Ministry of Defence

de&s

DEFENCE EQUIPMENT & SUPPORT ANNUAL REPORT AND ACCOUNTS

2025-26

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

HC 399

DEFENCE EQUIPMENT & SUPPORT

Annual Report and Accounts 2025-26

For the period 1 April 2025 to 31 March 2026

Accounts presented to the House of Commons pursuant to section 7 of the Government Resources and Accounts Act 2000

Annual report presented to the House of Commons by Command of His Majesty

Ordered by the House of Commons to be printed 15 July 2026

HC 399

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at:

National Armaments Director Group Secretariat
Maple 2b
MOD Abbey Wood
Bristol
BS34 8JH

For an accessible version of this publication please contact
NADGroup-PolSec@mod.gov.uk

ISBN: 978-1-5286-6491-2
E-Number: E03605893

Printed on paper containing 40% recycled fibre content minimum

Printed in the UK by HH Associates Limited on behalf of the Controller of His Majesty's Stationery Office

Design by NAD Group Creative
Reference: ABW-26-001

Front cover image: *Apache can operate in all weathers, day or night and detect, classify and prioritise up to 256 potential targets in a matter of seconds. It carries a mix of weapons including rockets, Hellfire missiles and a 30mm chain gun.*

CONTENTS PAGE

PREFACE

This Annual Report and Accounts (ARAc) covers a period of significant organisational transition for Defence Equipment & Support (DE&S).

On 1 April 2025, DE&S became part of the National Armaments Director (NAD) Group, with full integration completed on 1 April 2026. While DE&S is retained as an Executive Agency for next year for the purposes of delivery, work has been aligned to operate under new Director General (DG) business areas within the NAD Group design. Legacy DE&S staff have retained their existing terms and conditions, and the freedoms and delegations held by DE&S remain extant for use within its legacy boundary. Work is ongoing to determine the longer-term NAD Group operating requirements, including the flexibilities and freedoms it needs to deliver.

The creation of the NAD Group brings together, within a single organisational framework, the Ministry of Defence (MOD) organisations responsible for science and technology, acquisition, export, delivery, and support functions, strengthening the coherence and effectiveness of the national armaments' enterprise.

During the period covered by these Accounts, DE&S continued to deliver its core mission 'to equip and support the United Kingdom (UK) Armed Forces' while retaining its status as an Executive Agency of the MOD. This has ensured continuity of operations and provided delegated authority over the management of outputs, workforce, and budgets, within the MOD's overall control framework. The DE&S Board continued to provide effective leadership, challenge, and oversight until governance arrangements fully transitioned to the NAD Group.

These Accounts have been prepared for the year ended 31 March 2026 in accordance with the Government Financial Reporting Manual. The establishment of the NAD Group does not affect the reporting boundary or basis of preparation for this reporting period, and, therefore, the Accounts have been prepared on a consistent basis with previous years. Further information is provided in Note 1.5, Going Concern (page 103).

HMS Prince of Wales ran concurrent activity with her embarked F35's from 809 and 617 Squadrons, launching 8 jets in quick succession from the ships vast flight deck.

OUR YEAR IN NUMBERS

11,777 civilian and military personnel

2,555
contracts managed of which **609** placed in-year

666
live projects including **27** major government projects

£13.257 billion
spent on equipment and support

£5.483 billion
worth of completed assets delivered to our armed forces

£2.056 billion
of inventory delivered equating to over **271 million** items

82%
of strategic milestones delivered on time or early

£135 million
of in-year efficiencies realised

£490 million
of multi-year efficiencies realised

£15 million
under our operating budget

DELIVERING FOR UKRAINE

We continued our unwavering support for the armed forces of Ukraine, co-ordinating the delivery this year of **£1.3 billion** in lethal and non-lethal equipment. Since 2022 we have supplied over **143 million** items and delivered:

Lethal Aid

over 70,000
anti-tank weapons

over 70,000
air defence munitions

over 550
air defence systems

over 76,000,000
rounds of ammunition

over 2,500
armoured, protected and logistics vehicles

over 55,000
uncrewed systems (land, sea and air)

Non-lethal aid and training

over 150,000
body armour and helmets

over 1,100,000
medical and first aid items

over 62,000
personnel trained

SECTION 1

PERFORMANCE REPORT

This overview describes who we are and what we do and includes details on our DE&S Strategy, strategic outcomes and priorities for 2025-26. It begins with an introduction from the DE&S Chair and statements from our interim Chief Executive Officer and Chief Financial Officer.

Personnel and aircraft from RAF Benson are visiting Leuchars Station in Fife, Scotland for Exercise KUKRI DAWN to consolidate training for personnel from 28 Squadron.

CHAIR'S INTRODUCTION

MARK RUSSELL

OVERVIEW OF THE YEAR

I am delighted to present this year's Annual Report and Accounts (ARAc), which reflect on a year of considerable achievement, challenge and transformation for DE&S and UK Defence as a whole.

We continued to operate this year in an uncertain global environment, with ongoing threats to the UK's security and prosperity. Against this backdrop, DE&S has played a vital role in safeguarding our armed forces[1] and supporting national security through the readiness and resilience of military equipment and defence supply chains.

As a result of DE&S becoming part of the National Armaments Director (NAD) Group, the way we will operate and report will change. This move strengthens our position at the centre of the defence enterprise and brings the potential for significant strategic benefits to the MOD, most notably faster delivery, better collaboration and improved efficiency in defence acquisition.

STRATEGIC PERFORMANCE AND DELIVERY

DE&S had a successful year, thanks to the hard work and professionalism of our 11,777 strong workforce. We managed more than 650 live projects, including 27 major government projects, more than any other UK organisation. Key highlights include:

- **Support for our allies:** We continued our unwavering support for the armed forces of Ukraine, co-ordinating the delivery this year of £1.3 billion in lethal and non-lethal equipment.
- **Delivery Performance:** Delivered £5.483 billion of assets and £2.056 billion of inventory to support the UK Armed Forces[1].
- **Financial discipline:** This year we exceeded our efficiency targets, remained within our operating budget, and secured an unqualified audit opinion from the National Audit Office for the ninth year running.

TRANSFORMING FOR THE FUTURE

I am particularly proud of the contributions DE&S people made to the Defence Reform programme, and to developing and enacting the Defence Industrial Strategy (DIS) and Strategic Defence Review (SDR). This work will help shape the future NAD Group, enabling it to deliver capabilities to our armed forces faster and more effectively, while supporting innovation and economic growth.

We have also concluded a major change programme within DE&S this year, which has seen us transition to a new and more agile operating model. It is expected that the new NAD Group will build upon this framework and integrated 'One Defence' approach, ensuring the benefits derived from this work are retained and amplified.

Although this report reflects many achievements, we recognise the need to keep improving, even as we navigate structural changes and financial pressures. We have managed in-year financial challenges well, by prioritising the most critical contracts and capabilities for the UK and our allies.

1 UK Armed Forces consists of the Royal Navy, British Army and Royal Air Force.

OUR PEOPLE

Our people remained central to our success. Their feedback continues to shape our priorities and actions. This year's People Survey results show some progress in areas that matter to our colleagues, but overall, our scores decreased across eight of nine themes compared to 2024, including leadership, managing change and learning, and development.

Although disappointing, these results reflect the understandable uncertainty created by extensive organisational change. As we transition into the NAD Group, we are committed to supporting our people while continuing to build upon our high-performance culture. Reflecting this, our survey results will now form part of a single, shared plan across the new organisation, reducing duplication and ensuring a more coordinated response to feedback.

BOARD GOVERNANCE AND ACCOUNTABILITY

It has been an honour to continue serving as Chair of the DE&S Board. The Board, formed primarily of Non-Executive Directors (NEDs), has provided independent challenge, advice and oversight to the Chief Executive Officer (CEO), Executive Leadership Team, and the MOD including Ministers, ensuring effective governance throughout the year.

The Board focused on several organisational issues this year, including Defence Reform, inputting into the SDR and the DIS, our transitional arrangements to the NAD Group and the appointment of a new National Armaments Director. This work helped to ensure that DE&S operated effectively as an Executive Agency throughout the year and is 'match fit' for our future within the NAD Group.

CONCLUSION

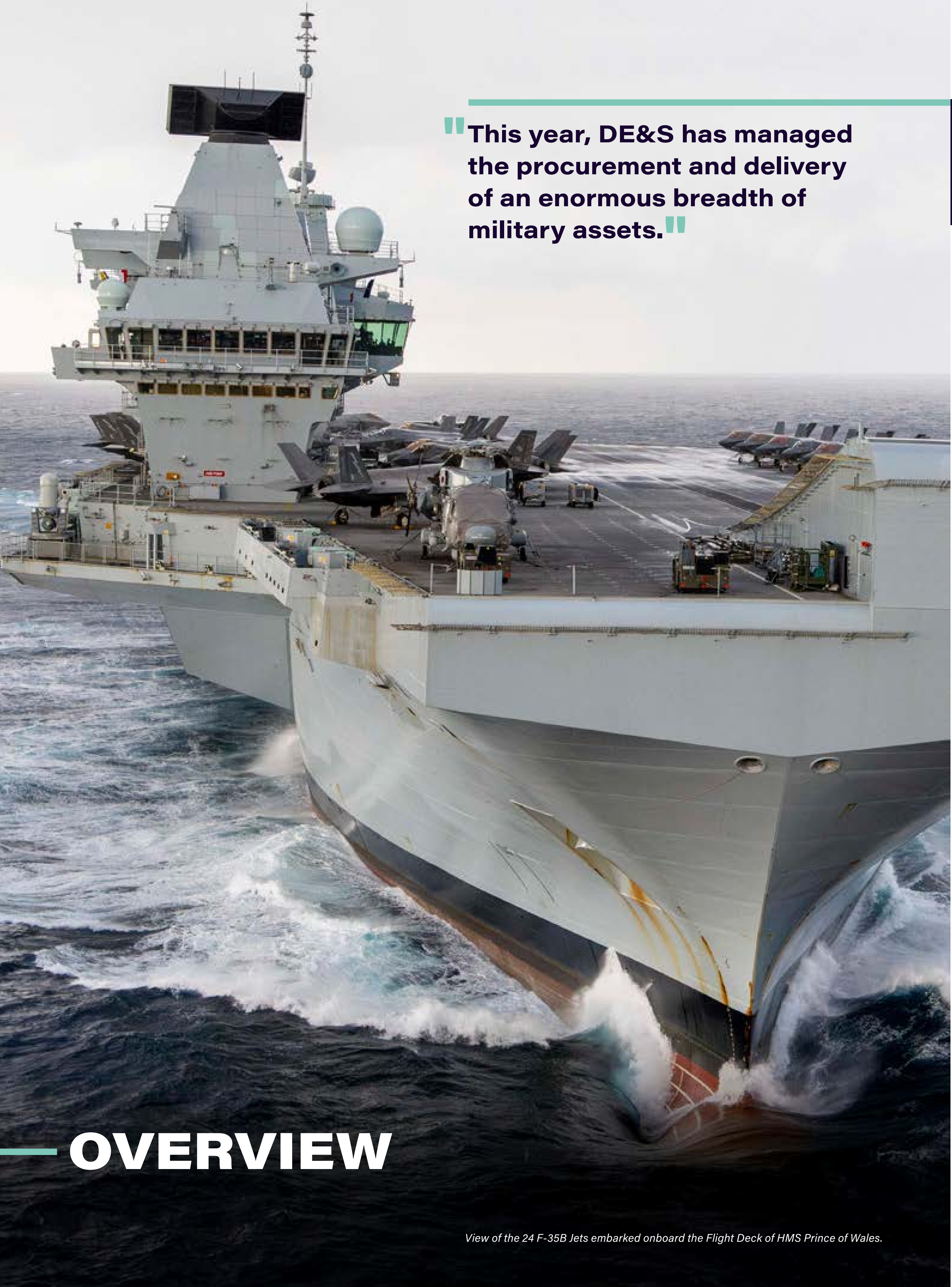
As DE&S enters a new chapter within the NAD Group, I want to express my sincere thanks to all our people for their dedication, resilience, and professionalism during an exceptionally challenging year.

On behalf of the Board, I would like to extend a special thank you to Lieutenant General Sir Simon Hamilton, our interim CEO, who will be returning to the Army to assume the role of Deputy Chief of the General Staff. During his tenure with us, Simon has demonstrated his commitment to UK Defence and to his colleagues, successfully guiding DE&S through its transformation.

I would also like to take this opportunity to thank Andy Start for his service as DE&S CEO and Interim National Armaments Director, where he played an instrumental role in modernising defence procurement. I welcome his successor, Rupert Pearce, who became the UK's permanent National Armaments Director in October.

I am confident that the NAD Group and its leadership team will strengthen the UK's security, and that our DE&S colleagues will play a pivotal role in its success.

"Our people remained central to our success."



"This year, DE&S has managed the procurement and delivery of an enormous breadth of military assets."

OVERVIEW

View of the 24 F-35B Jets embarked onboard the Flight Deck of HMS Prince of Wales.

CHIEF EXECUTIVE OFFICER (CEO) STATEMENT

LIEUTENANT GENERAL SIR SIMON HAMILTON

INTRODUCTION

It has been my privilege to lead DE&S as its interim CEO since taking over from Andy Start in October 2025. I am grateful to everyone at DE&S, our colleagues across the National Armaments Director (NAD) Group, the armed forces we support, and our partners in industry.

The operating context has continued to be demanding this year. War in Ukraine, growing European rearmament and latterly the conflict in the Middle East have all continued to increase the demand on defence industrial capacity. We have worked hard to manage very high levels of military demand while concurrently adjusting our structure to integrate within the NAD Group.

CELEBRATING PROJECT DELIVERY

This year, DE&S has managed the procurement and delivery of an enormous breadth of military assets. Our teams have ensured that crucial land, air, sea and space platforms have been delivered, upgraded and supported. We have managed 2,555 contracts, including 609 placed in-year, and have overseen 666 live projects. We have delivered over £5.4 billion of completed assets to our armed forces, provided more than £2 billion of inventory, amounting to over 271 million items, and spent over £13.2 billion on equipment and support on behalf of our customers.

Milestones have been achieved across many programmes. We have delivered the H145 helicopter to the Army, commenced UK trials of the Boxer armoured fighting vehicle, launched the first Type 31 frigate and Borealis satellite system and celebrated the Typhoon fighter's millionth hour of flight. We have also improved our infrastructure, opening the Longtown Defence Storage Facility in Cumbria in October 2025. The facility provides 76,000 square metres of capacity and substantially improves our storage and outload capacity.

The Carrier Strike Group deployment, Operation HIGHMAST, was a key focus in the early part of the financial year; a powerful display of naval reach, power projection and international engagement with more than thirty countries. DE&S contributed to the success of the deployment, providing in-service support for all the equipment involved, the required munitions, postal and courier services, salvage and maritime support and many other supporting functions. Our Maritime Spares team alone successfully delivered 174,920 items of equipment.

SUPPORTING OUR ALLIES

In Europe, our support for the Ukrainian war effort has remained unflinching as the war enters its fifth year. In 2025-26, DE&S co-ordinated the delivery of £1.3 billion pounds worth of materiel to Ukraine. Since 2022, our teams have helped to deliver more than 143 million individual items, including 70,000 air defence systems, almost 76 million rounds of ammunition and, through the NATO-funded Project Renovator, helped to renovate damaged Ukrainian hospitals, which can now, once again, provide rehabilitation for the wounded. I am deeply proud of the impact our work is having.

Right at the end of the financial year, we also commenced support to partners across the Middle East, where there has been urgent demand for counter-uncrewed air system capabilities, munitions and maritime support. This work has been thoroughly collaborative, a partnership through Task Force Sabre, involving the Military Strategic Headquarters, NAD Group, industry and our international allies and partners. DE&S has continued to prove its ability to respond rapidly to emerging events while progressing the core programme of work. Throughout, the teams I have met have uniformly shown an inspiring commitment and dedication to their work.

DEFENCE EXPORTS

DE&S has contributed strongly to several landmark UK defence export deals this year including the Type 31 frigate to Norway and Typhoon to Türkiye, valued at £10 billion and £8 billion respectively. Other key successes have included the sale of hovercraft to the Pakistani Navy and export of Lightweight Multirole Missiles to India. Successes like this show how defence exports contribute to the economy and grow the skills we need for an ever-stronger industrial base. This has been a collaborative endeavour with industry and across government and particularly a partnership with National Armaments International colleagues within the NAD Group.

OUR PERFORMANCE

Our financial performance this year has been solid, reflecting strong stewardship. DE&S remained within all delegated control totals, delivered unqualified annual accounts for the ninth consecutive year, exceeded its in-year and multi-year efficiency targets, and finished £15 million under its operating budget. This represents only a c.1% underspend. We have, however, underspent against the Equipment Plan. This is the consequence of several factors including supply chain disruption, programme schedule reprofiling, industry delivery challenges and fierce competition for industrial capacity.

Safety has been a key area of focus over the past year; we have worked hard to improve our performance and exceeded our target for improving safety cases with 117 of 122 targeted platforms and weapons systems assessed to the required standard, equivalent to 96% performance. I am particularly pleased by the improvement in near-miss reporting: 3,388 reports delivered against a target of 2,000. This suggests a more open reporting culture and reflects our organisational focus on safety and risk.

We have continued to focus on the Ajax programme, maintaining a clear emphasis on safety, and taking a precautionary approach while previously identified concerns were thoroughly investigated. The safety governance framework provides confidence that the platform continues to be safe-to-operate. In parallel, enhancements are planned to improve the overall user experience.

DEFENCE REFORM

Alongside our continued delivery of equipment and support, our teams have worked with colleagues across Defence to continue the implementation of Defence Reform. As Andy Start explained in his introduction to last year's accounts, Defence Reform is fundamentally changing how Defence is managed and how the procurement function is delivered. At the senior level, the National Armaments Director forms part of the 'Quad' of Defence's most senior officials. Representation of the procurement function at this level is wholly welcome.

Over the past year, and particularly more recent months, DE&S has worked extremely hard to prepare for the formal transition into the NAD Group on 1 Apr 2026. Though this work has been complex, I am confident that appropriate handovers for key responsibilities such as Duty Holding, risk management and financial delegations have been competently executed. Noting the concerns that organisational changes may bring, I have, with the rest of the DE&S Executive Leadership Team, worked hard to communicate regularly about these changes with our people.

"Chief of Defence Staff, Air Chief Marshall Sir Richard Knighton, said: "As DE&S transitions into the new NAD Group, the sterling work of its civilian and military personnel hasn't stopped and MSHQ continues to rely on them to ensure we can continue to defend our nation, and our allies."

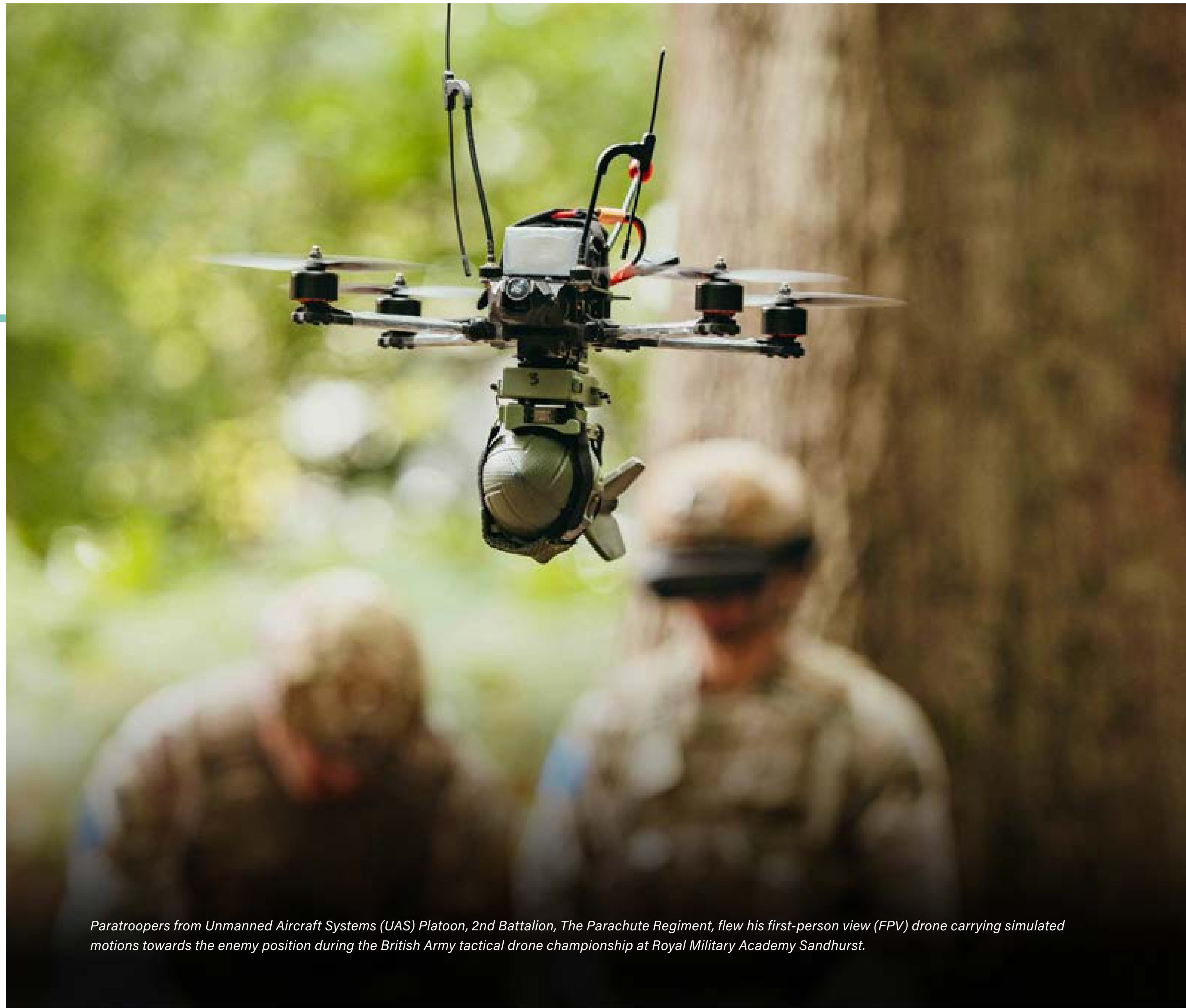
CONCLUSION

To conclude, I am proud of DE&S' tireless work to deliver for our armed forces over the past year. Much has been achieved and much has been learned. Some areas of our performance continue to require improvement, and this report communicates clearly where focus is most required. The Defence Investment Plan will not, itself, resolve all our challenges but it does present an opportunity to better balance delivery capacity with military demand. Such a rebalance would be very welcome.

I am confident that our staff will continue to bring the same professionalism, dedication and motivation they have brought to DE&S to their new organisations within the NAD Group in the year ahead.

