the survey, four saw an increase, with Pay and Benefits seeing the largest increase at four percentage points. The score for four of our themes remains unchanged.

In spite of the changes which DE&S has faced this year, it is encouraging that our people believe that we have delivered against our commitments from the previous People Survey. As well as the improved score for Pay and Benefits, we also recorded a positive response that more of our people felt able to contribute views before decisions were made that affected them (up five percentage points), and being able to access the right learning and development opportunities (up three percentage points).

Just one of the key themes, Organisation Objectives and Purpose, achieved a lower score than the previous year, decreasing by three percentage points. While disappointing, this is not surprising when considered in the context of the significant changes being announced across the organisation at the time of the survey and uncertainty surrounding them. The results highlight the need to clearly communicate and increase support to all of our people to ensure they are adequately informed, engaged and empowered as we continue to implement our strategy.

The outcome and results of this year’s survey were fully analysed by the DE&S Executive Committee and an action plan was developed. This will ensure we can continue to focus our efforts in the areas that mean the most to our people.



EQUALITY, DIVERSITY AND INCLUSION

At DE&S we believe that a diverse and inclusive working environment is key to achieving our ‘north star’ of operational excellence⁴⁸. With it comes 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, we are committed to becoming more representative of the diverse nation we serve and nurturing that diversity through an inclusive working environment where everyone can thrive while bringing their whole selves to work and reach their full potential.

Characteristic	As at 31 March 2023			As at 31 March 2022
	DE&S	DE&S Deca	Combined total*	DE&S only
Female	36.2%	16.29%	35.47%	35.5%
Ethnic Minority	7.5%	1.81%	7.29%	7.0%
Non heterosexual	3.1%	0.68%	3.01%	2.9%
Declared disability	10.7%	6.33%	10.54%	10.5%

Data for 2023-24 shows a combined total for DE&S and DE&S Deca following their merger on 1 April 2023.

During 2023-24, DE&S undertook a range of organisation-wide activities and engagement events, many with Board, Executive and Senior Leadership sponsorship and involvement. Highlights included:

- Collaborating across the business to set and reinforce expectations on the future culture and behaviours we need to succeed, including one-on-one conversations with members of the Executive to capture their personal pledges; colleague briefings / workshops; and informing leadership learning, and performance management guidance, including the 2024/25 leadership goal. Also working with implementation leads to ensure our new Operating Model and the associated working practices are inclusive by design.
- Achieving the highest award of Level 3 leadership accreditation from the Disability Confident Scheme, and a Bronze accreditation from the Inclusive Employers Standard.
- Delivering a Shadow Board Pilot scheme from May 2023 to April 2024 to help embed diversity into the DE&S governance structure and give individuals exposure to the senior governance structures to support their own development.

- Implementing changes to Work Schedules and Flexible Working Policy to incorporate removal of the 7am – 7pm bandwidth; give new joiners the option to enter the flexi time scheme from their first day; allow for two statutory flexible working requests to be made in any 12-month period; and enable a more user-friendly template for recording working hours and flexi, replacing the Crown Workforce Management system (formerly Open Options).
- Refreshing our leave procedure to encompass a person centred, inclusive language approach throughout the policy and associated documents, including embedding new legislative changes to Carers and Paternity effective from April 2024; introducing flexibility by allowing leave for His Majesty the King's official birthday to be taken at any point within the leave year; and providing more guidance for bereavement and disability leave.
- Reviewing the Smarter Working Policy to incorporate increasing office attendance.
- Delivering training sessions for all DE&S colleagues in early 2024 to explain Public Sector Equality Duty updates. The sessions provided refresher training and provided a working example of the revised

⁴⁸ Operational excellence means delivering consistency, being reliable and providing a standardised stakeholder experience.

equality analysis form (previously known as 'equality impact assessment') to help colleagues consider all under-represented groups when making changes to policy, practice and provisions. Over 500 colleagues attended the sessions with 89% positive feedback for the delivery and content of the sessions.

- Completing a second phase of the Diversity and Inclusion governance review to better align and leverage activity through domains, functions, senior champions, and employee networks. Focus was on reforming the current network structure ensuring groups run more coherently and strategically. A guidance tool created to support the complete lifecycle for networks and groups will be launched in 2024.
- Hosting our first joint DE&S and SDA Together Convention, during National Inclusion Week, demonstrating our commitment to the 'power of together.' The hybrid event featured colleague panel discussions, three inspirational celebrity speakers, live music and interactive market stalls. It had the highest attendance of any inclusion event to date with 97% of attendees saying the convention helped them understand that diversity and inclusion affects everyone and 93% confirming they will reflect on their own behaviours as they continue to educate themselves and others.
- Launching our new joint DE&S and SDA Diversity and Inclusion Charter at the Together Convention, demonstrating our corporate commitment to creating a working environment where our core values are evident, and everyone feels that they belong.
- We have evolved our successful Reverse Mentoring Programme (where a junior colleague mentors a more senior colleague) to become Diversity Mutual Mentoring. The scheme launched in September 2023. The first cohort saw 52 pairings while the second had 61 pairings. Each cohort is comprised of senior leaders and junior grades with both mentee and mentor benefitting from the relationship.
- Empowering people to support their own wellbeing by removing barriers, improving processes, and

promoting existing resources/policies. We believe organisational improvements will have a more significant impact to our people than a series of one-off events, while also improving value for money for the taxpayer. Activities over the last year included:

- ◊ Utilising People Survey and Employee Assistance Programme data to improve our policies around bereavement and carers (leave policy).
 - ◊ Improving available guidance on mental health for Primary Delivery Managers (Supporting Health and Attendance policy toolkit).
 - ◊ Promoting our existing wellbeing benefits schemes, such as cycle to work, gym discounts and financial support.
 - ◊ Launching new suicide awareness guidance.
 - ◊ Promoting cross government events, such as the Charity for Civil Servants' financial wellbeing conference.
 - ◊ International Men's Day – promoting the voices of men from DE&S on subjects such as IVF treatment, shared parental leave and mental health.
 - ◊ Carers intranet page – a one-stop shop for carers to explore their options around leave, work patterns and support.
- Implementing regular checks of our values and continuing to ensure changes to our employees' experience, such as the launch of the learning campus, leadership curriculum and organisational capability framework.

STAFF BREAKDOWN

	31 March 2024			31 March 2023
	DE&S	DE&S Deca	Combined total*	DE&S only
Civilian total headcount	11,278	442	11,720	10,905
Gender				
Female	4,076	72	4,148	3,869
Ethnicity				
Black, Asian and Minority Ethnic	845	8	853	759
Disability				
Declared a disability	1,208	28	1,236	1,147
Sexual orientation				
Lesbian, gay, bisexual	353	3	356	320
Religion or belief				
Non Christian religion	498	132	630	456
Secular	4,527	0	4,527	4,305
Christian	4,082	96	4,178	4,027

* Data for 2023-24 shows a combined total for DE&S and DE&S Deca following their merger on 1 April 2023.

Civilian total headcount in the above tables includes all DE&S and DE&S Deca industrial and non-industrial civilian personnel 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 2024	31 March 2023
Total DE&S Board and Executive Committee	17	18
Female	4	5
Male	13	13

Tanya Coff was appointed in October 2023 as a NED to the Audit & Risk Assurance Committee. Dr Ilona Blue was a NED to the Audit & Risk Assurance Committee and following her departure from the Civil Service, she

was reappointed in that role pending the arrival of Nick Folland as the new Committee Chair from April 2023. Marc Overton was also appointed as a NED from April 2023 while both Dr Ros Rivaz and Iain Lanaghan left their roles as NEDs in June 2023.

Rear Admiral Jim Highman retired in June 2023 while Chris Bushell retired in December 2023 and was replaced by Lieutenant General Simon Hamilton who joined DE&S as DG Land

GENDER BREAKDOWN AT SCS LEVEL

	31 March 2024			31 March 2023
	DE&S	DE&S Deca	Combined total*	DE&S only
Total DE&S SLG (SCS)	111	1	112	107
Female	29	0	29	31
Male	82	1	83	76

* Data for 2023-24 shows a combined total for DE&S and DE&S Deca following their merger on 1 April 2023.

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 TUs⁴⁹ takes place in compliance with the law and to initiate engagement in the spirit of reaching agreement. The DE&S Deca TUs have been included in these arrangements following the merger on 1 April 2023.

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 2023-24 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 2023 to 31 March 2024.

RELEVANT UNION OFFICIALS

Number of employees who were relevant union officials during the relevant period			Full-time equivalent employee number		
DE&S	DE&S Deca	Combined view	DE&S	DE&S Deca	Combined total*
48	22	70	48	20.92	68.92

* Data for 2023-24 shows a combined total for DE&S and DE&S Deca following their merger on 1 April 2023.

PERCENTAGE OF TIME SPENT ON FACILITY TIME

Percentage of time	Number of employees		
	DE&S	DE&S Deca	Combined view*
0%	34	0	34
1-50%	14	21	35
51-99%	0	1	1
100%	0	0	0

* Data for 2023-24 shows a combined total for DE&S and DE&S Deca following their merger on 1 April 2023.

PERCENTAGE OF PAY BILL SPENT ON FACILITY TIME

	DE&S	DE&S Deca	Combined view*
Total cost of facility time	£27,728.38	£140,956	£168,684.38
Total annual civilian pay bill	£677,489,978.34	£21,039,247	£698,529,225.34
Percentage of total civilian pay bill spent on facility time	0.00%	0.7%	0.02%

* Data for 2023-24 shows a combined total for DE&S and DE&S Deca following their merger on 1 April 2023.

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.

⁴⁹ 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).

PAID TRADE UNION ACTIVITIES (FOR DE&S AND DE&S DECA)

Time spent on paid TU activities as a percentage of total paid facility time	0.00%⁵⁰
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TU activities means time taken off under section 170 (1) (b) of the TU and Labour Relations (Consolidation) 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.

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

Redundancy and other departure costs are paid in accordance with the Civil Service Compensation Scheme. Where DE&S has agreed early retirements, the associated costs are met by DE&S and not by the Civil Service Pension Scheme. For staff leaving under voluntary exit or voluntary redundancy terms, the cost includes any top-up compensation provided by DE&S to buy-out the actuarial reduction on an individual's pension as well as the compensation payments.

There were no civilian redundancies in DE&S or DE&S Deca during 2023-24 or 2022-23.

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 armed forces redundancies in DE&S or DE&S Deca during 2023-24 or 2022-23.

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

⁵⁰ 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*. Of note, DE&S do not approve payment for TU officials to undertake TU activities.

organisation. The costs of contingent labour are shown separately in the staff costs at Note 3 (page 126) 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 127) 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 decreased compared to 2022-23 when we reported 995 existing engagements as of 31 March 2023 and 1,316 workers engaged at any point during the year. This year's reduction in temporary workforce is due to pressure on internal budgets, partially offset by the inclusion of off-payroll engagements in DE&S Deca following its merger with DE&S on 1 April 2023. The challenges in recruiting permanent staff due to current market conditions also remain.

The majority of off-payroll workers are engaged to meet demand requirements as the programme of work continues to grow, through main DE&S Delivery Partner contracts across the project delivery, engineering, commercial and operational delivery functions. The use of contingent labour enables us to supplement our capability and capacity quicker than it would to build a core workforce.

Table 1: All highly paid off-payroll worker engagements earning £245 per day or greater as of 31 March 2024.

Defence Equipment & Support Bespoke Trading Entity	Total
No. of existing engagements as of 31 March 2024	687
of which...	
No. that have existed less than one year at time of reporting.	285
No. that have existed for between one and two years at time of reporting.	288
No. that have existed for between two and three years at time of reporting.	79
No. that have existed for between three and four years at time of reporting.	17
No. that have existed for four or more years at time of reporting.	18

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

Table 2: All highly paid off-payroll workers, engaged at any point during the year ended 31 March 2024, earning £245 per day or greater.

Defence Equipment & Support Bespoke Trading Entity	Total
No. of temporary off-payroll workers engaged during the year ended 31 March 2024	1,209
of which...	
Not subject to off-payroll legislation.	1194
Subject to off-payroll legislation and determined as in-scope of IR35.	0
Subject to off-payroll legislation and determined as out-of-scope of IR35.	15
No. of engagements reassessed for compliance or assurance purposes during the year.	1,199
Of which: no of engagements that saw a change to IR35 status following review.	3

Table 3: For any off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 April 2023 and 31 March 2024.

Defence Equipment & Support Bespoke Trading Entity	Total
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibilities, during the FY.	0
Total no. of individuals on-payroll that were "board members and/or senior officials with significant financial responsibility" during the during the FY.	2

There have been no off-payroll engagements of board members and/or senior officials with significant financial responsibility during the financial year: the disclosure above relates to on-payroll engagements only.

We have considered those with 'significant financial responsibility' within DE&S to be the CEO and the CFO.



PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

Royal Navy contingent marching toward their positions during the historic Coronation of Their Majesties King Charles III and Queen Camilla

PARLIAMENTARY ACCOUNTABILITY

This reporting year has seen a continued interest from Parliament and the wider public in the work undertaken by DE&S. DE&S responded to 411 written Parliamentary Questions and 121 pieces of Ministerial and Treat Official correspondence from Members of Parliament, Peers, industry, and the public. While we met our departmental targets for timely responses to correspondence, we did not meet our target for Parliamentary Questions, largely due to the fact that 20% of the total were posed for answer within six working days. The Fleet Solid Support contract continued to attract consistent attention throughout the year, with a focus also on DE&S published data and resourcing (both financial and personnel). Ajax continues to be subject of interest, although not as high profile as it has been in previous years, and DE&S worked with colleagues across MOD to respond to the Lessons Learned Review into the Sheldon Report on Ajax.

The main effort in Parliamentary terms, however, was supporting the HCDC inquiry into "The Work of DE&S". As well as providing formal written evidence, DE&S hosted a visit of the sub-Committee to Abbey Wood. The CEO also supported the Minister for Defence Procurement at the oral evidence session. The Committee's final report was published in July 2023, and the Government's formal response was published in September 2023. DE&S also supported a range of routine hearings for both the HCDC and the Public Accounts Committee on the MOD Annual Report and Accounts, and the CEO was asked to support the Minister for the Armed Forces in the oral evidence session on Armed Forces Readiness. The Minister for Defence Procurement, alongside senior officials, also held a private session on Defence Procurement reform with the HCDC.

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 492 requests during 2023-24, again exceeding our departmental target for on-time delivery.

In line with Cabinet Office guidelines on transparency, we proactively published a range of information online, including senior officials' business expenses, hospitality and meetings, details of all spending over £500 using an electronic Procurement Card (departmental debit card)

and details of all departmental spending over £25,000. Our Transparency data is published on gov.uk as part of the MOD collections⁵¹.

DE&S continues to comply with strategies, policies, standards, and processes set by both Government and MOD Functional Owners, unless specific derogations have been agreed.

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 2023-24 was in accordance with the requirements of HM Treasury 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 £0.59 million, which represents a decrease of £2.73 million from 2022-23. The decrease in value is primarily due to the large value £3.14 million constructive loss in 2022-23. The increase in the number of cases since 2022-23 is mainly caused by the increased number of low value fruitless payments in relation to hire car cancellations and damages. In-year there has been a change in reporting of car hire related losses causing the significant increase.

⁵¹ The MOD's senior officials' business expenses, hospitality and meetings and the MOD finance transparency dataset collections are both published on GOV.UK (www.gov.uk)

LOSSES STATEMENT

Total value of cases by type	2023-24 £000	2022-23 £000
Fruitless payments	409	121
Minor equipment losses	0	2
Claims waived or abandoned	58	58
Constructive loss	50	3,142
Stores loss	72	0
Total value of losses	589	3,323
Details of closed cases over £300,000	2023-24	2022-23
Value of over £300,000 cases	0	3,142
Total number of cases by type	2023-24	2022-23
Fruitless payments	1,584	242
Minor equipment losses	0	4
Claims waived or abandoned	3	3
Constructive loss	3	1
Stores loss	3	0
Total number of losses	1,593	250
Details of closed cases over £300,000	2023-24	2022-23
Number of over £300,000 cases	0	1

SPECIAL PAYMENTS

The special payment made in 2023-24 related to an ex-gratia payment; details of the case are confidential and no further information can be provided. The 2022-23 payment related to an extra-contractual payment, following legal advice, to settle work undertaken but not completed by a contractor prior to contract expiry.

Special Payments	2023-24	2022-23
Total Number of Special Payments	1	1
Total Value of Special Payments (£000)	5	197

LONG TERM EXPENDITURE TREND BY CATEGORY⁵²

	Core departmental expenditure limit DE&S Executive Agency (£million)	Support to ⁵³ Operations	Total departmental expenditure limit DE&S Executive Agency (£million)
Outturn 2022-23	1,230	0	-
Outturn 2023-24	1,359	9	1,368
Estimate 2024-25	1,309	15	1,324
Estimate 2025-26	1,202	*	-
Estimate 2026-27	1,147	*	-
Estimate 2027-28	1,143	*	-
Estimate 2028-29	1,148	*	-

*Support to operations is not able to be forecast in the future as the activity required is uncertain.

During 2022-23 the support provided to operations was subsumed within DE&S existing budgets due to the urgent requirements for Ukraine.



Andy Start - Accounting Officer
25 July 2024

THE CERTIFICATE AND REPORT OF THE COMPROLLER 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 and Support for the year ended 31 March 2024 under the Government Resources and Accounts Act 2000.

The financial statements comprise the Defence Equipment and Support's:

- Statement of Financial Position as at 31 March 2024;
- 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 and Support's affairs as at 31 March 2024 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 and Support in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

CONCLUSIONS RELATING TO GOING CONCERN

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

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate. The going concern basis of accounting for the Defence Equipment and 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

⁵² The DE&S budget comprises both revenue and capital expenditure. The figures in this table show the Total Departmental Expenditure Limit outturn position, and include the Resource Departmental Expenditure Limit RDEL position (£1,270 million) captured as Direct Programme Costs in the SoCNE (page 112) and CDEL position (£98 million) as captured in the Fixed Asset Additions in notes 9 and 10 (pages 127 and 128)

⁵³ Support to operations is not able to be forecast in the future as the activity required is uncertain. During 2022-23 the support provided to Operations was subsumed within DE&S existing budgets due to the urgent requirements for Ukraine.