I am sincerely grateful to the DE&S Board, whose support, advice and challenge has been invaluable. Mark Russell's team of Non-Executive Directors have played a vital role in scrutinising our performance, offering challenge and providing valuable advice from a diverse range of perspectives and professional experiences. I have found the Board's guidance to be hugely valuable and am sincerely grateful for their dedication. Lastly, I again wish to thank all my colleagues at DE&S for their dedication to the task of arming and supporting our armed forces.

I have reviewed the 2025-26 ARAc and am satisfied that this document accurately reflects the financial status and corporate position of DE&S for the reporting period.



Paratroopers from Unmanned Aircraft Systems (UAS) Platoon, 2nd Battalion, The Parachute Regiment, flew his first-person view (FPV) drone carrying simulated motions towards the enemy position during the British Army tactical drone championship at Royal Military Academy Sandhurst.

CHIEF FINANCIAL OFFICER (CFO) STATEMENT

DAVID JOHNSON, FINANCE DIRECTOR

FINANCIAL PERFORMANCE OVERVIEW

2025–26 was a year of strong financial performance for DE&S which, for the ninth year running, saw delivery of unqualified Annual Accounts. We operated within all delegated control totals and provided effective support to the Front Line Commands[2] (FLCs) in the financial management of the Equipment Plan.

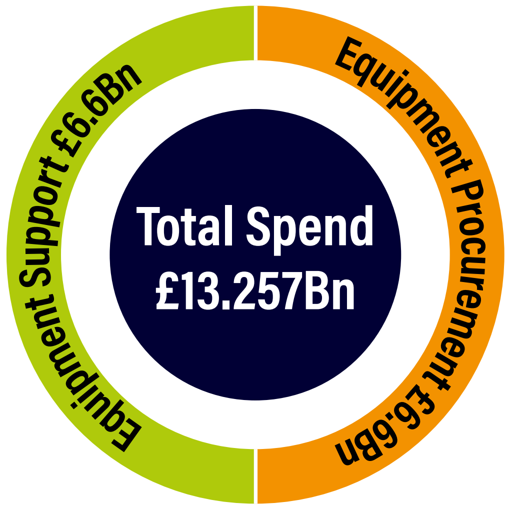
In parallel, this was a very busy year of change, as the MOD implemented Defence Reform and DE&S began to operate as part of the wider NAD Group. DE&S Finance staff played key roles in establishing the NAD Group finance structures and processes, while continuing to fulfil their DE&S responsibilities. Throughout the year, the finance function maintained robust financial governance, ensured statutory compliance, and supported delivery of defence capability.

THE EQUIPMENT PLAN

This year we spent £13.257 billion on behalf of the FLCs to deliver against an in-year Equipment Plan budget of £15.870 billion. The underspend against the overall in-year budget reflected a variety of factors, including schedule changes across several projects.

We delivered 1,517 new assets to the armed forces with a Gross Book Value of £5.483 billion. The largest were development for Protector Weapons (£631 million), Lightning Follow on Modernisation Development (£455 million), and Sea Venom Development (£302 million).

DE&S EQUIPMENT PLAN SPEND FINANCIAL YEAR 2025-26



Looking to the longer term, the projected cost of the 10-year Equipment Plan, to be delivered from 2026-27 to 2035-36, increased by £3.775 billion (3%), from £115.631 billion to £119.406 billion. This increase was driven by programme scope enhancements requested from FLCs (£1.463 billion) and the impact of changes to the underlying cost of the programme (£1.083 billion). These increases were partially offset by efficiency activity, delivering £490 million of savings across the 10-year period. The content and cost of the Equipment Plan will be revised because of the MOD's work this year on the new Defence Investment Plan (DIP).

SUPPORT TO CURRENT OPERATIONS

Alongside the core equipment programme, DE&S has supported granting-in-kind to help equip the Ukrainian Armed Forces, both through materiel from our existing stores and through additional rapid procurement activity totalling £1.331 billion. In-year, overall support to Ukraine amounted to £1.411 billion[3]. To replenish stocks, DE&S has instigated a programme of work for Financial Year (FY) 2026-27 with £647 million already accrued.

OPERATING EXPENDITURE

Every year since DE&S became an Executive Agency, we have operated within the allocated budget. Core operating costs for 2025-26 totalled £1.328 billion, against a final budget of £1.343 billion (£15 million under budget). The small underspend reflected a variety of minor reductions, which contributed to the overall performance of the NAD Group in operating within its control totals.

	2025-26 (£billion)	2024-25 (£billion)	Variation
Budget	£1.343	£1.282	£0.061 (4.8%)
Outturn	£1.328	£1.251	£0.077 (6.3%)
Variation	-0.015 (-1.2%)	-£0.031(-2.4%)	

INFRASTRUCTURE AND ENVIRONMENTAL SUSTAINABILITY

Infrastructure investment totalled £149 million against a final budget of £156 million. Spend focused on sustaining operational capability and maintaining the resilience and safety of the DE&S estate.

Activity during the year also supported wider government objectives on sustainability, aligned to the DE&S Environmental Strategy, including improvements in energy efficiency and the commencement of decarbonisation works.

FINANCE PROFESSION – CONTINUOUS IMPROVEMENT

We continued to strengthen the capability and resilience of the DE&S Finance function during a period of organisational change, ensuring it remained well placed to support delivery and to provide effective financial control.

Continued professional development was maintained to ensure finance staff were up to date with relevant accounting standards and developments most applicable to defence. All finance posts requiring a professional accountancy qualification were filled by appropriately qualified staff. Ongoing investment in professional development ensured that capability and capacity were sustained in key financial roles and that professional standards continued to be met.

As part of Defence Reform, DE&S Finance completed a full refresh of its core financial procedures and control documentation ahead of schedule. This provided a clear and consistent control framework across the organisation, supporting the management of delivery risk and ensuring continued compliance with legal, regulatory and policy requirements.

We also continued to improve productivity and the quality of financial insight through increased use of digital and automated solutions. Development work during the year on Artificial Intelligence (AI) enabled tools, in areas such as Value Added Tax (VAT) determination and financial forecasting, is expected to reduce manual effort and improve consistency, with potential application across the NAD Group.

OUTLOOK

Looking ahead, 2026-27 will be a year of further significant change as the NAD Group continues to develop and take on full responsibility for managing the MOD's investment budget, work with the rest of the MOD to deliver the SDR and DIP, and delivering the efficiency targets agreed as part of the last Spending Review.

The creation of the NAD Group offers a strong opportunity to strengthen financial coherence, improve insight, and streamline processes. While the scale of change remains considerable, I am confident that the finance function is well positioned to manage the transition and continue to deliver strong financial stewardship in support of defence outcomes.

> **"2025–26 was a year of strong financial performance for DE&S which, for the ninth year running, saw delivery of unqualified Annual Accounts."**

2 The Front Line Commands include the Royal Navy, British Army, Royal Air Force, and Cyber & Specialist Operations Command (the latter renamed from UK Strategic Command in September 2025).

3 Figure excludes three Capital Grants totalling £313M.

ABOUT DE&S

Against a backdrop of escalating global volatility and rising threats to our collective security, prosperity, and values, the mission of DE&S has never been more vital.

OUR MISSION

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

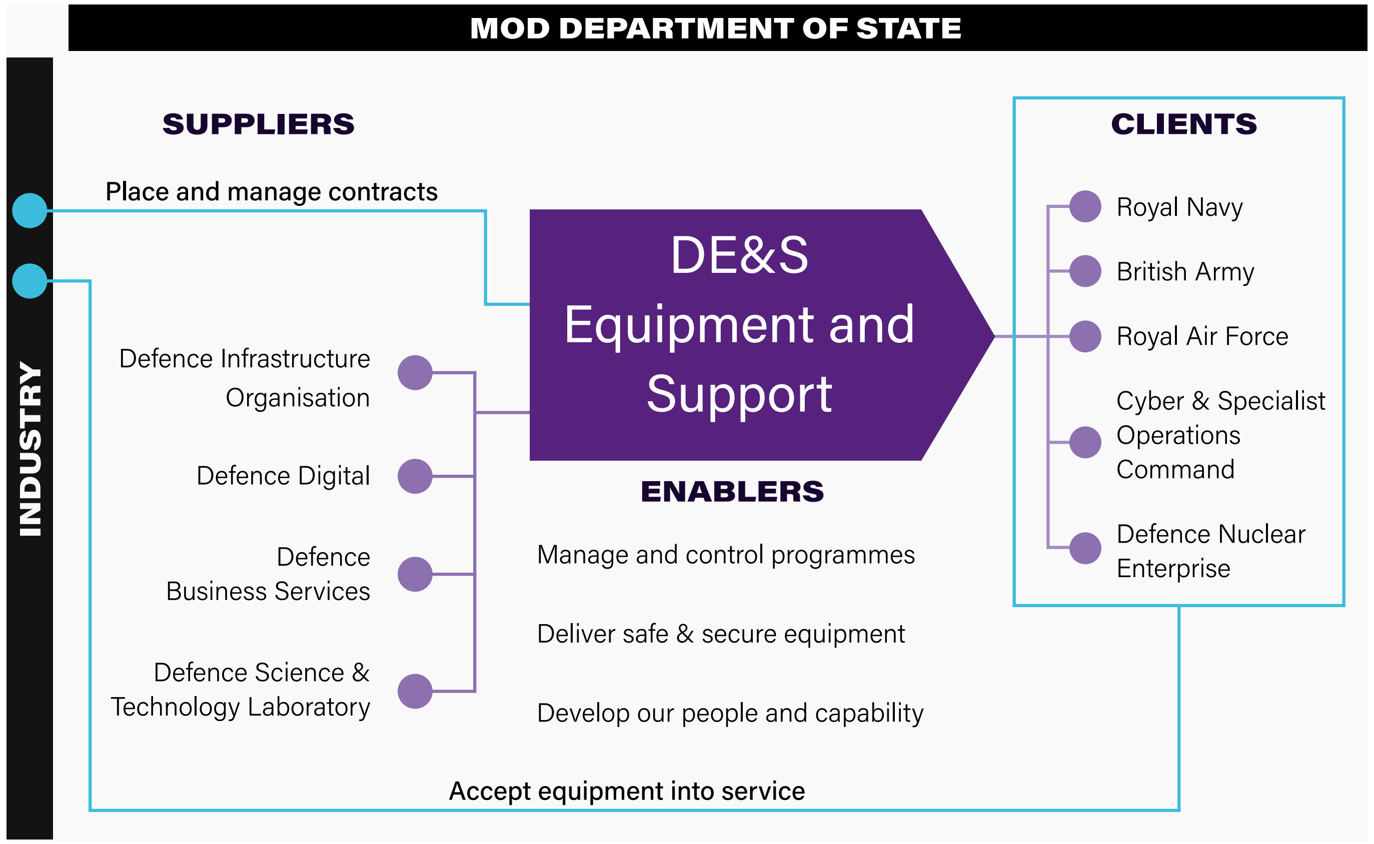
WHO WE ARE

DE&S is a professional defence acquisition and support organisation, which, from 1 April 2025, forms part of the NAD Group. As an Executive Agency of the MOD, DE&S operates with delegated management freedoms that provide greater flexibility to manage our business and workforce, enabling us to deliver optimal outputs for the Military Strategic Headquarters (MSHQ)[4].

Working as an integrated part of the NAD Group, we collaborated closely with the MOD Department of State (DoS), OGDs, MSHQ, defence agencies and the global defence industry.

DE&S is made up of a unique blend of civil service and military personnel where commercial, project management and engineering expertise come together to meet defence requirements.

From our headquarters in Bristol, and through numerous UK and overseas locations, we play a critical role in keeping our nation safe and prosperous, making sure the right equipment is available at the right time.



4 MSHQ is the main command centre for the UK Armed Forces, bringing together strategy, operations, and future force planning. It includes three core teams, Central, Force Development, and Military Strategy & Operations. The heads of the Royal Navy, British Army, RAF, Cyber & Specialist Operations Command also sit within MSHQ.

WHAT WE DO

DE&S ensures our armed forces are equipped with advanced, resilient and dependable technology, as well as logistical support needed to operate effectively. DE&S enables the UK to project strength, protect its interests, and stand firm alongside international allies in an increasingly complex and dangerous world.

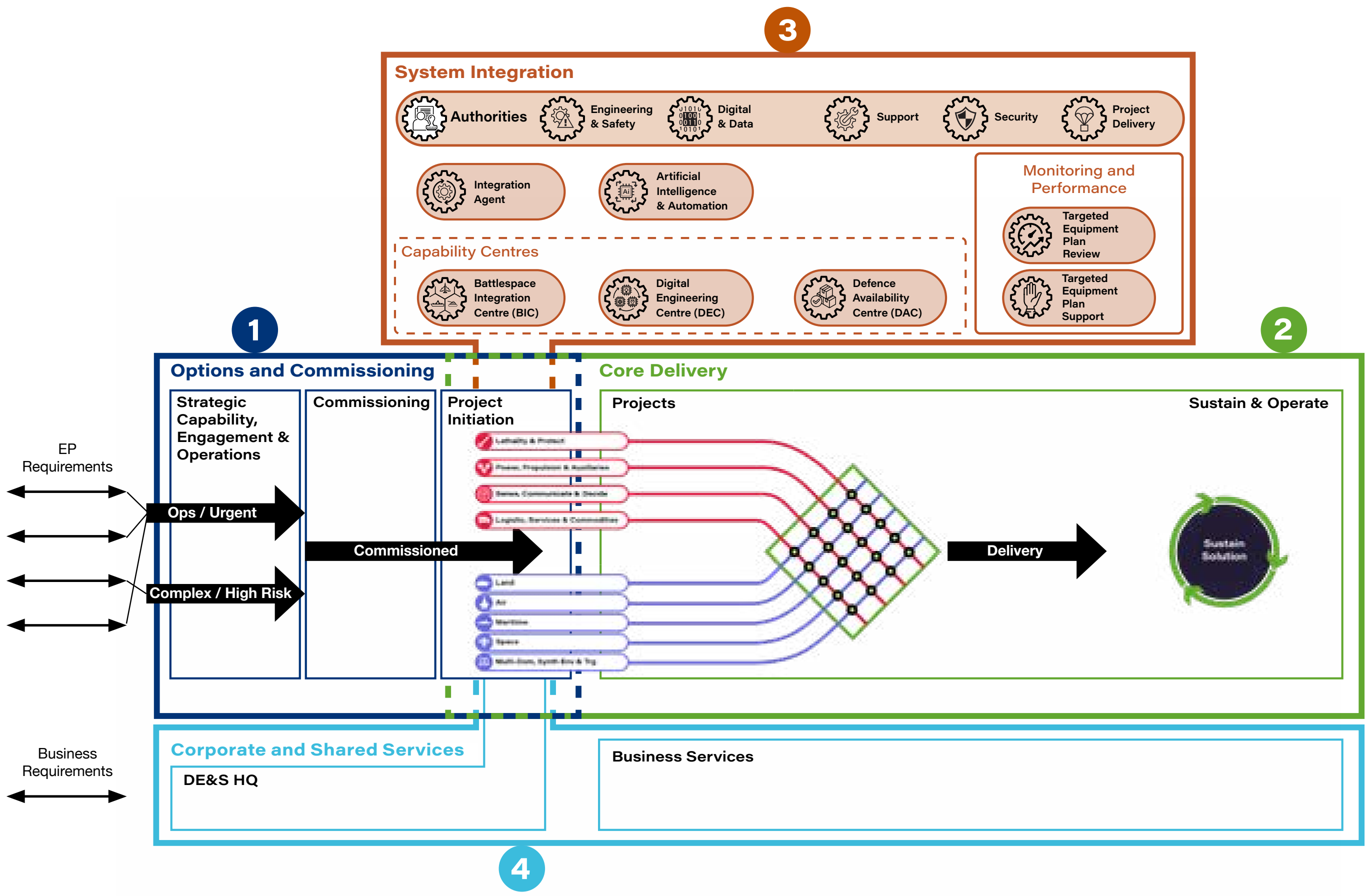
Our work spans the full spectrum of defence capability, from fighter jets and patrol boats to food deliveries and protective clothing. We source, acquire, store and support effective and innovative equipment and services, ensuring everything is safe, fit for purpose and delivers value for money for the taxpayer.

We are also responsible for the safe and efficient decommissioning and disposal of equipment that has reached the end of its service life. In addition, DE&S provides critical operational services, including running Defence Munitions sites across the UK, operating the British Forces Post Office, and delivering specialist support through Salvage and Marine Operations.

DE&S HQ Abbey Wood.

HOW WE WERE ORGANISED

Our Operating Model was re-designed by our people during 2024 into four key areas, each led by a DG. This allowed us to become more efficient and effective, delivering more for our armed forces at a faster pace but with fewer resources. The diagram below outlines these four key areas and how we operated during the year.



1. Options and Commissioning - The single-entry point for all client requirements. By engaging early with our Defence partners and clients, this gateway provided insight and support to our armed forces to prioritise and set up projects for success from the start.

2. Core Delivery - provided our armed forces with the equipment and services they needed, supported through life. It maximised equipment availability and safety, through standard and reliable processes, allowing for upgrades and the incorporation of new technology.

3. System Integration - allowed digital engineering and systems thinking across DE&S and worked to make sure that equipment, systems and services fit together as a whole.

4. Corporate and Shared Services - provided DE&S with essential strategy, planning and governance as well as the shared business services which support delivery.

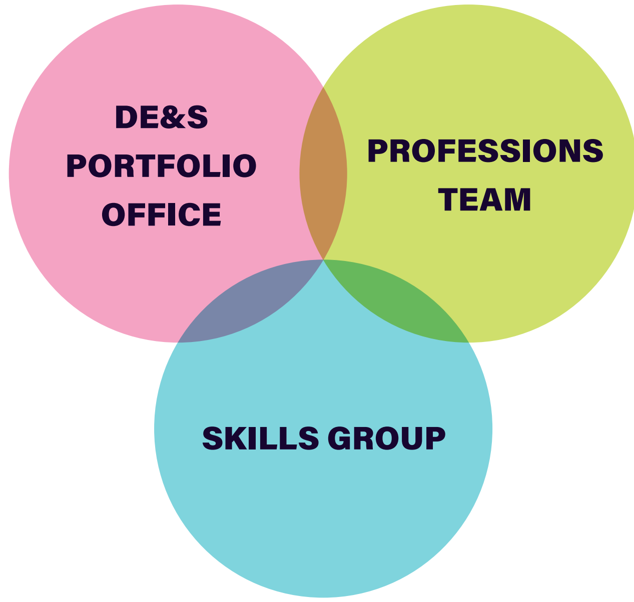
As part of our full transition into the NAD Group from 1 April 2026, we have been helping to design the future structure of the NAD Group and how DE&S and other legacy organisations will operate within it. Further details of organisation and structural changes occurring after 31 March 2026 can be found on page 119.

PEOPLE MANAGEMENT MODEL

Our People Management Model has improved the management experience, development and deployment of our people to priority work. It was designed to:

- professionalise the support that our people receive both in terms of professional growth and personal wellbeing.
- assign the right skills and experience to Defence priorities.
- create a more agile and flexible response to allocating resource across our programmes and projects.

The model has three key areas that support resourcing effort, which are detailed below:



The DE&S Portfolio Office supports the DE&S Business Planning process, providing management information and control around overall capacity budgets[5]. This ensures a realistic balance between the work we are committing to and the work we can deliver with an available workforce. The Portfolio Office also supports our corporate area to provide meaningful data, to inform decisions, assess organisational health and evaluate productivity.

The single Professions Team[6] consists of nine Profession leads[7], led under a single Head of Profession. They provide our people with their professional home and work as a single entity to provide strategy, policy and guidance, and maintain professional standards. The Professions Team helps build both the capacity and capability of our workforce through a single and consistent approach to external recruitment demand and skills planning. They focus on medium to long-term career pathways, based on business needs and an individual's development journey. They provide the operating architecture for their profession, with technical Skills Groups bringing together common skilled workforce, and establishing ways of working to support operational excellence.

A Skills Group is a grouping of civilian and military people of varying grades, who all share the same technical specialism. Each Skills Group meets the demand of multiple projects, programmes, or portfolios using prioritisation information established by Options and Commissioning and assisted by management information provided by the Portfolio Office. This construct enables benefits, such as people working on more than one activity at a time, sharing their technical skills across work areas and moving easily between them. Each Skills Group is managed by a team of People Coaches[8]. They vary in size and shape depending on the specific skills and workforce volume in that group.

5 A capacity budget sets out how much work an organisation can realistically deliver over a given period, based on the resources it has available.
6 The Professions replaced the Functions in October 2024.
7 There are nine Professions which are Commercial, Corporate Operations Group, Engineering, Finance, HR, Digital and Data Profession, Operational Delivery, Project Delivery, Security.
8 A People Coach is responsible for the development and management of a group of individuals within a specific Skills Group.

OPERATIONAL EXCELLENCE

In DE&S, 'operational excellence' has been our 'North Star' and primary focus. This means we have worked hard to be known for trustworthy and predictable delivery of Defence's agreed priorities and a culture of continuous improvement that translates into value for the taxpayer. Customer intimacy and product leadership remain important; however, it is through maximising operational excellence that we have sought to enhance our delivery for the other two disciplines.

OUR NORTH STAR

DE&S' PLACE IN THE NATIONAL ARMAMENTS DIRECTOR GROUP

We face a new era of conflict in an unstable, contested world driven by rapid advancements like AI and autonomy. Within UK Defence, limited resources, fragmented structures, and competing priorities have hindered progress, frustrating efforts to support our armed forces and allies.

To overcome these challenges, through Defence Reform, the MOD implemented a streamlined leadership structure on 1 April 2025, simplifying the defence enterprise into four key defence areas. These are the DoS, the MSHQ, the Defence Nuclear Enterprise (DNE), and the NAD Group.