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 issued 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 issued 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 the Defence Equipment and Support and its environment obtained in the course of the audit, I have not identified

material misstatements in the Performance and Accountability Reports.

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 the Defence Equipment and 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 Comptroller & Auditor General (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 the Defence Equipment and 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;

- preparing financial statements which give a true and fair view and are in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000;
- preparing the annual report, which includes the Remuneration and Staff Report, in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- assessing the Defence Equipment and Support's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Defence Equipment and Support will not continue to be provided in the future

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 and Support's accounting policies.
- inquired of management, Defence Equipment and Support's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Defence Equipment and 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 the Defence Equipment and Support's controls relating to the Defence Equipment and Support's compliance with the Government Resources and Accounts Act 2000, Managing Public Money.
- inquired of management, the Defence Equipment and 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 the Defence Equipment and 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 and Support's framework of authority and other legal and regulatory frameworks in which the Defence Equipment and 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 and 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. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain sufficient appropriate audit evidence 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.

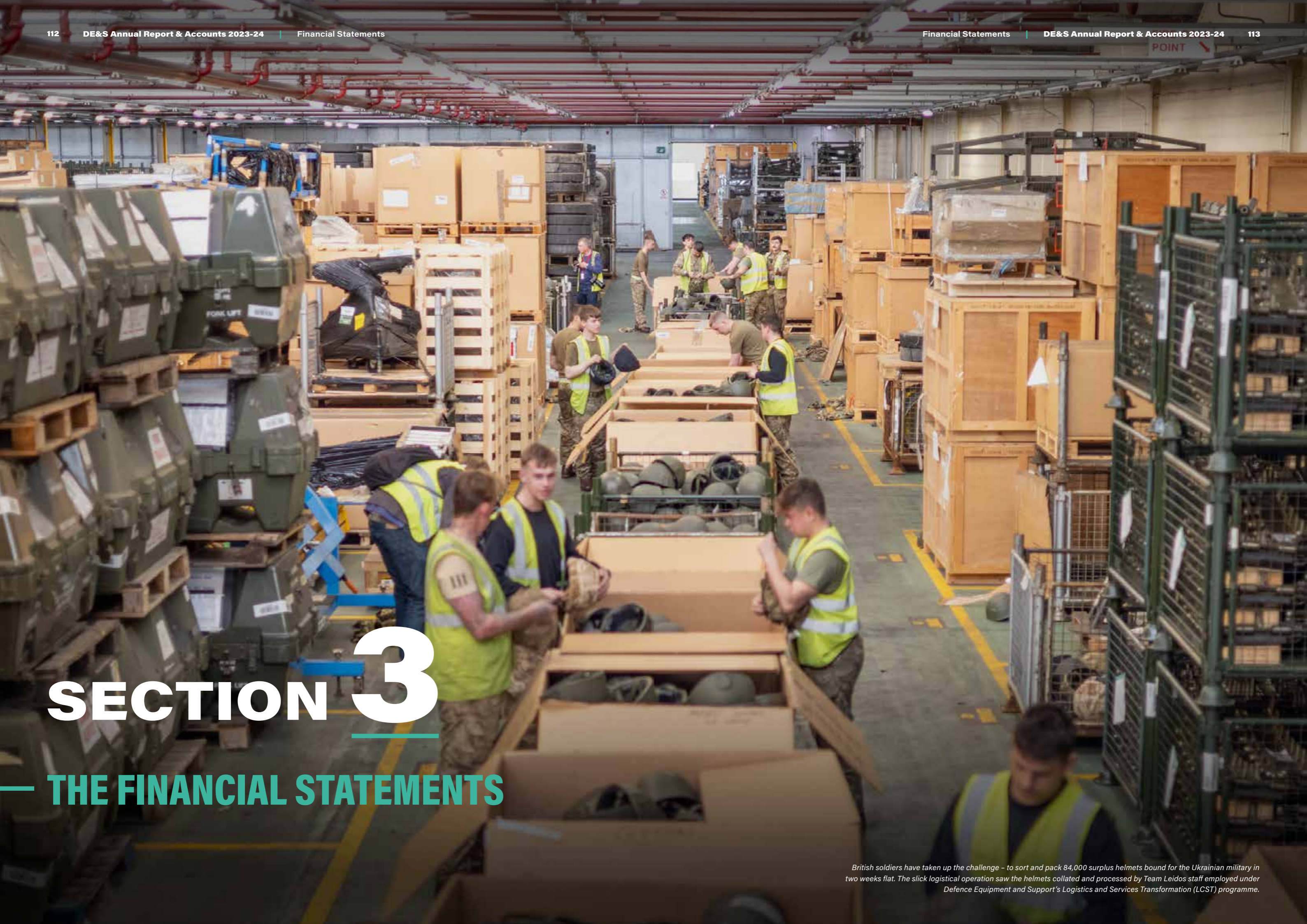
Gareth Davies
Comptroller and Auditor General

25 July 2024

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



The NATO Flag being flown over MOD Main Building Whitehall to mark NATO Day 4 April 2023, the anniversary of the signing of NATO's founding document, the Washington Treaty, in 1949.



SECTION 3

THE FINANCIAL STATEMENTS

British soldiers have taken up the challenge – to sort and pack 84,000 surplus helmets bound for the Ukrainian military in two weeks flat. The slick logistical operation saw the helmets collated and processed by Team Leidos staff employed under Defence Equipment and Support's Logistics and Services Transformation (LCST) programme.

ACCOUNTING INFORMATION

STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2024

	Note	2023-24 £000	2022-23 £000
Expenditure – Direct Programme Costs			
Direct Staff Costs	3	926,190	829,733
Private Sector Support Costs	4	300,989	306,647
Other Programme Costs	5	100,375	106,977
Total Direct Programme Costs		1,327,554	1,243,357
Income – Direct Programme	6	(57,558)	(33,703)
Net Direct Programme Expenditure		1,269,996	1,209,654
Expenditure – Non-Cash Items			
Communicated costs from other MOD Organisations	7	125,530	105,768
Auditors Remuneration	8	168	169
Asset write off, disposals and impairment ⁵⁴	9&10	1,720	1,510
Finance lease interest	17	43	25
Depreciation and amortisation	9,10 &16	6,431	5,790
Movement on provision	14	92	(71)
		133,984	113,191
Total Net Operating Expenditure		1,403,980	1,322,845
Non-operating gain on transfer by absorption ⁵⁵	2	(22,010)	-
Transfer of assets in from DE&S EP	9	(4,260)	-
Transfer of assets to Defence Infrastructure Organisation	9	1,661	-
Total Net Expenditure for the year		1,379,371	1,322,845
Other Comprehensive Net Expenditure			
Net (gain)/loss on revaluation of property, plant and equipment	9	(2,533)	(457)
Net (gain)/loss on revaluation of intangible assets	10	(61)	(1,052)
Total Comprehensive Net Expenditure		1,376,777	1,321,336

The Notes on pages 118-138 form part of these accounts.

⁵⁴ During 2023-24- there were five asset write offs due to the change in threshold see accounting policy Note 1.4 and a number of write offs due to alignment of DECA assets policy with DE&S asset policy see accounting policy Note 2, as well as disposals. In 2022-23 there were two asset write offs as well as disposals.

⁵⁵ See Note 2 to the accounts. Gain on transfer by absorption in 2023-24 was driven by the DECA transfer of Function into DE&S and the FCAS and DFAP transfers of Function out of DE&S.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2024

	Note	2023-24 £000	2022-23 £000
Non-current assets			
Property, plant & equipment	9	125,544	28,714
Right-of-use assets	17	2,286	2,701
Intangible assets	10	14,042	12,361
Trade and other receivables due after one year	11	119	563
Total non-current assets		141,991	44,339
Current assets			
Trade and other receivables	11	15,652	5,664
Inventory and work in progress	13	330	-
Cash	18	10,175	-
Total current assets		26,157	5,664
Total assets		168,148	50,003
Current liabilities			
Trade and other payables	12	(163,788)	(182,509)
Provisions due within one year	14	(207)	(331)
Total current liabilities		(163,995)	(182,840)
Total assets less current liabilities		4,153	(132,837)
Non-current Liabilities			
Trade and other payable due after one year	12	(1,240)	(1,580)
Provisions due after one year	14	(245)	(88)
Total non-current liabilities		(1,485)	(1,668)
Total assets less total liabilities		2,668	(134,505)
Taxpayers equity and other reserves			
Revaluation Reserve		5,648	3,054
General Fund	SOCiTE	(2,980)	(137,559)
Total Reserves		2,668	(134,505)

The Notes on pages 118-138 form part of these accounts.