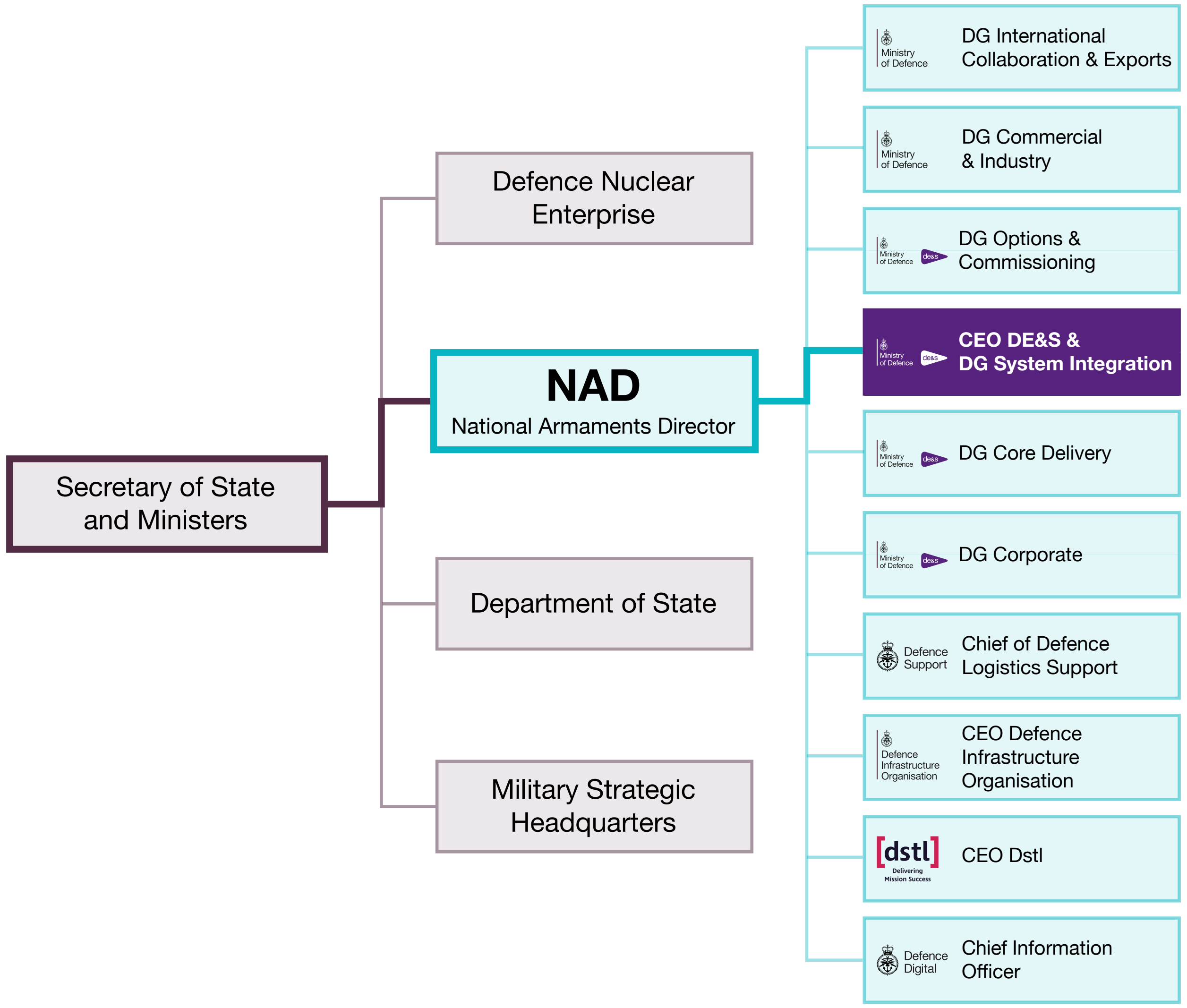
On 1 April 2025, DE&S became part of the newly established NAD Group, with full integration completed on 1 April 2026. DE&S' longer-term status within the NAD Group remains under review.

The creation of the NAD Group unites the science, technology, acquisition, export, delivery and support organisations responsible for developing, supporting and delivering the UK's national arsenal. The NAD Group also includes roles focused on International Collaboration and Exports, Commercial and Industry, Options and Commissioning, and Corporate and Shared Services[9]. These roles will work together, and with industry, international partners and allies, and academia, to develop and deliver solutions to departmental problems.

9 This includes Corporate Services Modernisation and Defence Business Services.

NATIONAL ARMAMENTS DIRECTOR GROUP

With a single unifying mission, the NAD Group was established to enable better ways of working and empower greater collaboration across Defence. The graphic below sets out the structure of the NAD Group on 1 April 2025. although most organisations were renamed on 1 April 2026, to reinforce a unified mission focus (see page 119).



The NAD Group will deliver four strategic outcomes:

- **Build a competitive armaments ecosystem –** by creating the conditions for a productive, adaptable and survivable military-industrial-tech enterprise with international allies.
- **Design and deliver the right capabilities –** through operational support, shared services and equipment to create deterrence and give our armed forces the edge.
- **Drive economic growth –** by maximising defence spend to increase exports, employment and economic security.
- **Increase productivity and efficiency –** to operate together in the most affordable, timely and efficient way.

OUR BUDGET

The MOD delegates the bulk of the equipment and support budget[10] to the FLCs[11], giving them responsibility for prioritising what is most critical. As such, DE&S does not own the budget for the Equipment Procurement Plan or the Equipment Support Plan, 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 FLCs that capture the outputs our teams will deliver. The agreements set out the equipment, support and services we will acquire on the FLCs' behalf, within a specified budget, and to a specified timescale. The MOD DoS holds us to account for delivery, and measures performance through 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 the DoS. Our operating expenses include staff costs, private sector support[12], other programme costs and capital additions. Our accounts also include notional communicated costs, which cover the services that are incurred through activities with other MOD organisations.

The Financial Statements at section three of this report have been prepared in accordance with the Accounting Boundary agreed with the MOD. This delineates between DE&S' operating activities, reported in our financial statements; and those equipment procurement and support activities which are reported in MOD's own financial statements. More information regarding the Accounting Boundary can be found in the Statement of Accounting Policies in the notes to these accounts. We comply with His Majesty's Treasury's (HMT) 'Managing Public Money' guidance, and its other supplementary instructions. We also observe the standard financial processes and rules set out by MOD DG Finance.

OPERATING AS AN EXECUTIVE AGENCY

DE&S was launched as an Executive Agency of the MOD in April 2014, with unique management freedoms delegated by HM Treasury and the Cabinet Office. While we are an integral part of the MOD, and remain fully accountable to the Defence Board, we have an additional governance structure, with an advisory Board, which ensures we use our targeted freedoms to manage our outputs and workforce within an operating cost budget. We have also been able to implement changes outside of wider Government norms, particularly around the management of our people, to help us attract, develop, retain and deploy talent as required, to help meet our FLCs' requirements.

10 This budget will transfer to the NAD Group from 2026-27 as part of the new Defence Operating Model.
11 The Front Line Commands include the Royal Navy, British Army, Royal Air Force, and Cyber & Specialist Operations Command (the latter renamed from UK Strategic Command in September 2025).
12 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 83 and in Note 4 on page 109.

DELIVERING AGAINST OUR DE&S STRATEGY

In 2023 we refreshed our DE&S Strategy, with a focus on "unlocking our capacity to increase Defence's outputs." This meant changing the way we operated to help deliver more from our supply chain, faster and more effectively from the available budget, while ensuring we continued to adhere to our values below:

DE&S VALUES

Our Strategy set out the strategic direction for our business and was built upon delivering more of what matters for our armed forces and the UK. To achieve this, it had **three strategic outcomes**, which are detailed below.

TODAY

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

TOMORROW

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

TOGETHER

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

OUR STRATEGIC PRIORITIES FOR 2025-26

Alongside the Today, Tomorrow, Together approach, setting **our strategic priorities** provides the roadmap for achieving our mission '**to equip our armed forces with the edge to protect our nation and help it prosper**'. The three organisational priorities we set ourselves at the start of the year, as shown in our Corporate Plan, are detailed below:

- Support to operations (including Ukraine) and the continuous at-sea nuclear deterrent.
- Implementing, embedding and stabilising the new DE&S and supporting wider Defence Reform and the SDR.
- Delivering equipment programme priorities for our Mission Partners[13] (driving delivery performance by accelerating time to contract, delivering on our commitments).

We used our **Objectives, Goals, Strategy and Measures (OGSM) framework** to measure progress against these priorities over the year, which was broken down into six high level KPIs as stated below:

Objective	Key Performance Indicator KPI
Deliver Equipment and support	Availability
	Safety Performance
Deliver new equipment and equipment upgrades	CASP Strategic Milestones
	Project Cost and Time Performance
Achieving Operational Excellence	Benefits of DE&S Change
	People

Further details on our OGSM and performance against these KPIs can be found within the Performance Analysis section starting on page 34.

13 Includes Front Line Commands, our allies, the global defence industry, other MOD departments and agencies, and OGDs.

Royal Tank Regiment Challenger 2 during Op CABRIT at Exercise WINTER CAMP in Tapa, Estonia.

HIGHLIGHTS - DELIVERING FOR DEFENCE

Over the past year we have delivered in direct support of DE&S' strategy and have actively worked with our armed forces colleagues, industry partners and allies to deliver over 2,555 contracts. Below is just a snapshot of some of what our people have achieved.

OUR PEOPLE

- Numerous civilians and military personnel from DE&S were recognised in the 2025 King's Birthday Honours list, and 2026 New Year Honours list. Their exceptional service to UK Defence was recognised, including crucial contributions made in the areas of logistics, capability and military communications.
- DE&S was proudly represented at the Women in Defence UK Awards. Catherine Smith, DE&S Senior Logistic Operations Manager, won the Resolute Spirit Award for her perseverance while overcoming adversity, and Lisa Thorne was shortlisted in the Inspirational Award category.
- Working with Turner & Townsend, DE&S' Operating Model Transformation (OMT) project was crowned Transformation Project of the Year by the Association for Project Management. OMT engaged more than 3,000 stakeholders as it streamlined governance, reduced cost inefficiencies and enhanced collective agility.
- Fabiola Garay Balmori from DE&S was a finalist in the Unsung Hero category at the 2025 Chartered Institute of Logistics and Transport Awards for Excellence. The achievement demonstrated the importance of working closely with industry and adopting best practices to deliver the best outcomes for UK Armed Forces.
- A team of DE&S digital engineering apprentices beat 35 other teams in a competitive exercise to combat borderless cyber threats in a simulated environment, demonstrating the international collaboration essential for effective cyber defence. The week-long exercise brought together personnel from 70 different organisations across 29 countries.

TODAY

- The first two of six new Airbus H145 helicopters were delivered to Brunei under a £122 million contract, where they will be operated by the British Army for activities such as jungle training. Fulfilling the previous role carried out by the Puma HC2s in Brunei and Cyprus, a total of six H145s were procured by DE&S.
- A fleet of new StormShroud electronic warfare drones, delivered by DE&S in under six months, came into operation for the Royal Air Force (RAF). These were the first of a new family of Autonomous Collaborative Platforms to support F-35B and Typhoon fighter jets and revolutionise the way the UK operates in contested battlespaces.
- More than 1,200 jobs were secured with a £1.5 billion contract DE&S awarded to QinetiQ for the continued provision and modernisation of mission-critical test, trials, training and evaluation services. The five-year extension to the Long-Term Partnering Agreement operates 16 MOD ranges and test facilities, as well as providing technical expertise and support services.
- Initial Operating Capability[14] (IOC) was declared for the Sea Venom missile system. The anti-ship capability provides Royal Navy Wildcat helicopters operating on front line duties and proved its worth during the deployment of Carrier Strike Group 25 with unprecedented precision and reach.
- A new support contract with Rolls Royce secured the continued maintenance and repair of RAF Typhoon EJ200 aircraft engines. The five-year Typhoon Engine Support Solution, worth £563 million, will directly support around 200 UK jobs while contributing to Typhoon availability for the RAF.

14 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.

TOMORROW

- The DragonFire laser demonstrator showed its potential to become the UK's first operational directed energy weapon when it took down high speed drones at MOD Hebrides. Following the trials, a £316 million contract was awarded to MBDA who will work with Leonardo and QinetiQ to develop laser weapons for Royal Navy T45 destroyers from 2027.
- Further investment was made in European Common Radar System Mk2, the next generation radar system for RAF Typhoon fighter jets. DE&S placed a £453.5 million order with prime contractor BAE Systems for 40 radar system sets and supporting equipment, which will simultaneously detect, identify and track multiple targets in the air and on the ground.
- It was a big year for the Type 31 frigate programme at Babcock International's Rosyth shipyard. HMS Venturer floated off for the first time and first steel was cut on HMS Bulldog, while HMS Active rolled out of the assembly hall onto the hardstand.
- Build officially commenced on Fleet Solid Support ship, RFA Resurgent, at Navantia UK's Appledore shipyard in Devon. The programme is driving £115 million of investment across four UK shipyards, creating 1,200 jobs and more than 200 apprenticeships.
- British soldiers will be able to aggressively hunt, detect and locate hostile gunfire on the battlefield, as well as receive a further layer of protection, through SONUS. This new system to detect enemy weapons was secured with an £18.3 million contract with Leonardo, which will provide work for 29 small and medium sized enterprises.
- The Challenger 3 turret programme commenced its manufacturing phase, marking a major milestone. This was followed by the British Army's future Main Battle Tank completing its first crewed live firing trials on UK soil, at Kirkcudbright Training Centre in Scotland.

TOGETHER

- The DE&S Longtown Defence Storage Facility was opened by Defence Minister Luke Pollard, marking a major milestone in modernising and streamlining the UK's defence logistics infrastructure. The new £98.5 million facility is being managed in partnership with Team Leidos and will mean UK Armed Forces will be better equipped to respond to evolving threats.
- A £200 million contract between the UK and Germany was signed for 36 large amphibious bridging vehicles, produced by General Dynamics European Land Systems. This will enhance the battlefield mobility of the British Army and strengthen the partnership between the two nations.
- Project Torbay, led by DE&S in collaboration with the Submarine Delivery Agency, Babcock and Sheffield Forgemasters, showcased the feasibility of recycling old submarines into new defence components. The project extracted and recycled 10.6 tonnes of high yield, naval strength hull casing steel from decommissioned HMS Torbay.
- DE&S teams played a crucial role working with the MOD and industry to secure two significant export deals for the UK. BAE Systems' Type 26 frigate design was selected by Norway as part of a £10 billion partnership deal, while Turkiye agreed to buy 20 Typhoon fighter jets worth up to £8 billion.
- Boeing Defence UK was awarded a new long-term support contract under the Rotary Wing Enterprise to provide integrated in-service support for RAF Chinook and British Army Apache helicopters. The contract consolidates previously separate arrangements, improving efficiency, reducing long-term costs, and ensuring operational readiness for critical battlefield helicopters.

PERFORMANCE ANALYSIS

This section includes a detailed summary of our corporate performance over the year.

RFA Tidespring conducting replenishment at sea with USS Mitscher (right) and JS Akebono (left) in the Arabian sea.

OUR PERFORMANCE ON A PAGE

The DE&S OGSM framework sets out what we intended to do and how we measured progress against it. It aligns strategic outcomes and priorities in the Corporate Plan to our individual contributions across DE&S.

For 2025-26, the framework comprised of six high level KPIs, each underpinned by a set of measures. Weighting and scoring have been applied to calculate the overall corporate performance score of **68.4%.**

OGSM Framework

KPI	Measure	Weight	Metric criteria		Year end result	
KPI 1 Availability	**KPI 1A** - Command Acquisition and Support Plan (CASP) availability performance	**10%**	Percentage achievement is applied to the 10% weighting (e.g. 92% achievement equates to 9.2% added to the OGSM total).		**9.2%**	Outturn was 91.6% which equates to 9.2% of available weighting
	KPI 1B - Reduce the amount of time platforms are waiting on spares	**5%**	Performance is scored based on achieving ≥90% On Time Issues for Fast Movers combined with varying levels of On Time Issues for maintenance/loss demands which are:	≥ 90% = 5% 87–89% = 4% **85–86% = 2%** ≤ 84% = 0%	**2%**	Outturn was 95.7% for Fast Movers and 85.2%for Maintenance / loss demands which equates to 2% of 5% available weighting
	KPI 1C - DE&S contribution to Continuous At Sea Deterrent (CASD)	**5%**	**[Blank]**[15]		**0%**	**[Blank]**
KPI 2 Safety Performance	**KPI 2A** - Improving our safety cases	**15%**	Overall % achievement of populated and published Safety case Maturity Tool assessments:	**≥ 81% = 15%** 71%-80% = 10% 61%-70% = 5% ≤ 60% = 0%	**15%**	Outturn was 96% which equates to 15% of available weighting
	KPI 2B - near-miss incidents reporting rate	**10%**	Number of total reported near-miss Reports in FY 2025-26:	The total number of reported near-misses in FY 2025-26: **≥ 2000 = 10%** 1501 to 1999 = 5% ≤ 1500 = 0%	**10%**	Outturn was 3,388 which equates to 10% of available weighting
KPI 3 CASP Strategic Milestones	**KPI 3A** - Delivery of agreed CASP strategic milestones	**10%**	Percentage achievement is applied to the 10% weighting (e.g. 92% achievement equates to 9.2% added to the OGSM total).		**8.2%**	Outturn was 82.1% which equates to 8.2% of available weighting
KPI 4 Project Cost and Time	**KPI 4A** - Outline Business Case procurement project cost & time performance	**5%**	FLCs[16] that have an aggregate in-year forecast cost and time variance of ≤ 0.	Each FLC scores 0.5% for achievement of cost or time (5 FLCs x 2 measures each)	**4%**	Outturn was 8 of 10 measures within tolerance which equates to 4% of available weighting
	KPI 4B - Full Business Case procurement project cost & time performance	**5%**	FLwCs that have an aggregate in-year forecast cost and time variance of ≤ 0.	Each FLC scores 0.5% for achievement of cost or time (5 FLCs x 2 measures each)	**2%**	Outturn was 4 of 10 measures within tolerance which equates to 2% of available weighting
	KPI 4C - In-year Equipment Plan Budgetary Control	**5%**	Number of FLCs that operate within the EP allocation and no more than -1.5% under budget (1% for each of the five FLCs)	Number of FLCs that operate within the EP allocation and no more than -1.5% under the AP 02 forecast (1% for each of the five FLCs)	**1%**	Outturn was 1 of 5 FLCs within tolerance which equates to 1% of available weighting
	KPI 4D - Forecast Stability to baseline. (Procurement and Support Programmes)	**5%**	Number of FLCs ≤ 0 (1% for each of the five FLCs)	Number of FLCs ≤ 0 (1% for each of the five FLCs)	**2%**	Outturn was 2 of 5 FLCs within tolerance which equates to 2% of available weighting
KPI 5 Benefits of DE&S Change	**KPI 5A** - Productivity – Increasing the ratio of direct to indirect time bookings	**10%**		**≥ 65% = 10%** 61% to 64% = 5% ≤ 60% = 0%	**10%**	Outturn was 66.8% which equates to 10% of available weighting
	KPI 5B - Amount by which planned work exceeds workforce capacity	**10%**	Planned work exceeds:	**≥ 10% = 0%** 6% to 9% = 3% 2% to 5% = 5% ≤ 1% = 10%	**0%**	Outturn was 14.3% which equates to 0% of available weighting
	KPI 5C - All Level 4 procedures and control documentation completed	**5%**	5% if target date of 31 December 2025 met. 0% if target date is not achieved	**5% if target date of 31 December 2025 met.** 0% if target date is not achieved	**5%**	Target date met which equates to 5% of available weighting
KPI 6 - People	**KPI 6A** - People Survey Engagement score for 2025	**0%**	Overall engagement score is:	≥ 62% = 0% reduction for Senior Leadership Group (SLG[17]) 60% to 61% = 2.5% reduction for SLG ≤ **59% = 5% reduction for SLG**	**-5%**[18]	Reduction which is based on an outturn of 55%
			Overall Corporate Performance Score		**68.4%**	

A detailed summary of our performance against these KPIs and measures can be found on the following pages.

15 Detailed information on this KPI is not reported publicly on security and commercial sensitivity grounds, however CASD was maintained throughout.

16 The Front Line Commands (FLCs) include the Royal Navy, British Army, Royal Air Force and UK Strategic Command (now known as Cyber & Specialist Operations Command). There is also a CASP with Strategic Programmes which for the purposes of OGSM reporting has been classed as an FLC.

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

18 Only the overall DE&S performance score for the SLG will be reduced for this measure by up to 5%. As a result, the 5% reduction is not reflected within the overall corporate performance score of 68.4% for employees not part of the SLG

CORPORATE PERFORMANCE

Corporate performance (including KPIs, finance, risk management and safety) has been regularly assessed by the DE&S Board, ELT, and reviewed by our FLCs. Details of the outcomes of the KPIs used for 2025-26, aligned to this year's strategic objectives and priorities, are provided below.

More information on our 2025-26 governance structures and activity is set out in the Governance Statement (starting on page 51).

KPI 1 – AVAILABILITY

We are focussing on providing increased equipment availability for our armed forces as well as our contribution to the Continuous At Sea Deterrent (CASD). This KPI recognises the importance of this work and the efforts of our people in supporting it. Metrics under KPI 1 have an overall weighting of 20%.

KPI 1A – CASP AVAILABILITY PERFORMANCE

Measure	Outturn	OGSM Scoring Thresholds
Availability - Cumulative monthly percentage of CASP Availability metrics met. CASP metrics are agreed at the start of the year with our FLCs.	**91.6%**	Percentage achievement is applied to the 10% weighting (e.g. 92% achievement equates to 9.2% added to the OGSM total)

This KPI tracks the cumulative monthly percentage of met availability targets which are agreed with the FLCs. DE&S achieved a final position of 91.6% across the year. Key drivers affecting performance have been unexpected technical issues and supply chain issues causing insufficient stock. Corrective plans are in place to mitigate where possible.

KPI 1B – REDUCE THE AMOUNT OF TIME PLATFORMS ARE WAITING ON SPARES

Measure	Outturn	OGSM Scoring Thresholds
New: Support greater equipment availability by having inventory ready for identifiable planned maintenance (ships/submarines) and predictable capability loss demands, while sustaining ≥ 90% On Time issues on Fast Movers.	**Fast Movers:** **95.7%** **Maintenance / loss demands:** **85.2%**	Performance is scored based on achieving ≥90% On Time Issues for Fast Movers combined with varying levels of On Time Issues for maintenance/loss demands which are: ≥ 90% = 5% 87–89% = 4% **85–86% = 2%** ≤ 84% = 0%

This KPI measures stock availability at the point demand is raised. It has two components: **Fast Movers**, covering high-demand inventory items, and **maintenance/loss demands**, covering stock required for planned maintenance or capability loss (for example, a grounded aircraft). DE&S met the minimum threshold for this KPI (2% award). Performance was constrained by stock depletion and slow replenishment. Improvements in ways of working are now evident and are expected to continue improving this metric and overall availability.

KPI 1C - DE&S CONTRIBUTION TO CONTINUOUS AT SEA DETERRENT

Measure	Outturn	OGSM Scoring Thresholds
DE&S contribution to CASD; delivery of related components for which DE&S is solely responsible, is at or above the required minimum stock holdings.	[Blank]	[Blank]

Detailed information on this KPI is not reported publicly on security and commercial sensitivity grounds, however CASD was maintained throughout.

KPI 2 – SAFETY PERFORMANCE

This KPI recognises the need to improve our safety cases[19] as well as the importance of preventing future accidents by strengthening the organisation's safety culture, including through near miss reporting. Metrics under KPI 2 have an overall weighting of 25% which is indicative of the high priority placed on safety.