Andy Start - Accounting Officer

25 July 2024

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2024

	Note	2023-24 £000	2022-23 £000
Cash flows from operating activities			
Total net operating expenditure		(1,403,980)	(1,322,845)
Adjustments for non- cash transactions			
Communicated costs	7	125,530	105,768
Auditors remuneration	8	168	169
Amortisation/depreciation, impairment, write off/on and disposal	9&10	8,151	7,300
Movement in provision	13	92	(71)
Movement in Inventory and work in progress	13	(4)	-
Finance lease interest	17	(43)	-
(Increase) / Decrease in trade and other receivables	11	(9,544)	(2,075)
Increase / (Decrease) in trade and other payables	12	(19,061)	43,195
Adjustment for movements in receivables not passing through the statement of comprehensive net expenditure (DECA transfer of absorption).		8,758	-
Adjustment for movements in payables not passing through the statement of comprehensive net expenditure (including DECA transfer for absorption and transfer of functions).		(6,718)	(7,791)
Use of provisions	14	(115)	(137)
Net cashflow outflow from operating activities		(1,296,766)	(1,176,487)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(90,822)	(11,482)
Purchase of intangible assets	10	(2,619)	(668)
DE&S Deca Cash balance on acquisition		13,497	-
Net cash outflow from investing activities		(79,944)	(12,150)
Cash flows from financing activities			
Capital element of payments in respect of leases		(1,367)	(1,035)
Net Parliamentary Funding – drawn down		1,388,252	1,189,672
Net cash outflow from financing activities		1,386,885	1,188,637
Net Increase/(Decrease) in cash and cash equivalents in the period		10,175	-
Cash and Cash equivalents at the beginning of the period		-	-
Cash and Cash equivalents at the end of the period	18	10,175	-

Notes:

- Investing cashflow figure for purchase of property, plant and equipment is calculated as £93,023 thousand capital addition (as per Note 9) plus cash payments to discharge opening liabilities of £13,404 thousand less closing liabilities of £15,605 thousand.
- Investing cashflow figure for purchase of intangible assets is calculated as £3,935 thousand capital addition (as per Note 10) plus cash payments to discharge opening liabilities of £514 thousand less closing liabilities of £1,830 thousand.

The Notes on pages 118-138 form part of these accounts.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2024

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2022		(110,323)	1,545	(108,778)
Gain on transfer of function		-	-	-
Total net operating expenditure		(1,322,845)	-	(1,322,845)
Net Parliamentary Funding – drawn down		1,189,672	-	1,189,672
Non-cash charges – Auditors Remuneration		169	-	169
Non-cash charges – Communicated Costs		105,768	-	105,768
Net (loss)/gain on revaluation of property, plant & equipment		-	457	457
Net (loss)/gain on revaluation of intangible assets		-	1,052	1,052
Transfer between reserves		-	-	-
Balance at 31 March 2023		(137,559)	3,054	(134,505)
Gain on transfer of function	SoCNE	22,010	-	22,010
Total net operating expenditure	SoCNE	(1,403,980)	-	(1,403,980)
Net Parliamentary Funding – drawn down	Statement of Cash Flows	1,388,252	-	1,388,252
Non-cash charges – Auditors Remuneration	8	168	-	168
Non-cash charges – Communicated costs	7	125,530	-	125,530
Transfer of assets to Defence Infrastructure Organisation	9	(1,661)	-	(1,661)
Transfer of assets from DE&S EP	9	4,260	-	4,260
Net (loss)/gain on revaluation of property, plant & equipment	9	-	2,533	2,533
Net (loss)/gain on revaluation of intangible assets	10	-	61	61
Transfer between reserves	SoCNE	-	-	-
Balance at 31 March 2024		(2,980)	5,648	2,668

The Notes on pages 118-138 form part of these accounts.

NOTES TO THE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements contained within the ARAC relate to the FY 1 April 2023 to 31 March 2024 (2023-24) with comparative analysis for the prior year 2022-23. They have been prepared in accordance with the Accounts Direction given by HM Treasury under Section 7 of the Government Resources and Accounts Act 2000 and in accordance with HM Treasury guidance as set out in the FReM.

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

DE&S operates as an Executive Agency within the MOD in line with Chapter 7 of Managing Public Money. The 2023-24 financial statements are the tenth 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 operating cost envelope also includes planned capital expenditure to support DE&S core activity including delivery of buildings. Any capital assets created will be capitalised in these financial statements or delivered to the appropriate MOD organisation, for example, the Defence Infrastructure Organisation if relating to buildings. 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. The key areas in which judgement and estimates are necessary are as follows:

- Accounting boundary: DE&S has robust and well-established policies and governance arrangements supporting the delineation of costs between those recognised as operating costs and reported in the DE&S financial statements from those equipment procurement/support activities that are reported in the MOD's financial statements. These policies and governance arrangements have been paramount in the preparation of the accounts.
- Activities undertaken with our main industrial partners to deliver FLC equipment and support requirements continue to be treated as EP expenditure and are excluded from DE&S operating costs. The DE&S Accounts do include PSS external support activities that supplement DE&S capacity and capability to manage the DE&S agreed programme of work. Activities that DE&S cannot undertake due to requirements for independent review and specialist one off/short term technically complex activities are treated as EP expenditure and not PSS. Where PSS activity is contractually embedded within and indivisible from EP activities this is charged to the Equipment Programme.
- PSS expenditure includes activity in support of demonstration and manufacture phase programmes which are capitalised in the MOD accounts but recorded in the DE&S Accounts as operating costs.
- Communicated costs: DE&S receives a number of benefits driven by the activities of other MOD organisations which support our operations. There is no mechanism in place for these costs to be directly charged to DE&S, so these costs are recognised within the DE&S accounts as communicated costs. These costs reflect the best estimates available, and the majority are allocated based on an apportionment of costs based on staff number ratios. Note 7 provides further detail on communicated costs.
- Accruals – payables and receivables: in instances where revenue/expenditure has been earned/incurred but not paid, 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 2023-24, a guideline materiality threshold of £10,000 (2022-23 £10,000) has been applied in the recognition of payables and receivables.

1.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Changes impacting the preparation of these annual accounts.

Transfer of Functions

See also Finance Note 2 – Transfer of Functions on 1 April 2023 (below).

DECA (now known as DE&S Deca) merged into DE&S on 1 April 2023. DE&S Financial Statements now reflect these transactions and existing assets and liabilities have been transferred under transfer by absorption per the FReM.

In addition, the Future Combat Air System (FCAS) and Defence Fuels Acquisition Programme (DFAP) Functions were moved out of DE&S on 1 April 2023 and the associated liabilities have been transferred under transfer by absorption per the FReM.

Transfer by absorption per the FReM means that both transferor (e.g., DE&S) and transferee (e.g., DE&S Deca) financial statements are adjusted at carrying value from the date of transfer with the adjustment representing a non-operating gain or loss on transfer. Comparators are not required to be restated and have not been adjusted. However, Note 2 describes the financial impact of the transfers of function (FCAS and DFAP) on the 2022-23 comparators.

Change in Accounting Estimate

From 1 April 2023 DE&S has changed its capitalisation threshold for non-current assets from over £15,000 to over £25,000. This change is to align with the capitalisation threshold applied by the MOD including the former DECA (now DE&S Deca), and does not result in a material change to the value of non-current assets. Non-current assets with an original cost of less than £25,000 as at 31 March 2023 have been derecognised in-year, resulting in a debit of £129,679 to the SoCNE, which equates to the net book value of these assets as at 31 March 2023. If DE&S had not changed its capitalisation threshold and continued to capitalise assets over £15,000 during the year to 31 March 2024, the Net Book Value (NBV) of these assets as at 31 March 2024 would be £140,990. Expenditure on assets with a value between £15,000 and £25,000 is not expected to be material in future years.

NEW ACCOUNTING STANDARDS

Changes Impacting the Preparation of Future Annual Accounts

2024-25

IFRS 17 Insurance Contracts were issued in May 2017 replacing IFRS 4 Insurance Contracts. IFRS 17 was due to be effective in the public sector for AP beginning on or after 1 January 2023, however this has now been delayed, with an anticipated mandatory implementation date of no earlier than 1 April 2024. IFRS 17 requires that insurance liabilities be measured at present value of future insurance cash flows, resulting in more uniform measurements and presentation for all insurance contracts. Management has assessed the likely effect of the new standard and has concluded that there are no material assets or liabilities recognised as insurance contracts in DE&S. This standard will therefore have minimal 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 (other than for DE&S Deca activity), and liabilities are being met by the MOD, the year-end net liabilities position in the Statement of Financial Position (SOFP) represents a timing difference that will be offset by future net parliamentary funding from the MOD.

DE&S forms an integral part of the MOD Operating Model and is responsible for the delivery of the 10-year EP. The MOD continues to fund DE&S' core operating costs while 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 three main sources of revenue:

- i. DE&S Deca income from provision of services to external customers on a rolling basis such as repair and maintenance services. The performance obligations in these contracts are satisfied over time using output methods to recognise revenue on the basis of direct measurement of value to the customer using methods such as milestones and time elapsed.
- ii. As agreed with HM Treasury, DE&S can recover funds from suppliers relating to profits made in excess of those expected at the time of contract let. In these circumstances DE&S conduct an audit and enter into negotiations with the supplier to determine the value of monies owed. This is known as post costing income and is recognised at the point it is agreed by both parties.
- iii. The second source is within Defence Munitions, whereby we undertake munitions processing on behalf of defence contractors. The income is utilised to offset the costs of running the facility and is charged to the client at the point of their acceptance of the work performed.

1.7 PROGRAMME COSTS

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

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

1.8 COMMUNICATED COSTS

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

1.9 VALUE ADDED TAX

Most of the operating activities of DE&S are deemed to be outside the scope of Value Added Tax (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. Other than for DE&S Deca activity DE&S is not separately registered for VAT, and VAT collected, or any associated recoveries are processed centrally by the MOD.

1.10 NON-CURRENT ASSETS

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

Where assets are purchased for the sole benefit of DE&S and funded through our Operating Cost Expenditure budget, these are considered for capitalisation where they meet the recognition threshold of £25,000 and are intended for use for a period of over 12 months. Given the relatively low volume and value of assets purchased specifically for DE&S use, it is not our current policy to pool assets. We re-visit this policy annually to ensure that we are not omitting any material assets from our Non-Current Asset Register.

1.11 PROPERTY, PLANT AND EQUIPMENT (PPE)

Various areas of MOD provide DE&S with support services under central support contracts. These infrastructure support services include DE&S usage of MOD non-current assets, such as property and office furniture. The underlying risks and rewards of ownership

of these assets are deemed to reside with MOD and therefore not reported in the DE&S SOFP.

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

Once initially recognised, PPE assets are periodically re-valued to current value in existing use, using a market value where an active market exists. Where no market exists, indices are used to revalue the PPE asset to Depreciated Replacement Cost (DRC). PPE Assets Under Construction 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 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. 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
Plant and machinery	Equipment	5-25
	Plant and machinery	5-25
IT and comms	Office machinery	3-10
	Communications equipment	3-10
Intangible assets	Software licences	3-16
Land and buildings	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 MOD for all activity other than DE&S Deca. Other than DE&S Deca, DE&S does not operate its own bank accounts and nor does it have separate cash or cash equivalent balances within the SOFP. DE&S Deca operates its own bank account and movements are reflected in our Statement of Cash Flows.

1.16 INVENTORIES

Inventory delivered and supported by DE&S for use by the Commands (Navy, Air, Army and UK Strategic Command) are owned and reported in the MOD accounts as the risks and rewards of ownership are deemed to reside with the Commands and MOD, not with DE&S. DE&S Deca holds a small amount of inventory related to its trading activity.

1.17 FINANCIAL INSTRUMENTS - RECEIVABLES AND LIABILITIES

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

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

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 Department'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 at 31 March each year. This has been valued by reference to DE&S average staff costs and average untaken annual leave, by grade, in line with MOD policy on recognition of untaken leave.

The 2023-24 value of employee performance awards reflected within the SoCNE reflects those earned for performance in 2022-23.

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

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. HM Treasury specifies the nominal rate (applied to cash flows which include inflation) to be used to discount general provisions. For ease, as per HM Treasury 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; and
- 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.

DE&S manages the liquidity risk inherent in these contracts through the receipt of supply finance and future income which are both approved annually by Parliament.

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

DE&S does not operate as a lessor.

2. TRANSFER OF FUNCTIONS ON 1 APRIL 2023

There were three transfers of function on the 1 April 2023. DECA merged with DE&S (now known as DE&S Deca) from being an Executive Agency in MOD HO and FCAS and DFAP were transferred from DE&S to HO and Strategic Command respectively. The impact on the accounts is laid out below.

DE&S Deca: Following approval by the Minister for Defence Procurement and Chief Secretary to the Treasury, DECA (now called DE&S Deca) transitioned to DE&S on 1 April 2023, as an Operating Centre within the DE&S Air Domain. The merger has provided closer alignment of DE&S and DE&S Deca, unlocking the potential for increased utilisation and greater value for defence

DE&S Deca provides secure access to assured onshore maintenance, repair, overhaul, upgrade, associated Post Design Services, and managed services for an extensive range of electronic and general engineering equipment for air, land and sea platforms. As a government owned organisation, DE&S Deca is granted Crown access to MOD Intellectual Property Rights and government-to-government arrangements allowing the development of bespoke support solutions to meet specific customer requirements. DE&S Deca retains its business autonomy to allow trading with both DE&S and industry and alignment with Managing Public Money.

IOC of the merger was achieved on 1 April 2023, with implementation of new governance and management structures, interim OGSM delivery targets and clearly identified new business opportunities for the year. FOC was subsequently achieved on 31 March 2024.

Skilled technicians operate from Sealand in North Wales, within the Deeside Enterprise Zone, and its site in Stafford, Staffordshire. Personnel also operate from various other satellite stations across the UK and can rapidly be deployed overseas to provide support activities where there is an operational requirement.

The merger into DE&S involved the transfer on 1 April 2023 of 465 staff (440 civilian and 25 Contingent Labour) from MOD HO to DE&S. This resulted in an increase of DE&S's net assets by £21.3 million recognised in the Executive Agency SoCNE as transfer by absorption. The

associated revenue and expenditure for DE&S Deca is reflected in the Executive Agency SoCNE from the transfer on 1 April 2023. In order to align DE&S Deca with DE&S Accounting Treatments, the adjustments shown below have been made.

	DECA Balances Transferred @ 01 April 2023 per DECA ARAc	Adjustments to align Accounting policies @01 April 2023	Adjusted balances following transfer of DE&S Deca into DE&S Accounts
Non Current assets			
Property, plant and equipment ¹	19,120	(15,950)	3,170
Current Assets			
Inventory and Work in Progress	334	-	334
Trade and other receivables	8,299	-	8,299
Prepayments	459	-	459
Cash and Cash equivalents	13,497	-	13,497
Total Assets	41,709	(15,950)	25,759
Current Liabilities			
Trade and other Payables ²	(9,213)	4,813	(4,400)
Provisions	(57)	-	(57)
Total Liabilities	(9,270)	4,813	(4,457)
Total Assets (Gain on Absorption)	32,439	(11,137)	21,302

Notes:

1. Reduction to remove Land and Buildings managed by the Defence Infrastructure Organisation previously reported in DECA accounts.
2. DECA accounts included a payable to MOD relating to cumulative profit. Now DE&S Deca has been merged with DE&S this is included in the reserves.

Additionally following the merger, a review has been performed of all the DE&S Deca assets and AUC. This review has identified a number of disposals, deliveries and write offs required in order to align with DE&S Accounting Policies. These balances are included the Non-Current asset Notes 9 and 10.

FCAS: The transfer of the FCAS function on 1 April 2023 involved the transfer of 65 full-time equivalent staff (54 civilian 1 military and 10 Contingent Labour) from DE&S to MOD HO. In addition, liabilities of £0.69 million were transferred. FCAS did not hold any current or non-current assets. The associated revenue and expenditure for FCAS is reflected in the Executive Agency SoCNE up to the transfer on 1 April 2023, and thereafter treated as revenue and expenditure in MOD and not DE&S accounts. The 2022-23 related expenditure was £17 million, of which £3.9 million related to staff costs, £13 million PSS and £0.41 million other programme costs.

DFAP: The transfer of the DFAP function on 1 April 2023 involved the transfer of 42 full-time equivalent staff (39 civilian 1 military and 2 Contingent Labour) from DE&S to MOD HO. In addition, liabilities of £0.02 million were transferred. DFAP did not hold any current or non-current assets. The associated revenue and expenditure for DFAP is reflected in the Executive Agency SoCNE up to the transfer on 1 April 2023, and thereafter treated as revenue and expenditure in MOD and not DE&S accounts. The 2022-23 related expenditure was £1.8 million, of which £1.7 million related to staff costs and £0.11 million to other programme costs.

3. STAFF NUMBERS AND RELATED COSTS

3.1 STAFF COSTS COMPRISE:

	2023-24			2022-23				
	Permanently Employed Staff £000 (DE&S)	Contingent Labour £000 (DE&S)	Permanently Employed Staff £000 (DE&S Deca)	Contingent Labour £000 (DE&S Deca)	Total £000	Permanently Employed Staff £000	Contingent Labour £000	Total £000
Salaries and Wages	562,013	121,848	15,223	857	699,941	503,321	121,507	624,828
Social Security Costs	59,391	-	1,429	-	60,820	54,578	-	54,578
Other Pension Costs	161,826	-	3,603	-	165,429	150,327	-	150,327
Total	783,230	121,848	20,255	857	926,190	708,226	121,507	829,733
Paid to:								
Armed Forces	126,285	-	-	-	126,285	121,163	-	121,163
Civilian	656,945	-	20,255	-	677,200	587,063	-	587,063
Contingent Labour	-	121,848	-	857	122,705	-	121,507	121,507

Costs for permanently employed staff, including salary, social security and pension costs, have increased by £95 million. Contingent labour has increased by £1.2 million.

The increase in salaries and wages due to the DECA merger is £15 million arising from the transfer in of 440 civilian headcount. There was also a significant increase due to the one off £1,500 cost of living payment to staff totalling £15 million paid in August this FY. Additionally, there was a civilian pay increase of £26 million and a £10 million increase in performance award from previous years. Social security costs and Pension costs increased by £6 million and £15 million respectively driven by the above increases in salary and wages. Contingent Labour costs have remained relatively stable this has been driven by a reduction in contingent labour headcount offset by an increase in charging rates.

3.2 AVERAGE NUMBER OF FULL-TIME EQUIVALENT STAFF EMPLOYED:

	2023-24			2022-23		
	Permanently Employed Staff	Contingent Labour	Total	Permanently Employed Staff	Contingent Labour	Total
Employed by DE&S	12,018	927	12,945	11,338	971	12,309
Of which:						
Armed Forces	1,064	-	1,064	1,080	-	1,080
Civilian Personnel	10,516	-	10,516	10,258	-	10,258
Contingent Labour	-	905	905	-	971	971
DE&S Deca Civilian Personnel	438	-	438	-	-	-
DE&S Deca Contingent Labour	-	22	22	-	-	-

This decrease in contingent labour is being driven by DE&S reduced use of contingent labour outside of business-critical roles. Half of the increase in total staff numbers relates to the staff transferred into DE&S as part of the DECA merger (see 3.1 above), the remaining increase is spread evenly across DE&S activities representing recruitment into unfilled posts.