KPI 2A – IMPROVING OUR SAFETY CASES

Measure	Outturn	OGSM Scoring Thresholds
New: Improving our safety cases - percentage achievement of targeted platforms and weapons systems to have a safety case assessed with results published in the Safety Case Maturity Tool. Baseline of 35% (43/122 platforms).	**96%**	**≥ 81% achievement = 15%** 71%-80% achievement = 10% 61%-70% achievement = 5% ≤ 60% achievement = 0%

This KPI is about improving the quality of our safety cases across a targeted set of key platforms and weapon systems. There were 117 of 122 (95.9%) platforms assessed to the required standard by 31 March, successfully exceeding the target of 81%.

KPI 2B – NEAR-MISS INCIDENTS REPORTING RATE

Measure	Outturn	OGSM Scoring Thresholds
New: Near miss reporting rate – the number of near miss incidents reported in DE&S in FY 2025-26. Baseline: 1,149 over the past 12 months.	**3,388**	Total number of near-miss incidents reported in FY 2025-26: **≥ 2000 = 10%** 1501 to 1999 = 5% ≤ 1500 = 0%

A near miss is an unplanned event that did not result in injury, illness, or damage but had the potential to do so. Near miss reporting is important to prevent future accidents and improve safety culture in the organisation. There was a total of of 3,388 near misses reported from April 25 to March 26 against a target of 2,000.

19 In DE&S, a safety case is a structured body of evidence and reasoning that shows a piece of equipment or system is safe to use. They are recorded in the Safety Case Maturity Tool which is used to review, measure, and assess safety case maturity across DE&S.

KPI 3 – CASP STRATEGIC MILESTONES

This KPI is linked to delivery of the CASPs that we agreed with our FLCs[20]. To drive strategic simplification of the CASP, for 2025-26 we asked for strategic milestones representing the highest priorities for the year. The metric under KPI 3 has a weighting of 10%.

KPI 3A – DELIVERY OF AGREED CASP STRATEGIC MILESTONES

Measure	Outturn	OGSM Scoring Thresholds
CASP Strategic Milestones - percentage achieved on time or early against the hard planned date agreed in the CASP.	**82%**	Percentage achievement is applied to the 10% weighting (e.g. 82% achievement **equates to 8.2% added to the OGSM total)**

This KPI tracks performance during the year against a small number of strategic milestones representing the highest priorities agreed with the FLCs. DE&S delivered 23 of 28 CASP strategic milestones on time, of which 19 were achieved early. The milestones not delivered on time were primarily impacted by technical challenges.

KPI 4 – PROJECT COST AND TIME PERFORMANCE

This KPI focusses on delivering projects within the approved budget and schedule. Metrics under KPI 4 have an overall weighting of 20%.

KPI 4A - OUTLINE BUSINESS CASE PROCUREMENT PROJECT COST AND TIME PERFORMANCE

Measure	Outturn	OGSM Scoring Thresholds
Outline Business Case procurement project cost and time performance: aggregate in-year forecast cost and time variance to be ≤ 0.	**8 of 10 within tolerance**	FLCs[20] that have an aggregate in-year forecast cost and time variance of ≤ 0 Each FLC scores 0.5% for achievement of cost and 0.5% for achievement of time All five achieved to cost and three of five achieved to time giving an **outcome of 4%**

This KPI tracks in-year cost and time variances for projects which have received their Outline Business Case approval but have not yet reached Full Business Case approval. KPI 4A is monitored against the FLCs. Two of five reported minor net time growth primarily due to delays in the contract award process. No cost increases were reported against any of the FLCs.

20 The Front Line Commands (FLCs) include the Royal Navy, British Army, Royal Air Force and UK Strategic Command (now known as Cyber & Specialist Operations Command). There is also a CASP with Strategic Programmes which for the purposes of OGSM reporting has been classed as an FLC.

KPI 4B - FULL BUSINESS CASE PROCUREMENT PROJECT COST AND TIME PERFORMANCE

Measure	Outturn	OGSM Scoring Thresholds
Full Business Case procurement project cost and time performance: aggregate in-year forecast cost and time variance to be ≤ 0.	**4 of 10 within tolerance**	FLCs that have an aggregate in-year forecast cost and time variance of ≤ 0 Each FLC scores 0.5% for achievement of cost and 0.5% for achievement of time Four of five achieved to cost, and all five experienced time increases giving an **outcome of 2%**

This KPI tracks in-year cost and time variances of projects which have received their Full Business Case approval and demonstrated how much the forecast cost and time to complete this phase of work changed during the year. Like KPI 4A it is monitored against each of the FLCs. All five reported net increases to forecast schedule durations, while one out of five reported net cost growth. The reasons for these increases are predominantly due to affordability, supply chain delays and technical issues.

KPI 4C – IN-YEAR EQUIPMENT PLAN BUDGETARY CONTROL

Measure	Outturn	OGSM Scoring Thresholds
New: In-year Equipment Plan Budgetary Control: Operate within the Equipment Plan (EP) allocation and no more than -1.5% under the AP 02 forecast[21].	**1 of 5 within tolerance**	Number of FLCs that operate within the EP allocation and no more than -1.5% under budget 1% for each of the five FLCs giving an **outcome of 1%**

This KPI is about delivering the agreed programme of work within the delegated budget. Overall, the EP outturn was £11.874 billion against an AP02 Baseline of £12.526 billion (-5.2% under the baseline). The underspend is largely attributable to delays in placing contracts and contractor activities not being achieved this financial year. Of the five FLCs, the final position for four was below the AP02 target, however because three were more than -1.5% under they were outside of tolerance for this KPI.

KPI 4D – FORECAST STABILITY TO BASELINE (PROCUREMENT AND SUPPORT PROGRAMMES)

Measure	Outturn	OGSM Scoring Thresholds
Aggregate Underlying Cost Movement variance in 10-year Equipment Plan (Equipment Procurement Plan & Equipment Support Plan) costing ≤ £0M	**2 of 5 within tolerance**	Number of FLCs ≤ 0 (1% for each of the five FLCs) Two FLCs achieved costings within tolerance giving an **outcome of 2%**

This KPI is about ensuring the EP costings for the next 10 years are accurate and robust. The 10-year EP, managed by DE&S on behalf of the FLCs, recorded an underlying cost increase of £1,083 million (0.9% of total plan value). While some programmes delivered cost reductions driven by revised assumptions and efficiencies, these were outweighed by cost growth in several major projects. Key drivers of increases included more mature industry costings, updated support requirements, and higher supplier bids.

21 Due to the impact of the spending review, it was agreed the AP02 position should be used as the baseline rather than the budget.

KPI 5 – BENEFITS OF DE&S CHANGE

This KPI recognises the importance of embedding, implementing and maintaining the new ways of working to drive our Operating Model. Metrics under KPI 5 have an overall weighting of 25%.

KPI 5A – PRODUCTIVITY – INCREASING THE RATIO OF DIRECT TO INDIRECT TIME BOOKINGS

Measure	Outturn	OGSM Scoring Thresholds
Productivity – increasing the ratio of direct to indirect time bookings against a baseline of 60% and a target of 65%. Demonstrates a release of 920,000 hours or 615 Full Time Equivalents.	**66.8%**	**≥ 65% = 10%** 61% to 64% = 5% ≤ 60% = 0%

Indirect work, such as corporate services and training, plays an important role in supporting the overall success of the business. However, this key performance indicator (KPI) focuses on increasing the amount of time DE&S staff spend on work that directly supports our FLCs. DE&S successfully exceeded its target of 65%.

KPI 5B - AMOUNT BY WHICH PLANNED WORK EXCEEDS WORKFORCE CAPACITY

Measure	Outturn	OGSM Scoring Thresholds
New: Percentage amount by which planned work exceeds workforce capacity to be no greater than 0%	**14.3%**	Planned work exceeds: **≥ 10% = 0%** 6% to 9% = 3% 2% to 5% = 5% ≤ 1% = 10%

This KPI is about aligning work due to take place with our expected workforce capacity budget. DE&S missed this target which reflects the complex, enterprise level challenges faced across the organisation. DE&S and FLCs have made significant efforts to prioritise work and bring the gap down. However, the scale and interconnected nature of Defence commitments have limited the ability to reduce demand to target.

KPI 5C - ALL LEVEL 4 PROCEDURES AND CONTROL DOCUMENTATION COMPLETED

Measure	Outturn	OGSM Scoring Thresholds
New: All level 4 procedures and control documentation completed by 31 December 2025	**Achieved**	**5% if target date of 31 December 2025 met.** 0% if target date is not achieved.

Level four work procedures are operational level documents that provide specific instructions or steps for carrying out tasks within a broader process. DE&S had a target to write and publish all level 4 work processes within the DE&S Operating Model by 31 December 2025. This KPI was successfully achieved on time.

The importance of level 4 procedures lies in their role in ensuring consistent and effective execution of tasks in line with overarching policies and standards. They help maintain compliance and support risk management.

KPI 6 – PEOPLE

This KPI relates to employee engagement on our annual People Survey, which allows us to react to the views of our people.

KPI 6A - PEOPLE SURVEY ENGAGEMENT SCORE FOR 2025

Measure	Outturn	OGSM Scoring Thresholds
People Survey Engagement score for 2025	**55%**	Overall engagement score is: ≥ 62% = 0% reduction for SLG 60% to 61% = 2.5% reduction for SLG **≤ 59% = 5% reduction for SLG**.

Note: Only the overall DE&S performance score for the SLG will be reduced for this measure by up to 5%.

The annual People Survey conducted for 2025-26, provided an opportunity for our people to highlight what they thought DE&S was doing well and where we needed to improve. In a year of substantial change, the views about working in DE&S have been more important than ever.

All civilian and military personnel employed by DE&S were eligible to take part, and 7,359 colleagues (68%) participated. While this is a reduction of 3% from the previous year, it is well above the average civil service completion rate of 59% and the same score as the NAD Group overall, demonstrating a willingness to share opinions.

Our headline Engagement Index score for 2025 stands at 55%, a drop of two percentage points compared to last year. It misses our target of 62% and reflects a decrease in scores across eight of the nine themes, including leadership, managing change and learning, and development. Although the decrease in scores is disappointing, the results are indicative of the long-term transformation journey that we are undertaking and highlight areas where continued focus and support are needed.

Looking forward, the NAD Group will explore existing and planned initiatives, which already align to these themes, to understand and identify any gaps and areas of focus. The 2025-26 survey marked the final year of the Civil Service and DE&S People Survey in its current form. Next year, the new Civil Service Employee Insight Programme, led by the Cabinet Office, will provide opportunities for shorter, more frequent employee engagement, alongside an annual survey. This will help ensure feedback remains relevant to the actions taken, rather than relying on one annual survey as the sole measurement of engagement.

SUSTAINABILITY

TASK FORCE ON CLIMATE RELATED FINANCIAL DISCLOSURES

In July 2023, HM Treasury introduced requirements for all government departments to report on climate related risks using the Task Force on Climate Related Financial Disclosures (TCFD) framework. This approach helps organisations understand how climate change may affect their operations, risks, and long-term plans. The four key themes which make up the TCFD framework and the actions taken by us to strengthen our approach across these themes are detailed in the table below:

TCFD themes	Action taken
Governance: How climate related risks and opportunities are overseen by senior leaders.	DE&S has created a Strategic Risk on Climate Change Resilience, reviewed regularly by senior leadership.
Risk Management: How organisations identify and manage climate related risks.	All DE&S sites now complete Climate Impacts Risk Assessment Methodology[22] (CIRAM) reviews to understand local climate risks such as flooding, heat, and extreme weather.
Metrics and Targets: The data used to track progress and measure outcomes.	DE&S emissions data and progress against Government Greening Commitments (GGC) are included in this report.
Strategy: How climate change may affect long-term plans, investments, and decisions.	Our strategy and associated annexes commit us to mitigating climate change, adapting to its impacts, and embedding climate considerations in our policies and decisions.

We have continued to take practical steps to reduce emissions and strengthen the resilience of DE&S sites, so they can continue to operate effectively in a changing climate. These include:

- upgrading energy systems and lighting
- addressing vulnerabilities at waterside locations
- incorporating flood mitigation measures in new buildings
- using climate data to guide long-term planning

As an Executive Agency, DE&S publishes its own TCFD disclosure, separate from the wider MOD.

TCFD COMPLIANCE STATEMENT

DE&S prepares its climate related financial disclosures in line with HM Treasury guidance for public sector organisations, meeting the TCFD requirements. These cover governance, risk management, and our climate related metrics and targets, either within this section or elsewhere in this report.

This is the third year we have reported against TCFD, and the first year in which we are mandated to report against all four TCFD themes. This strengthens our transparency and demonstrates our commitment to understanding and managing the impacts of climate change on our operations and estate.

TCFD GOVERNANCE

Within DE&S, the Operations & Infrastructure Environmental Protection Steering Group (OIEP SG) is the primary forum overseeing environmental and climate related matters across our activities and sites. The OIEP SG membership is kept under review to ensure it continues to reflect organisational needs, especially as new NAD Group structures are established.

The OIEP SG operates as a subcommittee of the DE&S Safety, Health and Environmental Committee (SHEC). The SHEC reports quarterly to the DE&S Safety and Security Committee[23], where significant environmental and climate related risks are considered. This governance structure ensures that DE&S environmental and climate risks can be escalated appropriately.

22 CIRAM provides a consistent, MOD aligned framework for identifying climate risks, assessing likelihood and impact, and defining appropriate mitigation measures.
23 A subcommittee of the DE&S Board.

The OIEP SG is responsible for:

- ensuring DE&S complies with all statutory and regulatory environmental protection requirements related to its operations and infrastructure.
- seeking assurance that environmental and climate related risks are effectively managed across the DE&S estate, supported by a robust Environmental Management System.
- monitoring performance against legal obligations, MOD wide and Government targets such as the Greening Government Commitments (GGC).
- directing the development and implementation of strategies, policies, plans, and processes that strengthen environmental management and promote a positive environmental culture across DE&S.

The DE&S Infrastructure Delivery Board (DIDB) oversees the delivery of the DE&S Infrastructure Plan. This ensures that infrastructure solutions are proportionate, effective and support Government sustainability and climate resilience commitments, including through estate rationalisation where appropriate. The structure and processes of the DIDB will be reviewed and aligned with the NAD Group's evolving governance framework and alongside the OIEP SG.

TCFD METRICS

Greenhouse Gas (GHG) emissions relating to DE&S operations and infrastructure (i.e. relating to Operating Expenditure) for the last two financial years are reported below by Greenhouse Gas Protocol Scope. These figures are calculated in alignment with the guidance set out by the MOD Defence Carbon Footprint Methodology and the Greenhouse Gas Protocol Corporate Standard.

DE&S Greenhouse Gas Emissions (tCO_2e)	2024-25	2025-26
Scope 1 - Direct GHG Emissions	23,702	17,945
Scope 2 - Electricity indirect GHG emissions	13,515	10,423
Scope 3 - Other indirect GHG emissions	15,022	12,975
Total	**52,239**	**41,343**

Notes:

1. Figures are given in tonnes of CO_2 equivalent (tCO_2e).
2. Emissions relating to fluorinated gases (F-Gases) are not included, however this does not materially affect the DE&S figures. Overall MOD F-Gas emissions are included in the MOD ARAc.
3. DE&S data has been restated to align with the MOD ARAc reporting approach to enable comparison across reporting years.
4. Some 2024-25 figures from the MOD ARAc have been restated to reflect reconciliations in natural gas usage and adjustment for known metering faults.

TCFD STRATEGY

DE&S has adopted a single integrated organisational strategy supported by annexes for different business areas. While climate considerations are embedded throughout this structure, two annexes are particularly relevant:

- The DE&S Safety and Environmental Strategy Annex includes the need to mitigate and adapt to climate change and commits to embedding climate factors in policy and decision-making. It also confirms that the CIRAM will be used to guide development and maintenance of core DE&S sites
- The Infrastructure Services Annex reinforces these commitments by setting out plans to improve sustainability across the estate. This includes reducing carbon emissions, strengthening energy resilience, and applying CIRAM findings to inform site maintenance and investment decisions.

CLIMATE CHANGE ADAPTATION

Climate change poses increasing risks to the DE&S estate. Our response focuses on both:

- **mitigation** – reducing emissions to limit future risks
- **adaptation** – ensuring our sites remain resilient to current and future climate impacts

DE&S is implementing a range of projects aimed at reducing carbon emissions and improving energy efficiency. A key initiative is the installation of submetering across critical assets. This allows detailed monitoring of energy use and helps identify opportunities for targeted efficiency measures, such as LED lighting upgrades or improvements to energy resilience during power disruptions, including those caused by extreme weather.

Through the Public Sector Decarbonisation Scheme, DE&S secured funding to replace ageing boilers at Donnington and Sealand. These upgrades will improve energy efficiency and reduce reliance on carbon intensive heating systems. Additional funding from the Department for Energy Security and Net Zero enabled a large LED lighting replacement programme at Abbey Wood South. Once complete, three of the four office buildings will have upgraded lighting, with plans to complete the final building as funding becomes available.

Climate adaptation is considered as part of the Site Resilience to Climate Change strategic risk and reviewed at the Executive Forecast Meeting. Key objectives include improving awareness of climate risks, embedding climate considerations into decision-making, and ensuring CIRAM findings are applied in both short and long-term site planning. CIRAM assessments follow MOD guidance Joint Service Publication (JSP) 850[24] (Infrastructure and Estate Policy, Standards and Guidance) and help us understand climate risks at each site. Each assessment produces:

- a site climate report, outlining current and projected climate conditions
- a Climate Resilience Risk Register, identifying site specific risks, their likelihood and impact, and recommended mitigation actions

Sites are already using these outputs to make informed decisions. This includes selecting development locations away from high-risk flood areas and adjusting ditch maintenance schedules in response to changing weather patterns.

DE&S also works closely with Defence colleagues, including the Defence Approach to Sustainable Infrastructure team, to support wider understanding of climate impacts, such as those affecting the storage, organisation and deployment of equipment.

Workshops for Heads of Establishment, one to one engagement with sites, and regular collaboration with climate resilience specialists have strengthened understanding and improved use of climate resilience tools across DE&S.

24 JSP 850 is a live, restricted document designed for MOD personnel, contractors, and industry partners. It is hosted centrally on the UK Government's Knowledge in Defence digital platform. https://www.gov.uk/guidance/knowledge-in-defence-kid

GREENING GOVERNMENT COMMITMENTS

The GGC set out the actions UK Government departments, and their partner organisations will take to reduce their impacts on the environment. GGC were set for the period 2021 to 2025 but have not yet been set for 2025-26, therefore the targets reported against in the table below have been rolled over from 2024-25 to enable continuity of reporting. GGC performance for the wider MOD can be found in the MOD ARAc.

DE&S GREENING GOVERNMENT COMMITMENT PERFORMANCE FOR 2025-26

	2017-18 (baseline)	2024-25	2025-26	Performance against baseline (%)	Performance against 2024-25 GGC target (%)
CO2 Emissions (tonnes CO2e) Estate	58,645	37,218	28,369	-52%	-30%
CO2 Emissions (tonnes CO2e) Direct Estate	31,214	23,703	17,945	-43%	-10%
CO2 Emissions (tonnes CO2e) Domestic Fights	1,135	717	784	-57%	-30%
Total Waste (Thousands of tonnes)	4.00	4.32	1.29	-68%	-15%
%Waste to Landfill	12%	0%	1%	-	Reducing waste to Landfill to 5% of total waste
%Waste to Recycle	60%	86%	60%	-	Increasing recycling to 70% of total waste
Water (m³)	758,685	838,132	963,816	27%	-8%
International Flight travel distance (thousands of km)	70,079	33,613	39,082	-	GGC reporting requirement. No link to any GGC performance metric

Notes:

1. Some GCC-mandated measures are only reported in the MOD ARAc at departmental level, as they cannot be separately reported for DE&S due to data, complexity, and/or resource constraints.
2. All DE&S GGC data is calculated using the assumptions and methods published in the MOD ARAc.
3. Scope 1 and Scope 2 emissions have been restated following improved data accuracy from reconciliations in natural gas and reconciliation and adjustment for known metering faults.
4. GGC Targets for 2025 to 2030 have not yet been published by HM Government. Therefore, for the purpose of this report, targets for 2024-25 have been carried forward for 2025-26.
5. While water consumption has reduced across the DE&S Abbey Wood and Bicester sites since the 2017-18 baseline, these have been offset by increases across other DE&S sites for various reasons. This includes a borehole contamination at DE&S Donnington which necessitated the use of the mains water supply.
6. The scope for waste reporting has changed from a few specified collection points to the new European waste codes for municipal and major mineral, requiring a restatement of waste figure across all previous years.
7. Total waste and % waste to recycle for 2024-25 is uncharacteristic due to construction rubble recycling.

UN SUSTAINABLE DEVELOPMENT GOALS

UN Sustainable Development Goals (SDGs) are aimed at securing an end to poverty and promoting peace and prosperity globally. The UK Government is delivering the SDGs via existing planning and performance frameworks. All relevant SDGs and how we contribute to them across defence can be found in the MOD ARAc.

Lieutenant General Sir Simon Hamilton
DE&S CEO (interim) and Accounting Officer
14 July 2026

SECTION 2

ACCOUNTABILITY REPORT

The purpose of the accountability section is to meet key accountability requirements to Parliament, who are the primary user of the ARAc.

Minister of State (Minister for Defence Readiness and Industry) Luke Pollard MP meets staff during visit to Abbey Wood.

CORPORATE GOVERNANCE REPORT

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

The Mortar Troops fire the 81mm Mortar from Viking BVS 10 APC mortar carriers during a night shoot.

DIRECTORS' REPORT

MANAGEMENT

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

DIRECTORSHIPS AND OTHER OUTSIDE INTERESTS

DE&S operates in accordance with JSP 492 (Defence Ethics, Propriety and Standards), consistent with the Civil Service Management Code. Arrangements are in place to identify, record and manage conflicts of interest, including remunerated outside activities. All staff are required to declare outside interests on appointment, keep them up to date, and confirm annually that their returns are complete (including nil returns). Declarations are captured through an automated process and recorded in a central register, where they are reviewed to assess the risk of perceived, potential, or actual conflict.

A framework of controls supports compliance, including management oversight and defined escalation routes. Proportionate mitigating action is taken where risks are identified. Details of Senior Civil Servants who undertake remunerated outside employment are published online[25], and a list of DE&S Board members outside interests can be found from page 54 onwards.

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 2025-26.

10 September 2025 – F-35B Lightning jet lands back on HMS Prince of Wales after conducting flying operations during Op HIGHMAST.

25 https://www.gov.uk/government/collections/ministry-of-defence-senior-civil-service-secondary-paid-employment.