4. PRIVATE SECTOR SUPPORT

	2023-24 £000	2022-23 £000
PSS Contractor Support - Other	179,905	180,919
PSS for programmes in concept and assessment phases	6,922	7,406
PSS for programmes in demonstration and manufacture phases	42,631	34,026
PSS for programmes in in-service support and disposal phase	58,128	76,293
Consultancy Support (Project management, organisation design, finance & legal)	3,490	5,853
PSS Other Professional Services	9,913	2,150
Total	300,989	306,647

DE&S PSS overall has decreased by £5.7 million. This is primarily driven by a decrease in PSS for programmes in the in-service support phase, specifically due to a transfer of function out of DE&S (see Note 1) leading to a £12.8 million reduction. Additionally, there are minor decreases in PSS Consultancy Support of £2.4 million, PSS Contractor Support of £1.2 million and PSS for programmes in the concept and assessment phase of £0.5 million.

This decrease has been offset by the increase of PSS Other Professional Services by £7.7 million, the largest drivers for this increase are £3.4 million of legal payments reclassified from consultancy support to other professional services and is £2.5 million of work on organisation design for the new DE&S Operating Model. Additionally, there was an increase in PSS for programmes in demonstration and manufacture phases of 8.6 million from increased Engineering and Project Delivery partner support for projects in this phase.

5. OTHER PROGRAMME COSTS

	2023-24 £000	2022-23 £000
Staff travel and subsistence costs	19,158	17,874
IT and telecommunications	28,604	46,189
Other infrastructure expenditure	11,215	6,129
Staff training costs	8,384	7,904
Vehicle Rentals	4,108	3,983
Regulatory safety costs	1,809	1,356
OPC Defence Science & Technologies Laboratories (DSTL)	7,708	13,018
DE&S Deca materials costs	8,027	-
Other costs	11,362	10,524
Total	100,375	106,977

DE&S other programme costs overall have decreased by £6.6 million. IT and telecommunications have decreased by £17.6 million primarily due to a £15 million removal of an insolvency accrual for an IT provider as a result of the Cabinet Office and MOD HO settling all MOD costs with the company directly. DSTL expenditure decreased by £5 million; this is primarily due to a £2.5 million reduction in Air Platform Systems activity.

The above reductions have been offset by an £8 million increase from DE&S Deca material costs, this is a new cost area following the merger. The merger also primarily drove the increase in infrastructure expenditure of £4.8 million. There have been a number of small increases within other programme costs categories.

6. PROGRAMME INCOME

	2023-24 £000	2022-23 £000
Defence Munitions commercial revenue	7,661	8,263
DE&S Deca Revenue	32,156	-
Logistics Commodities Services Revenue (Including British Forces Postal Office)	1,164	1,056
DE&S Executive Agency corporate receipts	14,864	21,998
Other Programme Income	1,713	2,386
Total	57,558	33,703

Almost all DE&S income falls within scope of IFRS 15 – Revenue from contracts with customers. Income has increased by £25 million, with the main driver being the inclusion of DE&S Deca income in the DE&S accounts (£32 million). This is offset by a decrease in post costing receipts (£7 million) which fluctuates from year to year as explained below.

DE&S Deca income is generated predominantly from contracts with the MOD (£29 million) with the remaining income being generated from contracts with industry (£3 million). The income generated by post-costing activity varies depending on the contracts being audited, and the value of costs identified as recoverable. Defence Munitions undertake munitions processing work on behalf of defence contractors; the income is recognised in the accounts when DE&S satisfies the performance obligations of the contracts, which is as services are rendered and availability targets met. Revenue generated is used to offset the costs of running the facility.

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	2023-24 £000	2022-23 £000
UK Strategic Command	Defence Digital Information systems and communication services	Number of DE&S users relative to MOD users	66,007	55,462
Defence Infrastructure Organisation	Infrastructure and facilities management costs	Cost per employee at DE&S headquarters extrapolated to DE&S total head count	24,837	20,124
UK Strategic Command	Training services through the Defence Academy and Surgeon General Services	Number of DE&S training days relative to total MOD training days and total DE&S users relative to total Abbey Wood staff	2,395	1,631
Defence Infrastructure Organisation	MOD Guard Service	Costs of main DE&S geographical locations extrapolated across total DE&S headcount	16,406	14,515
Defence Business Services	Personnel and Payroll Services	Number of DE&S employees relative to total MOD employees	13,656	12,961
HO and Corporate Services	Phoenix Car Hire administration and MOD Police services	Based on actuals	1,002	1,075
Army Command	Army personnel support to DE&S projects	Based on actuals	1,227	-
Total			125,530	105,768

Overall communicated costs have increased by £19.7 million. The increase is driven by Defence Digital service costs (£10.5 million) from increases in areas such as End User Services and the Service Centre, along with a rise in staff salaries. Defence Infrastructure Organisation infrastructure costs (£4.7 million) from an increase in hard facilities management expenditure including LED lighting and digital capability centres, and an increase in MOD Guard service costs (£1.9 million) due to an increase staff salaries. Additionally new costs (£1.2 million) from Army command represent British Army personnel providing support to DE&S projects.

8. AUDITOR'S REMUNERATION

DE&S is audited by the Comptroller and Auditor General. The £168,000 charge reflects the costs incurred by the auditor in respect of the audit of the DE&S 2023-24 ARAC. This is a notional, non-cash charge and is reflected in the SoCNE. The auditor's remuneration paid in 2022-23 was £168,500.

9. PROPERTY, PLANT AND EQUIPMENT

	IT & Comms £000	Plant Machinery and Vehicles £000	Transport £000	AUC £000	Total £000
Cost or Valuation					
As at 31 March 2022	2,293	6,298	-	5,996	14,587
Additions	-	314	-	18,595	18,909
Disposals	-	-	-	-	-
Impairments and Adjustments ¹	(1)	-	-	-	(1)
Revaluations	142	777	3	-	922
Reclassifications ⁴	-	370	115	(484)	1
Balance as at 31 March 2023	2,434	7,759	118	24,107	34,418
Transfer in from DECA on 1 April 2023	-	845	-	2,138	2,983
Transfer in from DE&S EP	-	4,260	-	-	4,260
Additions	-	-	-	93,023	93,023
Disposals	(936)	(1,541)	-	-	(2,477)
Impairments and Adjustments ¹	(14)	-	-	(35)	(49)
Revaluations	35	2,660	-	-	2,695
DE&S Deca write off - policy align ²	-	(644)	-	(952)	(1,596)
Write off £25k threshold change ²	-	(51)	(118)	-	(169)
Transfer to Defence Infrastructure Organisation	-	-	-	(1,661)	(1,661)
Reclassifications ⁴	3,294	679	-	(3,973)	-
Balance as at 31 March 2024	4,813	13,967	-	112,647	131,427
Depreciation					
Balance at 31 March 2022	(1,517)	(2,051)	-	-	(3,568)
Charged In-Year	(356)	(1,291)	(24)	-	(1,671)
Disposals	-	-	-	-	-
Impairments	-	-	-	-	-
Revaluations	(114)	(351)	-	-	(465)
Reclassifications	-	-	-	-	-
At 31 March 2023	(1,987)	(3,693)	(24)	-	(5,704)

	IT & Comms £000	Plant Machinery and Vehicles £000	Transport £000	AUC £000	Total £000
Transfer in of DE&S Deca on 1 April 2023	-	(334)	-	-	(334)
Charged In-Year	(504)	(1,874)	(94)	-	(2,472)
Disposals	936	1,529	-	-	2,465
Impairments ¹	9	-	-	-	9
Revaluations	(26)	(136)	-	-	(162)
DE&S Deca write off - policy align ³	-	146	-	-	146
Write off £25k threshold change ²	-	51	118	-	169
Reclassifications	-	-	-	-	-
At 31 March 2024	(1,572)	(4,311)	-	-	(5,883)
Net Book Value					
Balance at 31 March 2022	776	4,247	-	5,996	11,019
Balance at 31 March 2023	447	4,066	94	24,107	28,714
Balance at 31 March 2024	3,241	9,656	0	112,647	125,544

1. The impairments relate to the write off of an asset and the partial retirement of another.

2. Capitalisation threshold for non-current assets increased from £15,000 to £25,000 see accounting policy note 1.4 for more information.

3. DECA transferred into DE&S from 1 April 2023. For alignment of accounting policy detail see accounting policy note 2.

4. Reclassifications from AUC to IT & Comms and Plant Machinery and Vehicles represent delivery of assets out of AUC into service.

DE&S holds PPE assets including server hardware to support DE&S owned IT applications, and Defence Ordnance Safety Group (DOSG) test equipment to enable DE&S to fulfil safety obligations. In-year movements principally relate to AUC for the construction of a new storage facility (£82 million), 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
Cost or Valuation			
Balance at 31 March 2022	29,457	1,246	30,703
Additions	621	456	1,077
Disposals	(643)	-	(643)
Impairments/Adjustments	(273)	(1,220)	(1,493)
Revaluations	1,956	-	1,956
Reclassifications	-	-	-
At 31 March 2023	31,118	482	31,600
Transfer in of DE&S Deca on 1 April 2023	738	75	813
Additions	-	3,935	3,935
Disposals ⁴	(16,768)	-	(16,768)
Impairments/Adjustments ¹	272	-	272
Revaluations	95	-	95
DE&S Deca write off - policy align ³	(579)	-	(579)
Write off £25k threshold change ²	(17)	-	(17)
Reclassifications	-	-	-

	Software £000	AUC (Development Costs) £000	Total £000
Asset Adjustment (w/o)	33	(33)	-
At 31 March 2024	14,892	4,459	19,351
Amortisation			
Balance at 31 March 2022	(15,841)	-	(15,841)
Charged In-Year	(3,146)	-	(3,146)
Disposals ⁴	643	-	643
Impairments	9	-	9
Revaluations	(904)	-	(904)
Reclassifications	-	-	-
At 31 March 2023	(19,239)	-	(19,239)
Transfer in of DECA on 1 April 2023	(293)	-	(293)
Charged In-Year	(2,617)	-	(2,617)
Disposals ⁴	16,768	-	16,768
Impairments ¹	(45)	-	(45)
Revaluations	(34)	-	(34)
DE&S Deca write off - policy align ³	134	-	134
Write off £25k threshold change ²	17	-	17
Reclassifications	-	-	-
At 31 March 2024	(5,309)	-	(5,309)
Net Book Value			
Balance at 31 March 2022	13,616	1,246	14,862
Balance at 31 March 2023	11,879	482	12,361
Balance at 31 March 2024	9,583	4,459	14,042

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

2 Capitalisation threshold for non-current assets increased from £15,000 to £25,000 see accounting policy Note 1.4 for more information.

3 DECA transferred into DE&S from 1 April 2023. For alignment of accounting policy detail see accounting policy Note 2.

4 Disposals have a cost of £16,768k and amortisation of £16,768k therefore the NBV of disposals is £0. These Software assets have been disposed of as they have reached the end of their useful life.

DE&S holds software to the value of £11.085 million, this includes the MyHR software tool (£7.6 million NBV) and a software license (£1.5 million NBV). In-year additions primarily relate to AUC for the new Digital Capability Centres.

11. TRADE AND OTHER RECEIVABLES

	2023-24 £000	2022-23 £000
Amounts falling due within one year		
Accrued Income	1,764	1,509
Deposits and advance payments	11	35
Other Receivables	3,249	1,388
Trade Receivables	8,384	135
Prepayments	2,244	2,597
Staff Loans and advances	-	-
Total Current Receivables	15,652	5,664
Amounts falling due after more than one year		
Prepayments	119	563

The increase of £9.5 million in FY2023-24 is primarily driven by the merger with DECA contributing £7.5 million. 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

	2023-24 £000	2022-23 £000
Amounts falling due within one year		
PSS accruals	(50,088)	(76,946)
Direct staff accruals	(70,547)	(76,819)
Other liabilities	(31,984)	(27,614)
Lease liability	(1,059)	(1,130)
VAT owed to HMRC	(1,110)	-
Total Current Liabilities	(163,788)	(182,509)
Amounts falling due after more than one year		
Lease liability	(1,240)	(1,580)

There has been a £19 million decrease in liabilities. Payables balances fluctuate throughout the year depending on the timing of payments to suppliers. The new category of VAT owed to HMRC results from income on goods and services provided by DE&S Deca.

13. INVENTORIES AND WORK IN PROGRESS

13.1 RAW MATERIALS AND CONSUMABLES

	2023-24 £000	2022-23 £000
At 1 April	66	-
Net movement during year	(3)	-
Balance at 31 March	63	-

13.2 WORK IN PROGRESS

	2023-24 £000	2022-23 £000
At 1 April	268	-
Net movement during year	(1)	-
Balance at 31 March	267	-

DE&S held no inventory balances prior to the merger of DE&S with DECA therefore there are no prior figures. Opening balance at 1 April is from DECA balances transferred into DE&S per Note 2.

14. 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.

	2023-24 £000	2022-23 £000
At 1 April	419	627
Transferred in DECA Provision	57	-
Increase/(Decrease) in Provision	110	(64)
Provisions used	(115)	(137)
Unwinding Discount	(19)	(7)
Balance at 31 March	452	419

ANALYSIS OF EXPECTED TIMING OF DISCOUNTED CASH FLOWS:

	2023-24 £000	2022-23 £000
Due within one year	207	331
Due over one year and less than five years	245	88
Due over five years	-	-
Balance at 31 March	452	419

15. 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 2023 £000	Increase/ Decrease In-Year £000	Liabilities Crystallised In-Year £000	Obligation Expired In-Year £000	31 March 2024 £000
Legal Claims (personal)	117	38	(30)	12	137
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.

16. FINANCIAL AND CAPITAL COMMITMENTS

In addition to the liabilities listed in the Statement of Financial Position, 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 2024 £000	31 March 2023 £000
Property, plant and equipment	8,254	2,857
Intangible	38	975
Total	8,292	3,832

The increase in capital commitments is mainly driven by commitment on the construction of new storage facility due to the contract terms. The reduction in intangible commitments is due to the Tri-Service Anthropometric Survey commitment reducing as contract nears its end date.

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 a number of contracts including contracts related to external assistance support.

	31 March 2024 £000	31 March 2023 (Restated)* £000
Not later than 1 year	1,254	4,881
Later than 1 year but not later than 5 years	1,301	544
Later than 5 years	-	-
Total	2,555	5,425

* 2023 Commitments have been restated to only reflect commitments on non-cancellable contracts.

Financial commitments have decreased by £2.87 million. This decrease is in line with the overall decrease in PSS and OPC which make up the bulk of our financial commitments.

17. 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).

17.1 RIGHT-OF-USE ASSETS

	Dwellings £000	Vehicles Costs) £000	Total £000
Cost or Valuation At 31 March 2022	-	-	-
Initial Recognition	494	1,615	2,109
Additions – New Leases	835	756	1,591
Disposals	(26)	-	(26)
Impairments/Adjustments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
At 31 March 2023	1,303	2,371	3,674
Additions – New Leases	339	588	927
Disposals	(212)	(168)	(380)
Impairments/Adjustments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
At 31 March 2024	1,430	2,791	4,221
Amortisation			
At 31 March 2022	-	-	-
Charged In-Year	(393)	(580)	(973)
Disposals	-	-	-
Impairments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
At 31 March 2023	(393)	(580)	(973)
Charged In-Year	(610)	(732)	(1,342)
Disposals	212	168	380
Impairments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
At 31 March 2024	(791)	(1,144)	(1,935)
Net Book Value	-	-	-
Balance at 31 March 2022	-	-	-
Balance at 31 March 2023	910	1,791	2,701
Balance at 31 March 2024	639	1,647	2,286

17.2 LEASE LIABILITIES

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

Amounts falling due	2023-24 £000	2022-23 £000
Less than 1 Year	(1,059)	(1,113)
1-5 Years	(1,230)	(1,550)
Greater than 5 Years	(10)	(47)
Total lease liabilities	(2,299)	(2,710)

17.3 AMOUNTS RECOGNISED IN THE SOCNE FOR LEASES

Lease values recognised	2023-24 £000	2022-23 £000
Depreciation	1,342	973
Interest expense	43	25
Low value and short-term leases	268	431
Total	1,653	1,429

17.4 AMOUNTS RECOGNISED IN THE CASHFLOW STATEMENT FOR LEASES

Lease values recognised	2023-24 £000	2022-23 £000
Interest expense	43	25
Repayment of Principal on Leases	1,367	1,035
Total	1,410	1,060

18. CASH AND CASH EQUIVALENTS

Lease values recognised	2023-24 £000	2022-23 £000
At 1 April	0	-
Net Change in cash and cash equivalents	10,175	-
Balance at 31 March	10,175	-

All Cash and Cash equivalents held by DE&S relate to Cash held with the Government Banking Service, the inflows and outflows represent trading activity by DE&S Deca. DE&S received a Cash balance of £13.497 million following the merger with DECA on 1 April 2023. The

net change in cash in-year represents the £13,947 million received reduced by net outflows in-year from DECA trading activity of £3.332 million, resulting in a net change in cash of £10.175 million for the year.

19. RELATED PARTY TRANSACTIONS

DE&S is an Executive Agency within 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 behalf of DE&S.

The majority of DE&S Deca's income relates to work undertaken for the MOD. For FY2023-24 £29 million of DE&S Deca's income is from the MOD and a trade receivables balance of £6 million as at 31 March 2024 was owed to DE&S Deca by the MOD.

Defence Science and Technology Laboratory is a related party and DE&S incurred costs of £7.7 million during 2023-24 undertaking business activities with DSTL (2022-23, £13.0 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 Deca undertakes its payroll through a third party provider that engages on behalf of DE&S Deca with HMRC and pension providers.

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 2023-24 this was £9.6 million (2022-23, £8.9 million).

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

No DE&S Board Members/senior employees or their related parties have undertaken any material business transactions with DE&S in the period to 31 March 2024.