STATEMENT OF ACCOUNTING OFFICER 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 18 December 2025. 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), to:

- 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 MOD Permanent Secretary, as Principal Accounting Officer, has designated the interim 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 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.

Lieutenant General Sir Simon Hamilton
DE&S CEO (interim) and Accounting Officer
14 July 2026

Regents Park Barracks played host to a demonstration of Project ASGARD, which is focused on transforming and speeding up how land forces make decisions via new software that exploits modern artificial intelligence / machine learning-based digital technologies.

GOVERNANCE STATEMENT

I, Lieutenant General Sir Simon Hamilton, as interim 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. This system has continued to be in place over the course of this year. The assurances I have from my teams enables me to conclude that our risk management practices comply with the Orange Book's[26] five principles and we have also complied with appropriate adaptations of sections of Corporate Governance in Central Government Departments: Code of Good Practice. The system of internal control in DE&S is designed to conform with these principles and is driven by our Framework Document[27] 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. These also provide a firm basis for its transition into the NAD Group.

OUR GOVERNANCE STRUCTURE

The DE&S governance structure includes our Board and its subcommittees, who ensure that DE&S fulfils its responsibilities to stakeholders, and is managed in accordance with our framework, procedures and plans.

Further information about these committees can be found on pages 58 and 59 of this report.

26 The Government's Orange Book lays out the management of risk principles and concepts. https://www.gov.uk/government/publications/orange-book/the-orange-book-management-of-risk-principles-and-concepts
27 Defence Equipment and Support: framework document 2021 - GOV.UK https://www.gov.uk/government/publications/defence-equipment-and-support-framework-document-2021

DE&S BOARD

The DE&S Board provides strategic advice and independent challenge to the interim CEO and DE&S senior leadership. Its size and composition are agreed between the Chair and the interim CEO, following good practice from both the public and private sectors, to ensure an effective balance of skills and experience, with a commitment to improving diversity. Changes to Board composition require approval from the MOD Principal Accounting Officer and the Minister for Defence Readiness and Industry.

The Board receives regular updates from the interim CEO, Director Finance, the Chairs of its subcommittees and subject matter experts. These updates are supplemented by performance, financial, commercial, project delivery and risk reporting drawn from corporate systems. Board papers are prepared and presented by individuals with the appropriate seniority and experience to report authoritatively on each subject. Where decisions are required, papers follow evidence-based decision-making principles to ensure the Board has access to timely, balanced, and reliable information. The Board routinely reviews and discusses the information it receives and commissions additional reporting or further analysis where it deems this to be necessary. On this basis, the Board considers the information available to be appropriate for the scale and complexity of the organisation's activities.

As we work to fully stand up the NAD Group, it is essential that we maintain the existing governance arrangements across DE&S and the other organisations that will form the NAD Group, while also establishing the new NAD Group governance[28]. This will allow business as usual activity to continue effectively during the interim period and ensure that appropriate NAD Group governance is in place by 1 April 2026.

DE&S BOARD MEMBERS AS OF 31 MARCH 2026

Note: Tanya Coff continued as a NED to the Audit and Risk Assurance Committee but is not a member of the DE&S Board.

28 The NAD Group Advisory Board will be stood up after 31 March 2026 under a new chair.

CHANGES SINCE THE LAST REPORT ARE:

August 2025 – Lieutenant General Robert Magowan's (MilCap) membership on the Board was transferred to Air Marshall Tim Jones, Deputy Chief of the Defence Staff (DCDS).
September 2025 – Marc Overton left the Board to take up an appointment as CEO of Roke.
October 2025 – Lieutenant General Sir Simon Hamilton became a member of the Board in line with his appointment as interim DE&S CEO.
October 2025 – Andy Start gave up his membership on the DE&S Board to become Deputy National Armaments Director. The Chair extended an invite to him as a regular attendee.

DE&S BOARD ACTIVITY

The DE&S Board met nine times during 2025-26. Throughout the year, members discussed and were updated on the NAD Group transition, Defence Reform, DE&S Operating Model, DE&S performance, and safety and security.

The table below includes current DE&S Board members as of 31 March 2026. The figures represent the number of meetings attended, with the total number of meetings available to attend shown in brackets.

Name	Number of meetings attended
Mark Russell	9 (9)
Lieutenant General Sir Simon Hamilton*	9 (9)
David Johnson	8 (9)
Tracy Sheedy	8 (9)
Claire Hawkings	9 (9)
Tony Meggs	9 (9)
Air Marshal Tim Jones	2 (6)
Carolyn Battersby	8 (9)
Andy Lord	8 (9)
Nick Folland	6 (9)

*In attendance as Deputy DE&S CEO from March 2025 but changed to interim DE&S CEO as of 1 October 2025.

Image of the 'DragonFire' Laser Directed Energy Weapon (LDEW), seen here undergoing trials at DSTL's (Defence Science and Technology Laboratory) range at Porton Down in Salisbury, UK.

DE&S BOARD DECLARATION OF INTERESTS AS OF 31 MARCH 2026

Name	Name Of Company Or Organisation	Position Held	Type Of Interest	Other Relevant Information
Mark Russell	National Gas	Board Member	Business	-
	Angel Trains	Chair	Business	-
Lieutenant General Sir Simon Hamilton	Fellow of Institute of Mechanical Engineers	Member	Other	-
	Army Boxing	President	Other	-
	Army Nordic and Biathlon	President	Other	-
	Anduril	-	Personal	Son's employer
	Catilii	-	Personal	Son's employer
	Veronis	-	Personal	Son's employer
David Johnson	British Army	Non-Executive member of the Army Audit and Risk Assurance Committee	Other	A British Army service management committee, sponsored by the MOD.
	Cundall	-	Personal	Son's employer.
Tracy Sheedy	Great British Energy Nuclear	Board Non-Executive Director	Other	-
	Orbit Group	Independent Non-Executive Director	Other	-
	Solaris Executive Leadership Academy	Mentor	Other	-
	Tracsis Plc	Non-Executive Director	Other	-
	IN2	-	Personal	Stepdaughter is Head of Corporate Services
Claire Hawkings	First Group Plc	Non-Executive Director	Business	-
	Ibstock Plc	Non-Executive Director	Business	-
	Freelance Consultant (Business Strategy and Sustainability)	Consultant	Business	-
	James Fisher and Son's plc	Non-Executive Director	Business	-
	AWE (Burghfield Site)	-	Personal	Family Member
Tony Meggs	Dreadnought Alliance	Chair	Other	-
	XOCEAN	Chair	Business	-
	Liverpool Bay CCS Ltd	Non-Executive Director	Business	-
Air Marshal Tim Jones	No declarations			
Carolyn Battersby	Network Rail Infrastructure Limited	Non-Executive Director	Business	-
	UK Government Investments	Executive Director	Other	-

Name	Name Of Company Or Organisation	Position Held	Type Of Interest	Other Relevant Information
Andy Lord	Crossrail Limited	Director	Business	-
	Crossrail 2 Limited	Director	Business	-
	Transport Trading Limited	Director	Business	-
	Transport for London	Commissioner	Other	-
Nick Folland	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	-
	Department for Environment, Food and Rural Affairs	Non-Executive Director	Other	-
	British Antarctic Survey Operations and Safety Assurance and Advisory Group	Member	Business	-

BOARD PERFORMANCE

By Mark Russell, DE&S Chair

The DE&S Board ran effectively over the course of the year, continuing our routine of holding a total of nine meetings, of which six were all day events and three were one-hour remote calls. This format continued to support in depth review and discussion of issues of greatest importance, which included programme performance, transition to the NAD Group, and the work to implement and harness the benefits of our Operating Model.

The Board would normally undertake an effectiveness review in the last quarter of each year, as part of ensuring best practice and continual improvement. Noting the transition to new governance arrangements in support of developing the NAD Group, we determined that such a review would not have added meaningful value at this time. I remain satisfied that the Board continued to function effectively throughout the year, drawing on outcomes from previous effectiveness reviews and ensuring that established best practice governance measures remained embedded across DE&S

KEY BUSINESS DISCUSSED AT THE DE&S BOARD DURING 2025-26

Subject	Discussion
Transition to the NAD Group	• Dedicated briefs on leading DE&S through the NAD Group transition were held throughout the year. • Handing over DE&S governance to the NAD Group and lessons learned.
Risk	• DE&S strategic risks were reported throughout the year including cyber resilience and recovery plans. • The Annual Risk Stock-take meeting was held in October 2025 to review their scope and nature.
Corporate documents	• Reviewed and endorsed proposals for the 2025-26 OGSM and KPIs.
Updates from Board subcommittees and Executive Leadership Team	• Reviewed progress on work undertaken by the Board subcommittees. • Updates on the DE&S ARAc timeline and publication. • ELT members provided updates on key DE&S business, including operational, financial and programme performance, OGSM and corporate KPIs, culture and behaviours and preparation for transition to the NAD Group.
Wider MOD updates	• Regularly received military operational updates. • Gained a broader understanding of cross Government and wider MOD issues, with updates on Defence Reform, DIP, and impacts of the SDR.
HR, Equality, Diversity, Inclusion (EDI), and Wellbeing	• Received updates on the Organisational Design and Operating Model work, including the People Management Model. • Received an update on the latest People Survey results.
Other Business	• The Board received safety and security updates at each meeting. • Received ongoing updates on AJAX.

DE&S BOARD SUBCOMMITTEES

The DE&S NEDs attended the following subcommittees[29]. The following table includes current DE&S Board members. The figures show the number of meetings attended with the total number of meetings available to attend shown in brackets.

Name	Audit and Risk Assurance Committee	Remuneration and Nomination Committee	Portfolio Review Committee	Safety and Security Committee
Mark Russell	5 (5)[1]	4 (6)[5]	4 (6)[7]	1 (3)[9]
Lieutenant General Sir Simon Hamilton*	3 (5)[2]	2 (2)[6]	2 (6)	2 (3)
David Johnson	4 (5)[3]	N/A	3 (6)	N/A
Tracy Sheedy	N/A	6 (6)	N/A	3 (3)
Claire Hawkings	4 (5)	N/A	6 (6)	N/A
Tony Meggs	N/A	N/A	6 (6)	3 (3)
Air Marshal Tim Jones**	N/A	N/A	1 (5)[8]	N/A
Carolyn Battersby	5 (5)	6 (6)	6 (6)	N/A
Andy Lord	N/A	N/A	2 (6)	3 (3)
Nick Folland	4 (5)	5 (6)	N/A	N/A
Tanya Coff	5 (5)[4]	N/A	N/A	N/A

* In attendance as Deputy DE&S CEO from April 2025 but changed to interim DE&S CEO as of 1 October 2025.

** started in post in September 2025

Notes:
1. Mark Russell was not a member of the Audit and Risk Assurance Committee but attended five meetings on invitation.
2. Lieutenant General Sir Simon Hamilton was not a member of the Audit and Risk Assurance Committee but attended three meetings on invitation.
3. David Johnson was not a member of the Audit and Risk Assurance Committee but attended four meetings on invitation.
4. Tanya Coff is a member of the Audit and Risk Assurance Committee but not a member of the DE&S Board.
5. Mark Russell was not a member of the Remuneration and Nomination Committee but attended four meetings on invitation.
6. Lieutenant General Sir Simon Hamilton was not a member of the Remuneration and Nomination Committee but attended two meeting on invitation.
7. Mark Russell was not a member of the Portfolio Review Committee but attended four meetings on invitation.
8. Air Marshal Tim Jones was not a member of the Portfolio Review Committee but attended one meeting on invitation.
9. Mark Russell was not a member of the Safety and Security Committee but attended one meeting on invitation.

29 N/A in the table reflects that the person is not a member of that subcommittee.

AUDIT AND RISK ASSURANCE COMMITTEE

Purpose	To support the DE&S Board and 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[30]. The interim CEO, Director Finance, Head of Financial Accounting and representatives from the NAO and the Government Internal Audit Agency (GIAA) 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 and the Annual Assurance Report. Other topics discussed included Government Furnished Equipment, whistleblowing, losses and special payments and business critical modelling.

FRAUD BOARD

Purpose	The DE&S Fraud Board is a subcommittee of the DE&S Audit and Risk Assurance Committee. It was established in 2015 to oversee a risk-based approach using the available MI to protect DE&S' business reputation, assets and finances from fraud, corruption, theft and misappropriation.
Frequency	The DE&S Fraud Board meets at least four times per year. The Chair of the Committee may convene additional meetings when they are deemed necessary. In addition, the DE&S Audit and Risk Assurance Committee Chair may ask the DE&S Fraud Board to convene meetings to discuss issues on which they wish the DE&S Fraud Board's advice.
Membership	Director Finance (Chair), Deputy Director Finance, Director People, Director Commercial, Director Engineering & Safety, Director Logistics Services and Commodities, Director Assurance (MOD), Head of Fraud Defence (MOD), and Director Fixed Wing. Also normally in attendance are the DE&S Fraud Focal Point, DE&S Fraud and Assurance Team 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.

REMUNERATION AND NOMINATION COMMITTEE

Purpose	Advises the DE&S Chair, interim CEO and the Board of the development and application of the DE&S reward strategy across the whole organisation; the balance of skills and diversity on the Board; succession planning for independent NEDs and succession planning and appointments to senior leadership roles in the Executive.
Frequency	Four times per year. The Chair of the Committee may convene additional meetings as they deem necessary.
Membership	At least three NED members, one of whom is Chair. One will also be a MOD Corporate Sponsor NED. Additional personnel may attend as required, and as agreed by the Chair, if there are no conflicts of interest.
Summary of discussions	Annual discussions around key OGSM and KPI outcomes and impacts of organisational changes arising from the transition into the NAD Group. This included updates to leadership responsibilities and DE&S performance objectives following the CEO's move into the NAD Group Leadership. Discussions also addressed affordability pressures, the distribution of performance outcomes, and the wider people and organisational impacts of the transition, which were reported to the Board throughout the year.

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

PORTFOLIO REVIEW COMMITTEE

Purpose	Reviews the status, progress and management of critical activity relating to DE&S' effective delivery of the Equipment Plan. It focuses on areas that contribute to delivery performance and monitors initiatives designed to improve delivery. It monitors and reviews the Government Major Projects Portfolio[31] and provides direction and guidance on how to conduct further assurance reviews where concerns arise. The Portfolio Review Committee also provides early strategic advice to new programmes and advises on delivery improvement activities.
Frequency	Six times per year with additional meetings as required.
Membership	Four DE&S NEDs, one of whom will Chair, the interim CEO and Director Finance. Although not formally part of the membership, the DE&S Chair and the MOD DCDS Board member, plus DE&S DGs Options and Commissioning, System Integration, and Corporate, also have a standing invitation to attend.
Summary of discussions	Discussions focused on NED-led reviews of key Defence programmes, specifically around reasons projects fail. These cover improvements needed, for example, across project schedule and controls. Each meeting also focused on a specific theme related to improvement initiatives ongoing in DE&S and assessed whether these addressed the problem they were trying to solve. More recently, a standing agenda item has been included which seeks to ensure coherence between DE&S and the MOD's Directorate of Acquisition and Project Delivery.

SAFETY AND SECURITY COMMITTEE

Purpose	The Safety and Security Committee considers appropriate advice, and provide oversight and challenge to the interim CEO's authority for safety and environmental protection, and security within DE&S.
Frequency	Three times per year with additional meetings as required. The DE&S Safety NED and Director Engineering & Safety will additionally meet three times per year in an abridged, complementary version of this Committee.
Membership	Four DE&S NEDs, one of whom will Chair, interim DE&S CEO, DE&S Safety Executive and DE&S Chief Security Officer.
Summary of discussions	The committee considered all aspects of safety, safety-security, physical security and environmental protection, including DE&S provided equipment safety, personal safety and the safety performance of DE&S sites and installations. The committee will also consider any outlying safety performance of DE&S prime contractors. Its scope does not include wider security or environmental climate issues, which are the responsibility of other fora.

31 The Government's Major Projects Portfolio is overseen by the National Infrastructure and Service Transformation Authority and include the government's most complex and strategically important projects.

OUR MANAGEMENT CONSTRUCT

Our organisation is governed using an inverted management construct approach[32] that supports effective delivery, clear accountability, and timely decision making. Under this model, the Executive Leadership Team provides strategic direction, assurance, and oversight, while enabling delivery teams by removing obstacles and supporting informed decision-making.

Authority for decision-making is appropriately delegated and exercised at the lowest practicable level, in line with defined delegations and accountability frameworks. Decisions are taken by those with the relevant expertise, informed by robust evidence and an understanding of risk, while remaining aligned with organisational priorities and statutory obligations.

This approach delivers the following benefits:

- decision-making is made by the right people at the right level using the right information irrespective of hierarchy.
- quicker decision-making, which ensures timely responses to challenges and opportunities.
- encourages engagement and collaboration right across the business in the decision-making process.
- flexibility in governance structures, enabling quick adjustments to changing circumstances.

All these benefits support our ambition to achieve Operational Excellence and our servant leadership[33] approach, which has created the right environment for our people to succeed and deliver, fully supported by their leadership team.

EXECUTIVE FORECAST MEETING

The Executive Forecast Meeting is our primary executive governance forum that works closely with the DE&S Board. This meeting, which is made up of the ELT, also provides the interface between DE&S and our key stakeholders, supporting our teams in unblocking critical cross-cutting issues, especially those that involve other parts of Defence.

32 See page 62 which includes a graphic of how we operated using the inverted approach.
33 Servant leadership is not 'servile' but an active leadership style and philosophy that approaches from the perspective of teams not being in service of structures and hierarchies

CHANGES SINCE THE LAST REPORT ARE:

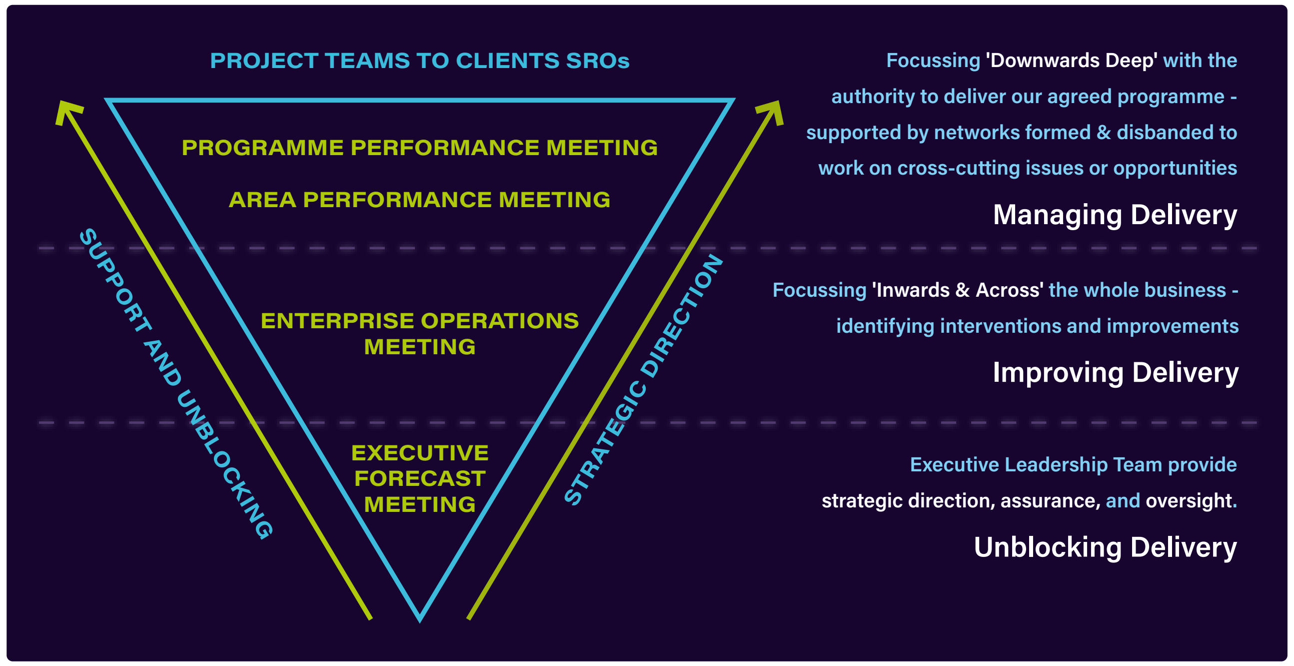
- April 2025 – **Dr Nina Cope** became DG Corporate.
- April 2025 – **Andy Start** became Interim National Armaments Director and was no longer fulfilling his role as DE&S CEO.
- April 2025 – **Lieutenant General Sir Simon Hamilton** became Deputy CEO and then interim DE&S CEO in October 2025 but remained in his substantive position as DG Systems Integration.
- April 2025 –**Vice Admiral (Retd) Paul Marshall** became DG Options and Commissioning, during November and December 2025, Rear Admiral Phil Game covered his role.
- September 2025 – **Lieutenant General Anna-Lee Reilly** became DG Core.
- September 2025 - **Dr Simon Dakin**, interim DG Core Delivery, retired and left DE&S.

KEY BUSINESS DISCUSSED AT THE EXECUTIVE COMMITTEE OR EXECUTIVE FORECAST MEETING DURING 2025-26:

Subject	Discussion
Strategy	• Transition to the NAD Group • Strategic risks • DIP
Safety and Security	• Safety performance dashboards • Cyber security risk • Potential flaws in safety cases risk • Site safety
People	• Business and workforce planning • People Management Model • Wellbeing • Meeting future Suitably Qualified and Experienced Personnel (SQEP) needs risk • Progress on Safety Case Maturity Tool
Performance	• Progress against KPIs, CASPs and financial forecasts • Annual strategic risks stocktake and a rolling programme to assess selected strategic risk mitigation activities • Management of the FY 2025-26 DE&S operating expenditure

KEY GOVERNANCE FORUMS

The diagram below demonstrates our new inverted governance approach and provides details of the key forums across DE&S led at DG level or above.



- **Programme Performance Meetings** take place monthly with a focus on equipment and support programme delivery across the portfolio, managing the programme and project specific KPIs and risk profile.
- **Area Performance Meetings** take place quarterly for each of our four business areas[34]. These meetings provide an opportunity to stocktake where they are against their objectives e.g. achieving a target or realising a benefit. Cross boundary issues can be addressed in this forum, with cross-enterprise issues being escalated to the Enterprise Operations Meetings as required.
- **Enterprise Operations Meetings** take place monthly and bring together the four business areas of our organisation. Focused on "inwards and across" DE&S, it helps to optimise the end-to-end delivery of value and integration across the whole business and has two principal roles. The first being to enable successful delivery of the day-to-day business and secondly, to commission work to a multi-disciplinary team when issues and opportunities arise.
- **Executive Forecast Meetings** take place bi-monthly and provide the opportunity for the ELT to analyse performance insights and trends but importantly understand and action what impediments need unblocking that are not within DE&S' control to fix. It also assures on strategic risk mitigation and actions and potential impacts of external disruptors.