Andy Start held shares in Capita Plc (a former employer) but sold them in August 2022 prior to taking up his appointment as DE&S CEO in September 2022. His wife is an independent consultant and a NED for Amorosso Consulting which provides client-side consulting advice to Defence Digital, through PA Consulting. She is also a NED for MKC which provides training at the Royal School of Military Engineering and is a Director (Trustee) of the National Museum of the Royal Navy. Andy Start's eldest son's employer is Expleo, an engineering technology and consulting service provider that holds some MOD contracts. His eldest son's wife is a MOD employee in Defence Digital.

David Johnson, Dir Fin, is a NED of the British Army Audit and Risk Assurance Committee. Vice Admiral Rick Thompson used to work for Sealand Support Services Limited who are involved with DE&S. Andrew Forzani, DG Commercial, had a close relation employed by KPMG. Paul Marshall, DG Ships, had a close relation employed by BAE Systems Maritime Services. Dr Jill Hatcher, Dir Strategy, People, Change and Corporate, had a close relation employed by Kuehne+Nagel (a sub-contractor of Leidos). Major General Simon Hamilton, DG Land, had a close relation employed by Deloitte. Chris Bushell, DG (Land) until 12 December 2023, had a close relation employed by Turner & Townsend (consultants).

Claire Hawkings, a DE&S NED, is also a NED for James Fisher Everard Limited (a subsidiary of James Fisher & Sons which provides services to DE&S). Dr Ros Rivaz, a DE&S NED until 30 June 2023, is a Senior Independent Director and Chair of the Remuneration Committee at Computacenter, and had a close relation employed by Faithful + Gould (a subsidiary of Atkins). Iain Lanaghan, a DE&S NED until 30 June 2023, had a close relation employed by KPMG.

Adequate arrangements have been implemented to avoid any potential conflicts of interests.

20. 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 2023-24 DE&S was given an operating budget of £1,363 million, this did not include any budget relating to support to Ukraine. DE&S spent £9 million on support to Ukraine which is separately funded. The outturn position for the year including Operational spend for Ukraine was £1,368 million (£1,270 million revenue and £98 million capital). This represents a reduction against budget of £4 million (Total Spend £1,368 million less Operational spend in support of Ukraine of £9 million equalling £1,359 million spend against a budget of £1,363 million).

The net revenue outturn position of £1,270 million is captured in the SoCNE and is made up of Direct Staff Costs, PSS Costs and OPC of £1,328 million offset by the income generated by DE&S in 2022-23 of £58 million.

The capital outturn position of £98 million is primarily related to the continued investment in the construction of a storage facility as well as investments in Net Zero environmental activity and Digital Capability Centres. These are highlighted in the PPE and Intangible Asset Notes.

DE&S also has an infrastructure budget which is invested in improving the estate that DE&S is responsible for – whilst DE&S manage and direct this expenditure, the costs are included in the Defence Infrastructure Organisation accounts as this organisation has overall responsibility for the MOD estate. For 2023-24 DE&S was given an infrastructure budget of £143 million of which £138 million was spent. This represents a reduction against budget of £5 million.

In total for 2023-24 DE&S had a budget of £1,506 million (£1,363 million operating expenses and £143 million of infrastructure) and spent £1.497 million against this budget (£1,359 million operating expenses excluding support to Ukraine and £138 million infrastructure) giving an underspend of £9 million. This agrees to the KPI 1.1 outturn of -£9 million on page 36 of these accounts

21. EVENTS AFTER THE REPORTING DATE

The following DE&S Board personnel changes have taken place since the end of the reporting date:

- Angela Williams left her role as a NED on 31 March 2024. Her replacement has not yet been appointed.

The following DE&S Executive Committee changes have taken place since the end of the reporting date.

- Vice Admiral Rick Thompson, DG (Air), left DE&S and retired from the Royal Navy in May 2024. He was replaced by Keith Bethell who will hold the post on an interim basis.
- Adrian Baguley, Deputy CEO and DG Strategic Enablers, left DE&S and retired from the Civil Service in July 2024.

In May 2024, the new DE&S Executive Team Leadership (ELT) structure was announced as we transition to our new Operating Model. The ELT will replace the Executive Committee and will include: Andy Start (CEO); Dr Simon Dakin (DG Core); Paul Marshall (DG Gateway); Lieutenant General Simon Hamilton (DG System Integration); Dr Jill Hatcher (DG Corporate); Andrew Forzani (DG Commercial); David Johnson (Dir Finance); Vice Admiral Andy Kyte (Chief of Defence Logistics and Support).

Dr Simon Dakin and Dr Jill Hatcher have been appointed to the ELT on an interim basis. As both roles are on promotion, in line with Civil Service recruitment principles, they will be competed on a permanent basis in due course. Vice Admiral Andy Kyte joins the ELT in his role as functional owner for armed forces support activities across defence.

In June 2024, His Majesty The King appointed Andy Start, CEO, as the Reserves Forces Honorary Colonel of 106th (Yeomanry) Regiment Royal Artillery, the British Army's only reserve anti-aircraft warfare regiment.

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
A&DC	Assessment & Development Centre	GGC	Greening Government Commitments
AAR	Annual Assurance Report	GMPP	Government Major Projects Portfolio
AFPS	Armed Forces Pension Scheme	HCDC	House of Commons Defence Committee
AI	Artificial Intelligence	HMRC	His Majesty's Revenue and Customs
AMA	Agreed Management Action	HM	His Majesty's Treasury
ARAc	Annual Report and Accounts	Treasury	
ASEMS	Acquisition Safety and Environmental Management System	HO	Head Office
AUC	Assets Under Construction	HR	Human Resource
BCM	Business-Critical Models	IAS	International Accounting Standards
BMS	Business Management System	IFRS	International Financial Reporting Standard
C&AG	Comptroller & Auditor General	IOC	Initial Operating Capability
CASP	Command Acquisition and Support Plan	IPSA	Industry Personnel Security assurance
CCDG	Commercial Change Delivery Group	IRM	Information and Records Management
CDEL	Capital Departmental Expenditure Limit	IRM	Information and Records Management
CEO	Chief Executive Officer	ISO	International Organisation for Standardisation
CETV	Cash Equivalent Transfer Value	ITS	Internal Technical Support
CFO	Chief Financial Officer	JSP	Joint Service Publication
CIRAM	Climate Impact Assessment Methodology	KM	Knowledge Management
CIPS	Chartered Institute of Purchase and Supply	KPI	Key Performance Indicator
CIPD	Chartered Institute of Professional Development	LFE	Learning from experience
CPI	Cost Performance Index	MI	Management Information
CQI	Chartered Quality Institute	MOD	Ministry of Defence
DCDS	Deputy Chief of the Defence Staff	mSRO	Model SRO
DCRAM	Defence Climate risk Assessment Methodology	N/A	Not Applicable
DECA	Defence Electronics and Components Agency	NAO	National Audit Office
DE&S	Defence Equipment and Support	NATO	North Atlantic Treaty Organisation
DFAP	Defence Fuels Acquisition Programme	NBV	Net Book Value
DG	Director General	NED	Non-Executive Director
DOSG	Defence Ordnance Safety Group	OBC	Outline Business Case
DRC	Depreciated Replacement Cost	OGD	Other Government Department
DSC	DE&S Deca Steering Committee	OGSM	Objectives, Goals, Strategies and Measures
DSF	Defence Suppliers Forum	OHSE	Occupational Health, Safety & Environmental
EAP	Employee Assistance Programme	OIEP SG	Operations and Infrastructure Environmental Protection Steering Group
ECR	Equipment Cyber Resilience	PGMU	Power Generation and Machinery Control Upgrade
EDI	Equality, Diversity, Inclusion	PMA	Portfolio Management Arrangement
ELT	Executive Leadership Team	PCSPS	Principle Civil Service Pension Scheme
EMS	Environmental Management System	PPE	Property, Plant and Equipment
EP	Equipment Plan	PRC	Programme Review Committee
ESP	Equipment Support Plan	PSS	Platform/System/Service
FBC	Full Business Case	PSyA	Principle Security Advisor
FCAS	Future Combat Air System	QA	Quality Assurance
FLC	Front Line Command	QM	Quality Management
FRem	Financial Reporting Manual	RAF	Royal Air Force
FCS	Facility Security Clearance	RFA	Royal Fleet Auxiliary
FTA	Fair Treatment Ambassador	SCR	Supply Chain Resilience
FY	Financial Year	SCS	Senior Civil Service
GIAA	Government Internal Audit Agency		

Acronym	Definition
SDA	Submarine Delivery Agency
SHEC	Safety, Health and Environmental Committee
SEMS	Safety and Environmental Management System
SLG	Senior Leadership Group
SMS	Safety Management System
SOC	Security Operating Centre
SOCiTE	Statement of Changes in Taxpayers Equity
SoCNE	Statement of Comprehensive Net Expenditure
SOFP	Statement of Financial Position
SPI	Schedule Performance Index
SPP	Strategic Partnering Programme
SQEP	Suitably Qualified and Experienced Personnel
SRM	Supplier Relationship Management
SRO	Senior Responsible Owner
TCFD	Task Force Climate-related Financial Disclosure
TU	Trade Union
TURFA	Trade Union Relations Framework Agreement
TyTAN	Typhoon Total Availability eNterprise
UEL	Useful Economic Lives
UK	United Kingdom
UKGI	UK Government Investments
VAT	Value Added Tax
WARP	Warning Advice and Reporting Point



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