Several other meetings also take place to support this new DE&S governance structure which includes Strategy Reviews[35]. These take place quarterly and act as waypoints where DE&S can assure itself that its strategic choices remain relevant to any current context as well as review progress toward implementation.

In addition, the interim CEO holds regular one-to-one meetings with his ELT and regularly meets with the DE&S SLG, which consists of the highest grades in our structure and includes civil servants and military equivalents.

SLG Forums also provide opportunities for senior leaders to collectively engage and contribute towards the successful management of DE&S. They allow them to play an active role in pan-DE&S leadership through open discussion and ongoing dialogue at a senior level, to address challenges and equip them to lead DE&S, promoting a culture underpinned by trust.

34 Gateway, Core, System Integration and Corporate.
35 DE&S Strategy reviews were discontinued mid-way through the year and replaced by NAD Group level reviews as part of transitional arrangements.

STRATEGIC RISKS

A Risk and Assurance Framework continues to be used within DE&S to provide a structured, system wide approach to identify risks, manage them, and provide the confidence ("assurance") that Defence activities are being carried out safely, legally, effectively, and in line with policy.

DE&S takes a proactive approach to risk management, supporting delivery to time and cost, strengthening accountability, and maintaining focus on the issues most critical to Defence outcomes.

Strategic risks with potential impacts on cost, capability, safety, environment, or reputation are routinely reviewed through established governance forums, including the Board, Executive Forecast Meeting, Enterprise Operations Meeting and the Audit, Risk and Assurance Committee. Mid-year and annual Board reviews provide a consolidated view of the strategic risk landscape, reinforcing oversight, challenge and informed decision-making.

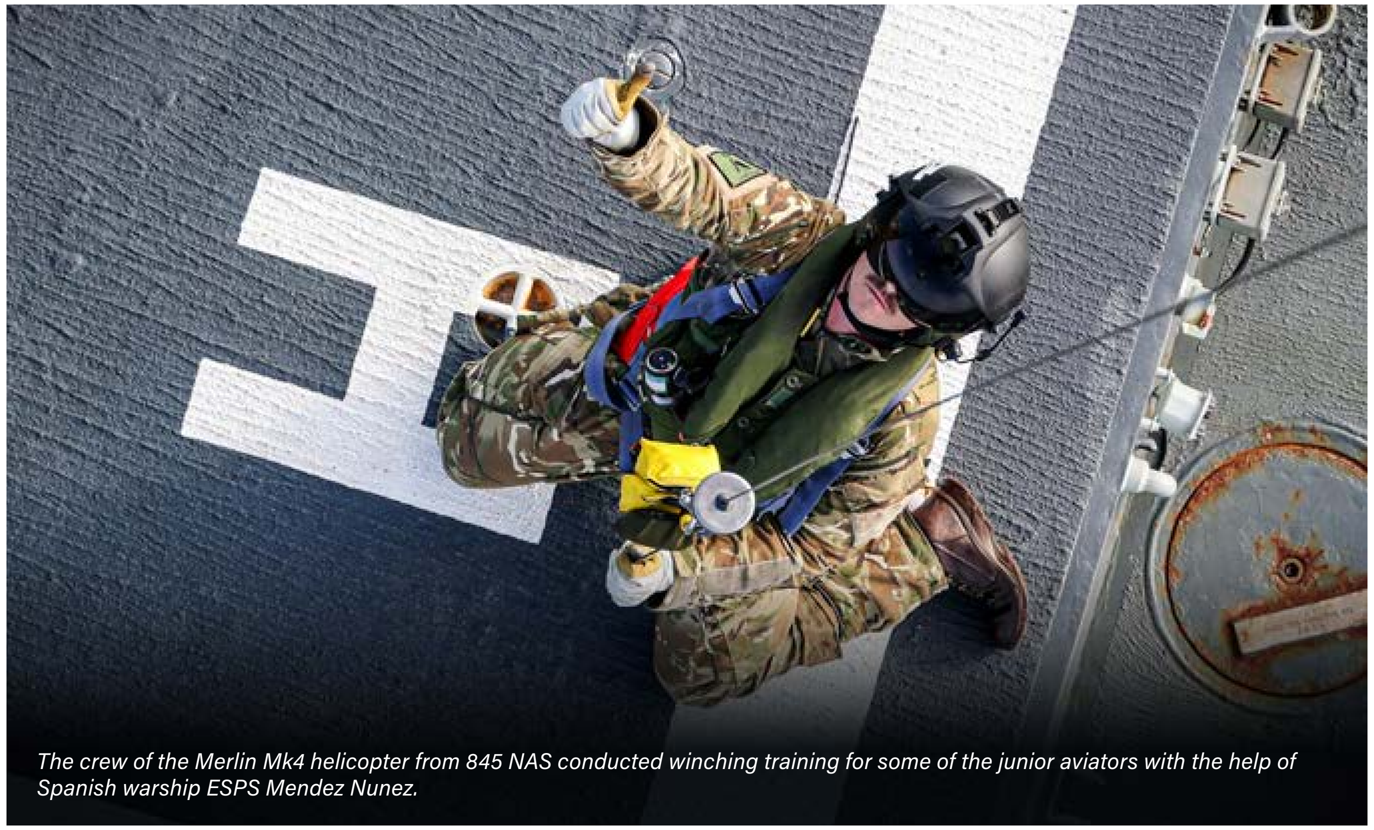
NED sponsors provide independent challenge and external scrutiny, helping ensure that risk responses are proportionate, evidence-based and focused on reducing likelihood and impact where reasonably practicable.

There is increasing emphasis on understanding control effectiveness and targeting assurance activity on areas of greatest strategic significance.

The DE&S Operating Model has strengthened risk ownership and accountability, bringing risk and assurance together within the Policy and Oversight function and enabling more consistent application of the Three Lines of Defence[36]. Risk, assurance and performance information are increasingly integrated, improving the quality of information presented to governance forums and strengthening the link between delivery risks, organisational priorities, and leadership decisions.

Risk professionals across the Project Delivery profession continue to embed consistent and positive risk behaviours, supporting teams to integrate risk thinking into everyday delivery and decision-making.

DE&S remains closely engaged with HM Treasury, the Head of the Government Risk profession and the MOD Chief Risk Officer, ensuring alignment with cross government standards, benefiting from independent insight during the annual strategic risk stocktake and supporting the sharing of best practice across Defence.



The crew of the Merlin Mk4 helicopter from 845 NAS conducted winching training for some of the junior aviators with the help of Spanish warship ESPS Mendez Nunez.

36 This is a risk governance framework that splits responsibility for operational risk management across three functions. Individuals in the first line own and manage risk directly. The second line oversees the first line, setting policies, processes, and ensuring they are met. The third line, consisting of internal audit, provides independent assurance of the first two lines.

DE&S STRATEGIC RISKS FOR 2025-26

As part of our transition to the NAD Group, the DE&S Board agreed to retire the Reputation risk at the Annual Risk[37] Stocktake in October 2025. Details and mitigation measures against all other strategic risks are summarised below:

PRINCIPLE STRATEGIC RISKS AND THEIR MITIGATIONS DURING 2025-26

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 Safety Case.	• Governance and assurance of equipment safety cases for the top 100 projects continued to be strengthened using the Safety Case Maturity Tool. Through a structured series of questions, it assists to identify strengths and weaknesses of safety cases, prompting action where required. • Revised safety delegations are now in place, with an ongoing focus on consistent application, robust oversight, and assurance across the organisation. • A unified Safety and Environmental Management System was released in August 2025 to provide a single system for all regulated environments in DE&S. Unified policy documentation is progressing, supported by updated guidance to improve alignment and consistency in safety management practices. • DE&S continued to prioritise proportionate and effective delivery of safety critical work, ensuring resources are focused on the highest value risk reduction activity.
Meeting future SQEP needs	An inability to define, meet and sustain DE&S' people requirements causing insufficient levels of SQEP, leading to a failure to deliver the DE&S mission.	• Strengthened ability to meet future SQEP needs through full transition to our Operating Model, with over 7,000 colleagues aligned to clearer profession and capability structures. • Fully embedded our People Management Model during 2025, with around 350 People Coaches and 19 Coach Supervisors supporting performance management, capability development, and workforce deployment. • Strategic Workforce Planning has matured, with HR and Trade Union engagement and early workforce analysis underway within the NAD Group. • Profession led improvements to Success Profiles[38] , Skill Groups[39] and capability management information provide clearer insight into skills gaps and inform targeted interventions. • Graduate and apprentice recruitment for 2025 continued to focus on the emerging capability that is required in the future, such as in the digital and AI space. • Capability Based Pay (CBP) continued to expand, resulting in around 50% of the organisation participating in CBP pilots to support consistent capability development.
Continuity of supply	Supply chain interruption, capability loss, increased costs, delay to equipment delivery and damage to the DE&S reputation.	• Implementation of the Defence Supply Chain Capability Programme (DSCCP) has continued across DE&S, strengthening supply chain resilience and readiness through improvements in risk management, supply chain design, industry collaboration, and market understanding. • DSCCP is a three-year change programme, with Phase 1 completed in 2024-25. This is delivering early capability including supply chain scenario planning, a supply chain disruption incident management process, supply chain architecture pilots, and improved coherence of market intelligence across MOD. • Supply chain resilience requirements within defence contracts are improving the quality and volume of data shared by industry, enabling more effective supply chain mapping. Third party data is supporting enhanced insight into supplier health and fragility through the Supply Chain Resilience Intelligent Performance Tool, which continues to mature and expand its user base. • DE&S continued to work closely with the Supply Chain Directorate, programme teams and Supplier Relationship Management activity to identify, assess and mitigate risks arising from supplier fragility, international disruption and emerging threats to the defence supply chain. • Executive level relationship leads were appointed for 16 strategic suppliers. This is alongside the 15 strategic partners managed through established MOD and Cabinet Office arrangements, with regular strategic engagement underpinned by balanced scorecards, relationship strategies and improvement initiatives.
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.	• DE&S was successfully recertified against ISO 27001[40], demonstrating robust information security management despite ongoing organisational change and an expanded certification scope. • Our Warning, Advice and Reporting Point capability continued to strengthen interoperability with industry, enhancing collective ability to detect, share, and respond to cyber threats and incidents across the supply chain. • Vulnerability and obsolescence management processes continued to mature, underpinned by strong governance and guided by Secure by Design principles to ensure risks are actively identified and addressed. • Cyber awareness and training remained a priority, with staff receiving policy-based guidance and security professionals undertaking specialist upskilling. The MOD Cyber Confident scheme continued to support DE&S initiatives such as Cyber Awareness Month. In addition, there were regular DE&S Threat Brief updates, lunch & learn sessions and immersive lab exercises to further enhance cyber awareness and ongoing capability development.

37 The reputation risk has transferred to the NAD Group as part of our transitional arrangements.
38 Success Profiles are a framework used in recruitment and workforce planning to define the key attributes required for a role. They typically include a combination of behaviours, strengths, technical skills, experience, and qualifications that are essential for success in a specific position. This approach ensures a holistic assessment of candidates and aligns recruitment with organisational goals
39 A skills group is a collection of roles or job functions within an organisation that require similar skills, expertise, or competencies. These groups are often used to organise employees, plan workforce development, and ensure the right skills are available to meet organisational needs.
40 ISO 27001 is an internationally recognised standard for managing information security. It provides a framework for organisations to establish, implement, maintain, and continually improve an Information Security Management System (ISMS) to protect sensitive data and mitigate security risks.

Strategic Risk	Potential impact	Progress
Protective security	Loss of confidentiality, integrity, and/or availability of critical or sensitive assets or dependencies, leads to reduced resilience, reduced safety, ineffective mission capability, loss of business services, financial impact and reputational damage.	• The Industry Personnel Security Assurance and Facility Security Clearance programmes continued to provide strong assurance across the supply chain, confirming that Industry Partners meet required infrastructure and personnel security standards and reducing the likelihood of security breaches. • Policing and guarding capability has been enhanced across the DE&S estate, delivering a more robust Quick Response Force and improving the protection of critical assets. • Security improvements are being delivered across multiple establishments, with enhanced threat detection measures complementing strengthened policing and guarding capability. • Security culture was supported by targeted education, refreshed training aligned to current threat methodologies, and regular communications that reinforce awareness and vigilance.
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.	• DE&S continued to strengthen its approach to IRM through clearer ownership, enhanced governance, and sustained focus on compliance and behaviours. • Digital records management continued to mature, including preparation for adoption of the MOD's new electronic records management solution, improvements to legacy digital holdings, and delivery of a pilot digital records review exercise. • Progress was made in paper records management, with additional records reviewed and destroyed to date through the Paper Records Management Improvement Programme. • A comprehensive programme of assurance, education and cultural activity continued to embed consistent IRM practices across DE&S, supported by a risk-based Second Line of Defence assurance approach. • A full review of IRM processes against DE&S business processes has been completed, embedding key controls and assurance activities and supporting transition to a more secure, mature, and efficient information environment.
Knowledge Management (KM)	Poor Knowledge Management 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.	• DE&S continued to strengthen knowledge management through clearer governance, defined responsibilities, and improved organisational processes. • Cultural engagement, education, and assurance activity is embedding consistent knowledge management behaviours, including learning from experience, and supporting compliance with legislation and policy. The first dedicated Knowledge Management maturity assessment was completed this year, identifying further improvement opportunities and informing a targeted improvement plan. • A DE&S wide education campaign in November 2025 delivered consistent messaging on the role of knowledge and learning in successful operational delivery. • Collectively, these actions advanced DE&S towards a mature learning organisation, one that recognised and exploited as a critical organisational asset.

Strategic Risk	Potential impact	Progress
Occupational Health, Safety & Environment (OHSE)	There is a risk that DE&S fails to meet its legal duty of care responsibilities across its sites and operations, due to shortfalls in organisational competence, culture, funding, governance, and assurance.	• DE&S completed an Organisational Safety Assessment (OSA) to ensure safety and environmental standards remained robust throughout organisational change, with the OSA process now initiated to support the NAD Group re-organisation. • Bespoke training was delivered to People Coaches, reinforcing employer and employee duty of care responsibilities and strengthening local safety leadership. • A Three Lines of Defence assurance model[41] is now in place, aligning OHSE audit and assurance to corporate oversight requirements and focusing activity on the highest priority risk areas. • DE&S successfully achieved re-certification in-year to ISO 45001 (Occupational Health & Safety) and ISO 14001 (Environmental Management), demonstrating continued compliance with recognised international standards. • The organisation adopted the Defence unified reporting and lessons system (MySafety) in July 2025, strengthening incident reporting, investigation, and organisational learning. • Work continued on a unified Safety and Environmental Management System, improving consistency and providing a strong foundation for future NAD Group Health, Safety, and Environment policy.
DE&S site resilience to climate change	There is a risk of operations being impacted by extreme weather events, such as flooding, drought, and storms if climate impacts are not identified and mitigated.	• Climate resilience was strengthened across DE&S through the Climate Impacts Risk Assessment Methodology[42] (CIRAM), with all 12 core sites engaged and completion well advanced. • CIRAM outputs are directly informing site development and maintenance decisions, including flood risk mitigation and infrastructure planning at Defence Munitions sites. Targeted workshops and stakeholder engagement are increasing awareness and supporting more effective use of climate information in site level decision-making. • Climate adaptation considerations are increasingly embedded within wider site resilience activity, including energy systems, security planning, business continuity arrangements, and supply chain resilience.

41 The Three Lines of Defence model, as published in the Orange Book, provides a risk management model for central government organisations. It emphasises ongoing risk management as a circular process, including risk identification, assessment, response, and reporting.

42 CIRAM provides a consistent, MOD aligned framework for identifying climate risks, assessing likelihood and impact, and defining appropriate mitigation measures.

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. We have also introduced the concept of servant leadership, which empowers people to deliver effectively through constructive challenge coupled with high levels of support.

As part of the DE&S People Management Model, objectives are agreed between individuals, their Task Managers and their People Coach, 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. Under our Management Operating System (MOS) all processes and procedures must now have controls clearly embedded within them, 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 leaders, who 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 2025-26 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. More information about Cabinet Office controls can be found here[43].

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.

GOVERNANCE AND COUNTER FRAUD ACTIVITY

We continued to embed our counter fraud activities under the oversight of the DE&S Fraud Board. Our risk-based approach and the measures to combat fraud were outlined in the DE&S Fraud Risk Management Strategy and Response Plan. We also sustained our automated processes for key controls, including travel and subsistence expenses claims, and declarations of interest to support compliance, streamline completion, and reduce bureaucracy. We published a range of intranet articles to reinforce ethical standards and raise fraud awareness and promoted the MOD Confidential Hotline and the DE&S Whistleblowing and Raising a Concern Policy, through which individuals can report concerns anonymously about possible criminal activity, fraud, or a breach of the Civil Service Code.

ASSURED DELIVERY AND SUPPORT

DE&S is committed to delivering safe, effective equipment and support services to our armed forces, meeting agreed performance, cost and time standards. Assurance of our delivery and support activities is central to achieving this, and its importance continues to grow as DE&S strives for operational excellence.

A key enabler of reliable delivery is the continued development of our MOS. This provides a unified framework bringing together business processes, embedded controls and supporting information to ensure consistent, controlled delivery across the organisation.

43 https://www.gov.uk/government/collections/cabinet-office-controls

During 2025–26, DE&S further embedded the MOS into routine activity. This has strengthened foundations for consistent delivery, provided clearer accountability and more effective risk management. To support this, DE&S established a Policy and Oversight team responsible for:

- ensuring that processes and controls align with rules and regulations while supporting outputs and operational excellence.
- ensuring that policy, process and control changes are consistent, connected and understood across the organisation.
- maintaining a framework that underpins the wider MOS and supports continuous improvement.
- providing a blueprint of the organisation through enterprise architecture and identifying how technology can enhance delivery and improvement.

DE&S strengthened assurance activity through adoption of the Three Lines of Defence model[44], improving clarity of assurance roles and integration of activity across the organisation. This model supports better integration and mutual reinforcement of assurance activities.

The Risk and Assurance Framework continued to mature, improving oversight of embedded operational controls. It has supported senior leaders and governance forums in understanding risk management and identifying where additional assurance is needed. Supporting tools, including the Integrated Management System, have enabled activity to be delivered through value streams with clearer processes, defined control ownership and improved understanding of process related risks.

As part of our efforts to continually improve our assurance of support and delivery, we have placed more responsibility on defence industry to provide increased and unified assurance by 'Moving the Boundary[45]. A guiding principle to increase industry privileging for engineering activities unless there is a justifiable reason for it to remain within DE&S.

SAFETY AND ENVIRONMENTAL

In accordance with DE&S CEO's Letter of Authority from MOD Permanent Secretary, DE&S operates in compliance with applicable health, safety and environmental protection legislation, regulations and MOD policy.

Safety and environmental performance were assessed using a 12-element framework set out in JSP 815[46] (Defence Safety Management System) and JSP 816[47] (Defence Environmental Management System).

For 2025-26, the overall assessment of the DE&S Safety Management System was **moderate assurance**[48], representing an improvement compared with the previous year. This reflects the continued implementation of a structured programme of activity to strengthen safety management arrangements across the organisation.

The overall assessment of the DE&S Environmental Management System has also improved to **moderate assurance**. Performance was stronger in site acquisition management, while acquisition environmental management remained assessed at **limited assurance**[49]. Not withstanding this variation, both areas demonstrated steady and consistent improvement.

While the overall assessment showed progress, weaknesses remained in certain elements. Shortfalls in SQEP, arising from growth in the Equipment Programme and increased operational support requirements, continued to affect performance under Element 6 (Personnel, Competence, Resources and Tasking). In addition, long standing funding constraints and backlogs in contracted activity continued to limit performance under Element 8 (Infrastructure Design, Build and Maintenance).

44 The Three Lines of Defence model, as published in the Orange Book, provides a risk management model for central government organisations. It emphasises ongoing risk management as a circular process, including risk identification, assessment, response, and reporting. https://www.gov.uk/government/publications/orange-book/the-orange-book-management-of-risk-principles-and-concepts
45 The Defence Quality Assurance Field Force is leading on developing industry approvals to enable Moving the Boundary.
46 https://www.gov.uk/government/collections/defence-safety-management-system-jsp-815
47 https://www.gov.uk/government/publications/defence-environmental-management-system-framework-jsp-816
48 Evidence demonstrating prescribed policies, processes and key controls are fully embedded and operating, but could be improved, or minor areas of noncompliance have been identified.
49 Not enough evidence or confidence prescribed policies, processes and key controls are embedded and operating as intended, are not designed to help manage key risks or are not operating in many instances.

COMMERCIAL CONTROLS, PROCESSES AND ASSURANCE MECHANISMS

The Commercial Profession provides independent professional judgement across commercial and procurement activity, ensuring compliance with relevant legislation, policy and guidance. Commercial Officers hold licences issued by the Commercial Function Director confirming they meet the minimum professional standards set by DG Commercial and Industry.

A commercial licence is required before an individual can receive a commercial delegation. This delegation gives authority to enter defence procurement or sales contractual commitments, as set out through the commercial management chain. Commercial Officers are expected to work in line with all relevant policies and guidance, and we have robust processes in place to ensure compliance with key requirements. These processes support early escalation of issues, enable feedback and correction where needed, ensure that appropriate consequences are applied when standards are not met.

DE&S policies, processes and controls align with the pan Defence commercial policy framework hosted on the Knowledge in Defence Commercial Toolkit. Assurance of compliance with critical commercial processes is structured around the Three Lines of Defence, as defined in the Government's Orange Book[50].

- First Line of Defence: management controls overseeing execution and monitoring day-to-day adherence.
- Second Line of Defence: functions monitoring compliance, effectiveness and emerging risks, enabling timely senior leader insight.
- Third Line of Defence: internal audit, providing independent assessment of governance, risk management and internal control.

Assurance evidence is drawn from several mechanisms, including:

- The Commercial Assurance and Risk Programme, which delivers internal assurance across First and Second Line activities.
- The Internal Control & Assurance Framework and the Commercial Continuous Improvement Assessment Framework (CCIAF). The 2025 CCIAF confirmed continued year on year improvement for DE&S, placing it above the cohort average with a better maturity rating.

GIAA audits during 2025–26, generated Agreed Management Actions aimed at further strengthening commercial practice, including on the MOD Supply Chain and Defence Condition 658 ('Cyber').

INFORMATION AND RECORDS MANAGEMENT

DE&S made progress during 2025-26 in strengthening our internal governance and processes for information and records management and how information and records are managed and protected across the organisation. This work is central to our responsibility to handle information securely, use it effectively, and share it appropriately, in line with Government standards and MOD policies and procedures[51].

A comprehensive review of procedures also helped embed clearer responsibilities and stronger controls across the organisation. This work, supported by ongoing audit and assurance activity, has promoted good practice and further improved the quality and consistency of information handling.

As DE&S transitions into the NAD Group, we are building on the momentum achieved this year to further enhance how we manage information, records, and organisational knowledge. This continued focus ensures we remain a trusted and responsible steward of public information, supporting our mission to equip and sustain the UK's armed forces.

Further information on how DE&S is strengthening information and records management can be found on page 66 (Principal strategic risks for 2025–26).

QUALITY ASSURANCE OF ANALYTICAL MODELS

DE&S has continued to embed an appropriate Quality Assurance (QA) framework for modelling across the organisation. To provide assurance of its effectiveness,

50 The Government's Orange Book lays out the management of risk principles and concepts. https://www.gov.uk/government/publications/orange-book/the-orange-book-management-of-risk-principles-and-concepts

51 Examples are Government Functional Standard for Security (GovS 007), International Organisation for Standardisation (ISO) 27001 for Information Security Management Systems and MOD JSPs 440 (Security), 441 (Defence Records Management) and 604 (Interaction with Information and Communications Technology systems).

a QA review was conducted of the Business-Critical Models (BCMs) identified for 2025–26, which had a combined value of £38.7 billion. Of the 35 BCMs reviewed, 33 had either completed appropriate QA or had suitable QA activity planned. The review also identified six other minor instances of modelling and assurance related weaknesses.

While some isolated weaknesses were identified, recommendations have been made to address the underlying causes and to strengthen compliance with established assurance processes. Notwithstanding these deviations, the review has provided Satisfactory Assurance that QA arrangements for DE&S models meet the requirements set out in the Aqua Book[52].

ANNUAL ASSESSMENT OF GOVERNANCE

The DE&S Audit and Risk Assurance Committee has continued to provide oversight, advice and support to our governance and control frameworks, our approach to risk management and the effectiveness of our internal controls. The DE&S Fraud Board, reporting directly to the Audit and Risk Assurance Committee, also maintains a strong focus on counter fraud activities and the management of fraud risks, safeguarding DE&S' reputation, assets, and finances from fraud, corruption, theft, and misappropriation.

During the year, the GIAA conducted a comprehensive and independent assessment of our governance and internal controls, guided by a jointly agreed strategic, risk-aligned audit plan. This resulted in an overall audit opinion of moderate[53], reflecting broadly positive outcomes. As part of the audit plan, a review of our OGSM performance framework confirmed that adequate processes are in place for obtaining, evaluating, assuring, and approving management information against the framework's performance measures. Progress against Agreed Management Actions[54], arising from audits, have been routinely monitored and discussed at the DE&S Audit and Risk Assurance Committee, with most actions closed within the agreed timeframes.

DE&S continues to take a proactive approach in the management of our nine strategic risks, where we use a robust assurance-based governance and control framework to manage and review the effectiveness of our response plans and controls. This provides 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.

Our risk and assurance framework continues to mature, championed by the Policy and Oversight Team, which continues to drive a more integrated and consistent approach to managing risk and assurance across DE&S.

Earlier this year, Defence Risk Assurance announced its intention to raise the MOD's overall assurance rating from limited to moderate assurance. To support this shift, the wider Annual Assurance Report process[55] has been suspended for this year while a more objective, controls-based approach is introduced from the 2026–27 financial year. This development will be taken forward by the recently formed NAD Group.

DE&S apprentices take part in the 2024 Tom Nevard Memorial Competition.

52 HM Treasury guidance on quality assurance and quality control of analytical models used across the UK public sector.

53 Evidence demonstrating prescribed policies, processes and key controls are fully embedded and operating, but could be improved, or minor areas of non-compliance have been identified.

54 Agreed Management Actions are specific, time bound steps formally accepted by management to address risks or weaknesses identified in audits.

55 In previous years, an AAR has been compiled which provided an assessment of how well our assurance arrangements were working across the organisation.

"I am confident that during 2025-26, DE&S continued to operate within an effective and robust governance framework."

Members of 1700 Naval Air Squadron Squadron guiding in a 845 Squadron Merlin Mk4 on the flightdeck of RFA Mounts Bay during night flying operations.

CHAIR'S ASSESSMENT

MARK RUSSELL

I am confident that during 2025-26, DE&S continued to operate within an effective and robust governance framework. This is supported by the GIAA audit opinion of moderate. This level of assurance is consistent with our overall position in previous years.

The rating is an honest and balanced evaluation of DE&S' governance, risk management, and internal control arrangements. Although challenges were identified in some areas during the year, these were appropriately recognised and managed, and the control framework continued to evolve in response to a changing operating environment.

The GIAA continued to provide valuable support and challenge during the year. Their audit opinion was informed by an agreed audit plan aligned to DE&S strategic risks. This plan was routinely discussed at the DE&S Audit Risk and Assurance Committee, maintaining a strong focus on the effective management of audit actions.

During the year, the DE&S Board provided effective leadership, challenge, and oversight until governance arrangements fully transitioned to the NAD Group on 1 April 2026. Throughout this transition, the Board regularly discussed key organisational issues, including Defence Reform, the SDR, and the DIS, to ensure that DE&S was well positioned for its future role within the NAD Group. The Board also reviewed strategic risks to ensure they reflected the wider strategic defence context and that appropriate mitigations were in place.

Overall, I remain satisfied that DE&S had an effective and adaptive corporate governance framework in place throughout the year. This enabled the organisation to deliver its objectives and meet agreed standards under its delegated responsibilities, even amid significant organisational change and the transition into the NAD Group.

DE&S Staff at DE&S Headquarters Abbey Wood.

REMUNERATION AND STAFF REPORT

The remuneration and staff report sets out the entity's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors and where relevant the link between performance and remuneration.

REMUNERATION POLICY

The following remuneration policy refers to the employment of DE&S Directors who are members of the DE&S Board and/or ELT[56]. Remuneration details for the MOD procurement and MOD representatives on other DE&S meetings are not included as they are not paid by DE&S. Information on their remuneration can be found within the MOD ARAc. During 2025-26, five members[57] of the ELT were members of the Senior Civil Service (SCS). In addition, three[58] were senior officers of the armed forces.

As set out in the DE&S Framework Document, we have been granted the freedom to manage our workforce as necessary to meet our business needs, within the operating cost envelope agreed with the MOD. This includes setting the terms and conditions of service for all DE&S staff under the interim 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 MOD.

Remuneration of civilian senior executives takes account of advice from the DE&S Remuneration and Nomination Committee, whereas military senior executives are bound by the remuneration policy for senior officers of the armed forces, as reported separately in the MOD ARAc. Appointments at SCS Pay Band level 3 are agreed 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 DE&S Remuneration and Nomination 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 of 31 March 2026, there were seven staff in this category.

The Chair of the Remuneration and Nomination Committee has confirmed they are content that DE&S pay freedoms are applied effectively and appropriately to meet business needs.

PERFORMANCE AND REWARD

The 2025-26 Statement of Comprehensive Net Expenditure (SoCNE) reflects payments made or due to Directors during the financial year. All salary and reward for ELT members was considered by the DE&S Remuneration and Nomination Committee.

This year, we have continued our approach to reward following the implementation of our Reward Review in April 2022. This required investment in raising pay ranges to maintain competitiveness internally and externally. These interventions have enabled us to address internal and external market pressures which has reduced the amount of internal movement of employees to other civil service organisations and is reducing internal staff movement. We have now rolled out of Capability Based Pay within our Technical Specialist and Senior Technical Specialist grades. Our reward offer remains market informed and performance driven, and all our SCS, including members of the ELT, are aligned to our SLG, although they have retained their shadow SCS pay band to support internal transfers with MOD and OGDs, and other processes such as talent management.

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 with our Trade Unions (TUs) the Pay 2026 outcome for all civil servants. 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 2026.

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.

56 Dr Nina Cope has been a member of the ELT since April 2025 but is not covered by this policy as she is not a DE&S Employee. She is remunerated by the DoS.
57 Dr Simon Dakin, Jo Osburn-Hughes, Vice Admiral (Retd) Paul Marshall, David Johnson, Dr Nina Cope.
58 Lieutenant General Sir Simon Hamilton, Lieutenant General Anna-Lee Reilly, Vice Admiral Sir Andrew Kyte.

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 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 these informal reviews is to consider the impact of the individual on the performance of the Board and its subcommittees, 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 that civil service appointments be made based on fair and open competition. The recruitment principles published by the Civil Service Commission[59] 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.

BUSINESS APPOINTMENTS RULES

DE&S applies the MOD and Cabinet Office Business Appointment Rules (BAR) in accordance with section 4.3, Annex A of the Civil Service Management Code[59]. These rules are embedded in DE&S people policies and exit procedures.

During 2025–26, 21 members of the Senior Civil Service left DE&S, excluding transfers to other Government Departments and military appointments. In line with the Government's transparency requirements, advice on applications from senior staff is published by MOD[60].

DE&S does not administer the BAR process and does not hold complete management information on BAR applications. This includes information on applications submitted, approved, approved with conditions, assessed as unsuitable, and any breaches of the rules.

Accordingly, DE&S is unable to provide the full statistical disclosure required by HM Treasury guidance and has reported the information available.

MANAGEMENT

The following pages contain details of the pay, pensions and benefits-in-kind of individuals who served on the DE&S Board or who are ELT members during 2025-26. The disclosures only cover the periods that individuals were DE&S Board or ELT members.

59 www.civilservicecommission.org.uk
60 https://www.gov.uk/government/collections/mod-business-appointment-rules-index

REMUNERATION

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

DE&S Executive Directors	2025-26 Salary[1] £000	2025-26 Annual[2] Performance Award £000	2025-26 Benefits in Kind £000 (to Nearest £100)	2025-26 Pension Benefits £000[3]	2025-26 Total £000	2024-25 Salary £000	2024-25 Annual Performance Award £000	2024-25 Benefits in Kind (to Nearest £100)[4]	2024-25 Pension Benefits £000	2024-25 Total £000
Lieutenant General Sir Simon Hamilton[5]	220-225	-	-	316	535-540	170-175	-	-	214	385-390
David Johnson[9]	175-180	40-45	-	76	295-300	170-175	40-45	-	114	325-330
Jo Osburn-Hughes	140-145	30-35	-	73	250-255	120-125 [135- 140]	30-35	-	220	375-380 [390-395]
Vice Admiral (Retd) Paul Marshall[6]	225-230	50-55	-	-	280-285	220-225	40-45	1.5	-	265-270
Vice Admiral Sir Andrew Kyte[7]	-	-	-	-	-	-	-	-	-	-
Lieutenant General Anna-Lee Reilly[8] (from 2nd September 2025)	100-105 [175-180]	-	-	182	285-290 [355-360]	-	-	-	-	-
Dr Nina Cope[9] (from April 2025)	200-205	-	-	64	265-270	-	-	-	-	-
Dr Simon Dakin[10] (to 30 September 2025)	80-85 [160-165]	-	-	47	125-130 [210-215]	140-145 [155-160]	35-40	-	210	385-390 [400-405]
Rear Adm Phil Game[6] (between November and December 2025)	20-25 [150-155]	-	-	26	50-55 [175-180]	-	-	-	-	-
Andy Start[11] (left March 2025)	-	-	-	-	-	290-295	160-165	15.1	-	470-475
Dr Jill Hatcher (left March 2025)	-	-	-	-	-	195-200	40-45	1.1	258	495-500
Vice Admiral Richard Thompson (left May 2024)	-	-	-	-	-	25-30 [175-180]	-	-	(171)	(145)-(140) [0-5]
Adrian Baguley (left August 2024)	-	-	-	-	-	70-75 [205-210]	10-15	-	107	190-195 [330-335]
Keith Bethell (from 2nd June 2024 to 29th January 2025)	-	-	-	-	-	100-105 [150-155]	30-35	-	-	135-140 [185-190]
Andrew Forzani (left February 2025)	-	-	-	-	-	100-105 [110-115]	-	-	3	105-110 [115-120]

Details of ELT members who left DE&S during 2024-25 and who did not receive any renumeration in 2025-26 are shown for completeness

Notes:

1. Salary includes gross salary, overtime, reserved rights to London Weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation. Figures in brackets reflect the annual equivalent salary for members who have joined or left the Executive Leadership Team during the year.
2. Performance awards are based on performance levels attained and are made as part of the appraisals process. The performance awards reported in 2025-26 relate to performance in 2025-26 and the comparative figures reported for 2024-25 relate to that performance year. Performance awards for the year 2025-26 are estimates, pending TU negotiation. Military terms and conditions do not include provision for a performance award.
3. 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.
4. A Benefit in Kind is a benefit that an employee receives from an organisation which is not included in their salary. Typically, this includes travel and accommodation expenses.
5. Lieutenant General Sir Simon Hamilton became Deputy CEO in April 2025 and then interim DE&S CEO in October 2025.
6. Vice Admiral (Retd) Paul Marshall became DG Options and Commissioning in April 2025, but during November and December 2025, Rear Admiral Phil Game covered his role. The salary for Rear Adm Phil Game reflects the actual remuneration received during the time he was covering the role, however the pension covers the period from August 2025 to March 2026, when he assumed his role as Director of Operations.
7. Vice Admiral Sir Andrew Kyte is a guest to the DE&S ELT and therefore receives no remuneration from DE&S because he is an MOD employee. His salary and pension costs are reflected in the MOD ARAc.
8. Lieutenant General Anna-Lee Reilly assumed the role of DG Core Delivery on 2 September 2025. Her salary and pension costs reflect the actual remuneration received during the appointment.
9. David Johnson and Dr Nina Cope have both been included as their respective roles covered both DE&S and the NAD Group during 2025-26. They attended DE&S Executive Forecast Meetings and had influence over how DE&S conducts its business.
10. Dr Simon Dakin, interim DG Core Delivery, retired and left DE&S in September 2025.
11. Andy Start was acting National Armaments Director from 1 April 2025 and was no longer fulfilling his role as DE&S CEO. His salary and pension costs are reflected in the MOD ARAc.

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

DE&S Non-Executive Directors[1]	2025-26[2] £000	2024-25[2] £000
Mark Russell	145-150	145-150
Tracy Sheedy	25-30	0-5 [25-30]
Claire Hawkings	25-30	25-30
Tony Meggs	25-30	25-30
Air Marshall Tim Jones (from September 2025)[3]	-	-
Andy Lord	25-30	25-30
Nick Folland	25-30	25-30
Carolyn Battersby[4]	-	-
Tanya Coff[5]	-	-
Lieutenant General Rob Magowan (left August 2025)[3]	-	-
Marc Overton[6] (left September 2025)	10-15 [25-30]	25-30

Notes:

1. None of the NEDs receive annual performance awards, benefits in kind or pension benefits in relation to their role on the DE&S Board.
2. Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office and any other allowances to the extent that it is subject to UK taxation. Figures in brackets reflect the annual equivalent fees for NEDs who have joined or left the DE&S Board during the year.
3. Lieutenant General Rob Magowan left the Board in August 2025 and was replaced by Air Marshall Tim Jones in September 2025. Neither received any remuneration for their DE&S Board membership as they are MOD employees. Their salary details are reflected in the MOD ARAc.
4. Carolyn Battersby is an employee of UK Government Investments and received no remuneration for her role as Corporate Sponsor Representative.
5. Tanya Coff was an employee of the Houses of Parliament R and R Delivery Authority (until July 2025) and received no remuneration for her role as a NED.
6. Marc Overton left the DE&S Board in September 2025. The figures in square brackets reflect the annual equivalent salary.

DE&S EXECUTIVE LEADERSHIP TEAM SENIOR EXECUTIVE PENSION BENEFITS (SUBJECT TO AUDIT)[1]

DE&S Executive Directors[2]	Total accrued pension at pension age [and related lump sum] as at 31 March 2026 [£000][3]	Real increase in pension [and related lump sum] in 2025-26 [£000][3]	Cash Equivalent Transfer Value (CETV)[4] as at 31 March 2026 or cessation of employment if earlier [£000][1]	CETV as at 31 March 2025 or date of appointment if later [£000][1]	Real Increase in CETV [£000][5]
Lieutenant General Sir Simon Hamilton	100-105 [260-265]	12.5-15 [27.5-30]	2,869	2,505	321
David Johnson	85-90 [215-220]	2.5-5 [0-2.5]	2,117	1,942	60
Jo Osburn-Hughes	60-65 [155-160]	2.5-5 [0-2.5]	1,398	1,266	55
Lieutenant General Anna-Lee Reilly	80-85 [195-200]	7.5-10 [17.5-20]	2,274	2,082	193
Dr Nina Cope	50-55	2.5-5	991	890	39
Dr Simon Dakin	70-75 [175-180]	2.5-5 [0-2.5]	1,655	1,583	39
Rear Adm Phil Game[6]	70-75 [175-180]	0-2.5 [(5)-(2.5)]	1,979	1,959	20

Notes:

1. Accrued pension benefits included in this table for any individual affected by the Public Service Pensions Remedy have been calculated based on their inclusion in the legacy scheme for the period between 1 April 2015 and 31 March 2022, following the McCloud judgment. The Public Service Pensions Remedy applies to individuals that were members, or eligible to be members, of a public service pension scheme on 31 March 2012 and were members of a public service pension scheme between 1 April 2015 and 31 March 2022. The basis for the calculation reflects the legal position that impacted members have been rolled back into the relevant legacy scheme for the remedy period and that this will apply unless the member actively exercises their entitlement on retirement to decide instead to receive benefits calculated under the terms of the Alpha scheme for the period from 1 April 2015 to 31 March 2022
2. Vice Admiral (Retd) Paul Marshall is not a member of any DE&S pension scheme, and no pension contributions have been made by DE&S. Vice Admiral Sir Andrew Kyte is a guest to the DE&S ELT and receives no renumeration from DE&S. As he is a MOD employee, his pension costs are reflected in the MOD ARAc.
3. 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 individual's salary increase.
4. 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 or Civil Service pension arrangements. They also include any additional pension benefit accrued to the member because 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.
5. 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.
6. The pension for Rear Adm Phil Game covers the period from August 2025 to March 2026 when he assumed his role as Director of Operations.

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 or pension benefits.

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 2025-26 was £222,500. This was 3.50 (2024-25 2.86) times the median remuneration of the military workforce, which was £63,575 (2024-25 £60,220). The military remuneration ratio is slightly higher in 2025-26 than it was the previous year. This was due to the Interim DE&S CEO being Military and not civilian. This resulted in an increase in the highest paid military director's remuneration. The median remuneration of the military workforce has also increased in 2025-26 due to the annual military pay rise.

The midpoint of the banded remuneration of the highest paid civilian director in DE&S during 2025-26 was £282,500. This was 6.17 (2024-25 10.59) times the median remuneration of the civilian workforce, which was £45,775 (2024-25 £44,603). The civilian remuneration ratio is lower in 2025-26 than it was the previous year. The highest paid civilian director's remuneration has decreased, due to being a different grade, as the Interim DE&S CEO was military and not civilian.

In 2025-26, zero (2024-25, zero) employees received remuneration in excess of the highest-paid director.

Military remuneration ranged from £26,334 to £222,500 (2024-25 £15,432 to £172,500). Civilian remuneration ranged from £23,280 to £282,500 (2024-25 £22,011 to £472,500).

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

Pay Changes	2025-26	
Salary and allowances	**Military**	**Civilian**
Highest paid director	28.99%	-25.80%
Staff average	5.88%	2.93%
Performance Pay		
Highest paid director	N/A	-67.13%
Staff average	N/A	-1.98%

Salary and allowances include 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 Top Level Budgets 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
2025-26	3.97	3.50	2.81	7.38	6.17	5.21
2024-25	3.25	2.86	2.30	12.66	10.59	8.92

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

Military

	Lower Quartile		Median		Upper Quartile	
	2025-26	2024-25	2025-26	2024-25	2025-26	2024-25
Salary £	56,076	53,124	63,575	60,220	79,112	75,112
Total Pay £	56,076	53,124	63,575	60,220	79,112	75,112

Civilian

	Lower Quartile		Median		Upper Quartile	
	2025-26	2024-25	2025-26	2024-25	2025-26	2024-25
Salary £	37,087	36,540	44,100	43,039	51,752	50,393
Total Pay £	38,262	37,330	45,775	44,603	54,258	52,946

STAFF REPORT

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

The number (headcount) of SCS within DE&S as at 31 of March 2026 is as follows:

SCS Pay Band	2025-26	2024-25
Band 1	85	82
Band 2	15	19
Band 3 and above	2	3
Total	**102**	**104**

The substantive SCS head count as of 31 March 2026 has decreased slightly since 2024-25. These figures only include staff who were working on DE&S activity. Staff working solely on NAD Group activity or in the wider MOD are included in the MOD ARAc figures.

Regular scrutiny of posts required by DE&S at SLG level is undertaken throughout the year.

The average numbers of DE&S 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 109.

	2025-26	2024-25
Permanent Staff	11,327	11,961
Contingent Labour	450	499
Total	**11,777**	**12,460**

Staff turnover for 2024-25 (reflecting all leavers from DE&S apart from transfers to the Submarine Delivery Agency was 5.1% compared with 8.1% for 2024-25[61].

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

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

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

	2025-26			2024-25		
	Permanently employed staff £000	Contingent labour £000	Total £000	Permanently employed staff £000	Contingent labour £000	Total £000
Salaries and wages	587,192	66,721	653,913	583,255	75,670	658,925
Social security costs	75,407	-	75,407	62,323	-	62,323
Other pension costs	186,545	-	186,545	-	-	-
Less full time NAD Group staff costs	(3,190)	-	(3,190)	-	-	-
Type 26 recharge	(318)	-	(318)	186,288	-	186,288
Total	**845,636**	**66,721**	**912,357**	**831,866**	**75,670**	**907,536**
Paid to:						
Armed Forces	148,539	-	148,539	140,696	-	140,696
Civilian	697,097	-	697,097	691,170	-	691,170
Contingent labour	-	66,721	66,721	-	75,670	75,670

Costs for permanently employed staff, including salary, social security and pension costs, have increased by £14 million. Contingent labour has decreased by £9 million.

Salaries, wages, and other pension costs for permanent staff have increased compared with 2024-25. This reflects higher staff pay, partly offset by a reduction in headcount. Social security costs have risen, driven by increased employer National Insurance contributions for both civil service and military personnel. These increases have been offset by the removal of costs for staff working full-time on the set-up and implementation of the NAD Group which is considered outside the DE&S boundary, and by a recharge on the staff costs relating to joint work with Norway on the Type 26 programme.

Contingent labour costs have decreased due to a reduction in contingent labour headcount, although this has been partly offset by higher contingent labour rates.

SUPPORT TO DEFENCE REFORM AND THE NATIONAL ARMAMENTS DIRECTORATE.

During 2025-26, as part of the DE&S transition into the NAD Group, an average of 36 full-time DE&S staff worked on standing up the NAD Group. Costs associated to this activity, totalling £3.190 million, have been removed from DE&S accounts. In addition, part-time support was provided at an estimated cost of £9.974 million.

TRADE UNION FACILITY TIME

Following recent legislative changes[62] introduced through the Employment Rights Act 2025, the requirement for public sector employers to publish trade union facility time has been removed. As a result, there is no longer a requirement to publish this information in the ARAc. This change applies from the 2025-26 financial year onwards.

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

The figures in the next table summarise redundancy and other departure costs paid in accordance with the Civil Service Compensation Scheme. Disclosure is based on exit packages that have been transacted through the accounts (including where an accrual or a provision has been expensed). 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.

62 Trade union law: transition to Employment Rights Act 2025 - GOV.UK https://www.gov.uk/guidance/trade-union-law-transition-to-employment-rights-act-2025

During 2025-26 there was one exit packages transacted in the DE&S accounts. There were five exit packages transacted through the accounts in 2024-25.
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 during 2025-26 or 2024-25.

2025-26 (2024-25)

Exit package cost band	Number of compulsory redundancies	Number of other agreed departures	Total number of exit packages by cost band
<£10,000	-	-	-
£10,000 - £25,000	-	-	-
£25,000 - £50,000	-	-	-
£50,000 - £100,000	-	0 (1)	0 (1)
£100,000 - £150,000	-	1 (1)	1 (1)
£150,000 - £200,000	-	-	-
£200,000 - £250,000	-	0 (2)	0 (2)
£250,000 - £300,000	-	0 (1)	0 (1)
£300,000 - £350,000	-	-	-
£350,000 - £400,000	-	-	-
£400,000 - £450,000	-	-	-
£450,000 - £500,000	-	-	-
Total Number of Exit Packages	-	1 (5)	1 (5)
Total resource cost (£000)	**-**	**140 (894)**	**140 (894)**

The exits table above, excludes departures relating to the Voluntary Exit Scheme (VES) announced in January 2026. The estimated costs of the scheme have been recognised as an accrual in the accounts.

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. This augments DE&S resource where there are capacity or skills gaps, enabling DE&S to continue to deliver for our customers.

Contingent labour relates to individuals who are engaged by DE&S on a demand basis to fill vacancies within the organisation. The costs of contingent labour are shown separately in the staff costs at Note 3.1 on page 108 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 are at Note 4 on page 109 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 the following 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 decreased compared to 2024-25 when we reported 497 existing engagements as of 31 March 2025 and 781 workers engaged at any point during the year. This year's reduction in temporary workforce is due to pressure on internal budgets, and delivery of projects, partially offset by the inclusion of off-payroll engagements via either G Cloud[63] or other contracts. Recruiting permanent staff due to current market conditions also remains challenging.

Most of off-payroll workers are engaged to meet demand requirements as the programme of work continues to grow, through the main DE&S delivery partner contracts across the Project Delivery, Engineering, Commercial and Operational Delivery Professions, as well as other contracting mechanisms, such as G Cloud. The use of contingent labour enables us to supplement our capability and capacity faster than it would to build a core workforce.

Table 1: Highly paid off-payroll worker engagements as of 31 March 2026, earning £245 per day or more.

DE&S	Total
Number of existing engagements as of 31 March 2026	**493**
of which…	
Number that has existed less than one year at time of reporting.	192
Number that has existed for between one and two years at time of reporting.	120
Number that has existed for between two and three years at time of reporting.	59
Number that has existed for between three and four years at time of reporting.	91
Number that have existed for four or more years at time of reporting.	31

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 2026, earning £245 per day or greater.

DE&S	Total
Number of temporary off-payroll workers engaged during the year ended 31 March 2026	713
of which…	
Not subject to off-payroll legislation.	683
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.	30
Number of engagements reassessed for compliance or assurance purposes during the year.	448
Of which: number of engagements that saw a change to IR35 status following review.	0

Table 3: For any off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 April 2025 and 31 March 2026.

DE&S	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 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 Director Finance.

63 G-Cloud is a UK government framework agreement that streamlines the procurement of cloud computing services for public sector organisations.

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 2020[64].

Contributions to the PCSPS in 2025-26 were calculated at 28.97% 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 2025-26 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 2025-26 period were aligned to those from 2024-25 and incorporate additional costs associated with the 2015 Remedy Programme, also known as the McCloud Judgement[65].

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 available[66].

ARMED FORCES PENSION SCHEME

The Armed Forces Pension Scheme is an unfunded, non-contributory, defined benefit, salary related, contracted out, occupational scheme. As such, this scheme is consolidated into separate accounts, details of which are available[67].

Employer's contribution rates are determined by the Government Actuary. For 2025-26, the employer's contribution rate was 73.5% 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.

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 remain committed to the health and wellbeing of our people, have a comprehensive health and attendance policy, and supporting guidance in place. During 2025-26, the total working days lost were 59,893, representing 2.28% of the total working days available. There were 14,264 (43%) recorded long-term absences related to anxiety, depression and stress, which were the largest cause of sickness throughout the year. Coughs, colds, flu and asthma, although mainly short in duration, resulted in 7,496 (28%) recorded absences.

The main referral point for DE&S employees is the Employee Assistance Programme which provides a confidential service and mental and physical health resources. This helps individuals deal with personal and professional problems that could affect their home or work life health and general wellbeing. Occupational Health referrals provide specialist advice to managers on preventing or recommendations for resolving health problems which can affect the employee's ability to carry out their duties effectively. Additionally, among the DE&S workforce, People Coaches are dedicated to supporting individuals with wellbeing and sickness challenges. There are also fully trained mental health first aiders, as well as Fair Treatment Ambassadors, who provide impartial and independent guidance to civilian colleagues.

64 https://www.gov.uk/government/publications/2020-valuation-civil-service-pension-scheme
65 https://assets.publishing.service.gov.uk/media/6a0704acee62840dba48a353/Your_2015_Pension_Remedy__Explained___booklet_8.pdf
66 https://www.civilservicepensionscheme.org.uk/AboutUs/
67 https://www.gov.uk/guidance/pensions-and-compensation-for-veterans

DIVERSITY AND INCLUSION

During 2025–26, DE&S continued to progress its commitment to a diverse and inclusive workforce that supports organisational performance and capability. Inclusion enabled DE&S to attract, retain, and develop the breadth of skills and perspectives required to deliver complex defence outcomes and complements wider workforce, reward and performance arrangements described elsewhere in this report.

DE&S remained committed to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. Equality considerations underpinned significant workforce policies and practices through the application of Equality Analysis during the year, supporting fair, proportionate and evidence-based outcomes.

Diversity and inclusion arrangements form part of DE&S' wider workforce governance framework. A dedicated Culture and Inclusion team provided policy oversight, specialist advice, and programme delivery across the organisation, collaborating with senior leaders to ensure the embedding of inclusion considerations decision-making.

Activity during the year focused on embedding inclusive behaviours, strengthening leadership accountability, addressing unacceptable behaviours, and meeting statutory equality duties. Insight from the People Survey and other workforce engagement mechanisms informed priorities and interventions across the organisation.

The table below shows the declared diversity profile of the DE&S civilian workforce on 31 March 2026, compared with the previous year.

Characteristic	As 31 March 2026	As 31 March 2025
Female	35.93%	35.82%
Ethnic minority	7.20%	7.20%
Declared disability	12.55%	11.35%
Non-heterosexual	3.29%	3.17%

As part of our work to further embed inclusion and diversity across the organisation during 2025-26, we undertook the following activities:

- DE&S operated a confidential internal mediation service, providing trained and accredited mediators to support early and informal resolution of workplace issues. During the year, refresher training and additional accreditation increased internal capability in this area.
- The Fair Treatment Ambassador network continued to provide accessible, informal support to colleagues across locations, with refresher training improving confidence and consistency. Mutual mentoring arrangements were refreshed to support constructive dialogue, shared learning, and inclusive leadership behaviours.
- Positive action development programmes continued to support DE&S' wider talent and succession planning. The 'Becoming,' 'Boost' and 'Beyond' programmes[68] supported women, ethnic minority, and disabled colleagues to build confidence and capability for progression. Pilot cohorts for 'Boost' and 'Beyond' were completed during the year, with participant feedback suggesting increased confidence and readiness for progression.
- The DE&S Shadow Board[69] continued to bring diverse insight and constructive challenge into senior leadership discussions, supporting organisational learning and decision-making. DE&S also continued participation in the 'Stepping Up' leadership programme, supporting future leaders to broaden experience and capability.
- National Inclusion Week centred on lived experience and intersectionality through joint activity with staff networks, reinforcing inclusion as a set of everyday behaviours.
- Health and mental wellbeing remained a priority throughout the year. Activity included leadership engagement, facilitated awareness sessions and ongoing organisational communications, alongside continued contribution of specialist expertise to Defence wide wellbeing initiatives.

68 DE&S dedicated leadership development programmes available to underrepresented groups, focussed on developing personal leadership skills.
69 This board comprised of nine DE&S colleagues below the SLG.

STAFF BREAKDOWN

Civilian total headcount in the table below includes all DE&S industrial and non-industrial civilian personnel and excludes all RFA, for whom declaration data is currently unavailable. Also, numbers shown for ethnicity, disability and sexual orientation 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

	As 31 March 2026	As 31 March 2025
Civilian total headcount	10,860	11,160
Gender		
Female	3,902	3,998
Ethnicity		
Black, Asian and Minority Ethnic	810	803
Disability		
Declared a disability	1,363	1,267
Sexual orientation		
Lesbian, gay, bisexual	357	354
Religion or belief		
Non-Christian religion	388	482
Secular	3,984	4,525
Christian	3,634	3,974

GENDER BREAKDOWN AT DE&S BOARD AND EXECUTIVE LEADERSHIP TEAM LEVEL

	As 31 March 2026	As 31 March 2025
Total DE&S Board and Executive Leadership Team	17	18
Female	6	5
Male	11	13

GENDER BREAKDOWN AT SCS LEVEL

	As 31 March 2026	As 31 March 2025*
Total DE&S SLG (SCS)	102	104
Female	37	32
Male	65	72

*This data includes one DE&S SLG who was on loan to wider MOD.

DE&S Staff at DE&S Headquarters Abbey Wood.

PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

A spectacular show of red, white and blue from the Red Arrows as they flypast Big Ben during the King's Birthday Parade in London.

PARLIAMENTARY ACCOUNTABILITY

Parliament and the wider public continued to show considerable interest in the work of DE&S during 2025–26. Over the year, we responded to 285 written Parliamentary Questions and 104 pieces of ministerial and Treat Official correspondence from Members of both Houses of Parliament, industry, and the public. Overall, performance remained strong with response times only slightly below target. This was largely driven by several periods of unexpectedly high volumes of post-recess Parliamentary Questions throughout the year.

The Ajax Armoured Cavalry programme attracted particularly strong Parliamentary interest. This followed the Minister for Defence Readiness and Industry's statement on the programme in November 2025 and the subsequent safety investigation. The New Medium Helicopter programme was also of considerable interest, both ahead of and following the contract award to Leonardo UK, and the announcement of the Yeovil centre of excellence for military helicopter autonomy. Other topics of interest included munitions stockpiles, defence clothing, Voyager, and the Type 26 and Type 31 programmes.

In early 2025, DE&S also experienced an increase in the volume of activity linked to the formation of the NAD Group. This included supporting senior leaders throughout the year in appearances before several Parliamentary Select Committees on a range of topics. In June 2025, we further supported the then Minister for Defence Procurement and Industry during a debate on MOD spending and the remit of the NAD Group.

We continue to meet our statutory obligations under the Freedom of Information Act 2000 in responding to requests for information from members of the public. In 2025-26 we answered 433 requests, meeting our departmental target for on-time delivery.

FEES AND CHARGES (SUBJECT TO AUDIT)

DE&S provides a range of services to external entities, principally industry partners, OGDs and other Governments, where we have spare capacity or to enable delivery of elements of the MOD Equipment Programme. All charges are levied in accordance with Managing Public Money. Full details of income generated are outlined in the financial statements Note 6. (page 110).

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 2025-26 was in accordance with the requirements of HM Treasury and other Government guidance.

LOSSES, SPECIAL PAYMENTS AND GIFTS (SUBJECT TO AUDIT)

Losses and special payments are by their very nature unpredictable. It is therefore impossible for Parliament to predict when funding may be required to cover these costs. Because these costs are emergent in nature, arising from an unexpected incident or failure of process, they are subject to a higher level of scrutiny and approval than would be the case for normal business transactions. Disclosure is based on cases that are transacted through the accounts (including where an accrual or a provision has been expensed).

Losses during the year totalled £6.331 million, which represents an increase of £3.420 million from 2024-25. The increase in value is primarily due to the £5.762 million constructive loss relating to a decision to halt the project to install photovoltaic farms at two MOD locations. The project no longer represented value for money due to escalation in expected installation costs and unforeseeable technical constraints limiting the benefits. The number of cases decreased by 1,911. This was mainly driven by the reduction of low value fruitless payments in relation to hire car rental charges, cancellations, and non-road traffic accident damages. Management action taken in 2025-26 to improve user awareness of their responsibilities in relation to hire cars contributed to the volume of losses reported. Total fruitless payments in relation to hire cars was £0.325 million in 2025-26, which represents a decrease of £0.233 million compared to 2024-25. Losses are reported on at the earliest opportunity, irrespective of whether the costs may be reduced by subsequent recoveries.

LOSSES STATEMENT

Total value of cases by type	2025-26 £000	2024-25 £000
Fruitless payments*	569	862
Minor equipment losses	0	0
Claims waived or abandoned	0	1
Constructive loss	5,762	2,047
Stores loss	0	1
Total value of losses	**6,331**	**2,911**
Details of cases over £300,000	**2025-26 £000**	**2023-24 £000**
Value of over £300,000 cases	5,762	2,007

Total number of cases by type	2025-26	2024-25
Fruitless payments	2,919	4,827
Minor equipment losses	0	0
Claims waived or abandoned	0	1
Constructive loss	1	2
Stores loss	0	1
Total number of losses	**2,920**	**4,831**
Details of cases over £300,000	**2025-26**	**2024-25**
Number of over £300,000 cases	1	1

* Fruitless payments reported in 2025-26 includes three minor losses totalling £0.002 million from FY 2024-25.

SPECIAL PAYMENTS

There were no special payments made in 2025-26. Payments made in 2024-25 related to tribunal costs of £0.374 million and two severance payments. Details of the cases are confidential and no further information can be provided

Special Payments	2025-26	2024-25
Total Number of Special Payments	**0**	**3**
Total Value of Special Payments (£000)	**0**	**461**

GIFTS

During 2025-26, 39 Gifts with a total value of £3,000 were made. There were no individual gifts with a value of £300,000 or more identified during the year.

LONG-TERM EXPENDITURE TREND BY CATEGORY[70]

(£ million)	Core departmental expenditure limit DE&S Executive Agency (£million)	Support to operations[71]	Total departmental expenditure limit DE&S Executive Agency (£million)
Outturn 2024-25	1,251	9.6	1,260
Outturn 2025-26	1,179	14	1,193
Estimate 2026-27	1,386	-	1,386
Estimate 2027-28	1,345	-	1,345
Estimate 2028-29	1,320	-	1,320
Estimate 2029-30	1,316	-	1,316
Estimate 2030-31	1,322	-	1,322

The values in the table above are for the DE&S Top Level Budget Plan only and exclude the Infrastructure Plan. DE&S became fully integrated into the NAD Group on 1 April 2026. Future estimates are based on the DE&S submission into the DIP.

Lieutenant General Sir Simon Hamilton
DE&S CEO (interim) and Accounting Officer
14 July 2026

70 The DE&S budget comprises both revenue and capital expenditure. The figures in this table show the Total Departmental Expenditure Limit outturn position including support to operations but excluding the MOD wide Civil Service VES. The figures include the Resource Departmental Expenditure Limit position (£1,176 million) captured as Direct Programme Costs in the SoCNE (page 98) and CDEL position (£3 million) as captured in the Fixed Asset Additions in Notes 9 and 10 (pages 112 and 113). DE&S spent £9 million on the VES, giving a total outturn of £1,202 million. This is explained in Note 20 Budget Reconciliation (page 119).

71 Support to operations cannot be forecast in the future as the activity required is uncertain.

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

OPINION ON FINANCIAL STATEMENTS

I certify that I have audited the financial statements of Defence Equipment and Support for the year ended 31 March 2026 under the Government Resources and Accounts Act 2000.

The financial statements comprise Defence Equipment and Support's:

- Statement of Financial Position as at 31 March 2026;
- 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 Defence Equipment and Support's financial statements is applicable law and UK adopted international accounting standards.

IN MY OPINION, THE FINANCIAL STATEMENTS:

- give a true and fair view of the state of Defence Equipment and Support's affairs as at 31 March 2026 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 (2024). 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 2024. I am independent of Defence Equipment and Support in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

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

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, I have concluded that Defence Equipment and Support's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

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

OTHER INFORMATION

The other information comprises information included in the Annual Report but does not include the financial statements and my auditor's certificate and report thereon. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

OPINION ON OTHER MATTERS

In my opinion the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions 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 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 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 C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within Defence Equipment 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 Defence Equipment and Support's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by Defence Equipment and Support will not continue to be provided in the future.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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 Defence Equipment and Support's' accounting policies,
- inquired of management, Defence Equipment and Support and those charged with governance, including obtaining and reviewing supporting documentation relating to 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 Defence Equipment and Support's compliance with the Government Resources and Accounts Act 2000, Managing Public Money and UK tax law.
- inquired of management, 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 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, 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 Defence Equipment and Support's framework of authority and other legal and regulatory frameworks in which Defence Equipment and Support operate. 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 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 and tax 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 and;
- reviews of internal audit reports.

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 Assurance 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;
- I addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements on estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I 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

Gareth Davies **14 July 2026**
Comptroller and Auditor General

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

The NATO Flag being flown over MOD Main Building Whitehall.

SECTION 3

THE FINANCIAL STATEMENTS

This section includes:
the (Consolidated) Statement of Comprehensive Net Expenditure,
the (Consolidated) Statement of Financial Position,
the (Consolidated) Statement of Changes in Taxpayers' Equity; and
the (Consolidated) Statement of Cash Flows; together with the relevant notes.

Dropping 24 pallets, weighing approximately 900kg each, it is the largest cargo drop carried out by the Royal Air Force in recent years, and the largest drop carried out in the Falkland Islands from a single aircraft.

ACCOUNTING INFORMATION

STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2026

	Note	2025-26 £000	2024-25 £000
Expenditure – Direct Programme Costs			
Direct Staff Costs	3	912,357	907,536
Private Sector Support Costs	4	267,541	288,985
Other Programme Costs	5	82,221	95,860
Total Direct Programme Costs		**1,262,119**	**1,292,381**
Income – Direct Programme	6	**(63,427)**	**(54,950)**
Net Direct Programme Expenditure		**1,198,692**	**1,237,431**
Expenditure – Non-Cash Items			
Communicated costs from other MOD Organisations	7	130,222	137,842
Auditors Remuneration	8	120	150
Asset write off, disposals and impairment	9&10&17	9,376	9,244
Finance lease interest	17	97	56
Depreciation and amortisation	9,10 &17	3,522	5,376
Movement on provision	14	890	427
		144,227	**153,095**
Total Net Operating Expenditure		**1,342,919**	**1,390,526**
Non-operating gain on transfer by absorption	2	-	(336)
Transfer of assets in from Defence Equipment and Support Equipment Programme	9	-	-
Transfer of assets to DIO	9	105,893	1,158
Total Net Expenditure for the year		**1,448,812**	**1,391,348**
Other Comprehensive Net Expenditure			
Net (gain)/loss on revaluation of property, plant and equipment	9	2,304	(422)
Net (gain)/loss on revaluation of intangible assets	10	1,486	(963)
Total Comprehensive Net Expenditure		**1,452,602**	**1,389,963**

The Notes starting on page 102 form part of these accounts.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2026

	Note	2025-26 £000	2024-25 £000
Non-current assets			
Property, plant & equipment	9	17,434	135,546
Right-of-use assets	17	2,777	2,309
Intangible assets	10	10,400	11,896
Trade and other receivables due after one year	11	232	353
Total non-current assets		**30,843**	**150,104**
Current assets			
Trade and other receivables	11	17,686	15,817
Inventory and work in progress	13	196	196
Cash	18	40,800	13,173
Total current assets		**58,682**	**29,186**
Total assets		**89,525**	**179,290**
Current liabilities			
Trade and other payables	12	(125,125)	(132,657)
Provisions due within one year	14	(779)	(346)
Total current liabilities		**(125,904)**	**(133,003)**
Total assets less current liabilities		**(36,379)**	**46,287**
Non-current Liabilities			
Trade and other payable due after one year	12	(1,952)	(1,494)
Provisions due after one year	14	(465)	(308)
Total non-current liabilities		**(2,417)**	**(1,802)**
Total assets less total liabilities		**(38,796)**	**44,485**
Taxpayers equity and other reserves			
Revaluation Reserve	Statement of Changes in Taxpayers Equity (SOCiTE)	3,243	7,033
General Fund	SOCiTE	(42,039)	37,452
Total Reserves		**(38,796)**	**44,485**

The Notes starting on page 102 form part of these accounts.

Lieutenant General Sir Simon Hamilton -
DE&S Accounting Officer - 14 July 2026

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2026

	Note	2025-26 £000	2024-25 £000
Cash flows from operating activities			
Total net operating expenditure		(1,342,919)	(1,390,526)
Adjustments for non- cash transactions			
Communicated costs	7	130,222	137,842
Auditors remuneration	8	120	150
Amortisation/depreciation, impairment, write off/on and disposal	9&10	12,898	14,620
Movement in provision	14	890	427
Movement in Inventory and work in progress	13	-	134
Finance lease interest	17	97	56
(Increase) / Decrease in trade and other receivables	11	(1,748)	(399)
Increase / (Decrease) in trade and other payables	12	(7,074)	(30,877)
Adjustment for movements in payables not passing through the statement of comprehensive net expenditure (including DE&S Deca transfer by absorption and transfers of functions)		452	14,502
Use of provisions	14	(300)	(225)
Net cashflow outflow from operating activities		**(1,207,362)**	**(1,254,296)**
Cash flows from investing activities			
Purchase of property, plant and equipment[1]	9	(1,782)	(31,985)
Purchase of intangible assets[2]	10	(1,220)	(3,351)
DE&S Deca Cash balance on acquisition		-	-
Net cash outflow from investing activities		**(3,002)**	**(35,336)**
Cash flows from financing activities			
Capital element of payments in respect of leases		(988)	(1,158)
Net Parliamentary Funding – drawn down		1,238,979	1,293,788
Net cash outflow from financing activities		**1,237,991**	**1,292,630**
Net Increase/(Decrease) in cash and cash equivalents in the period		**27,627**	**2,998**
Cash and Cash equivalents at the beginning of the period		**13,173**	**10,175**
Cash and Cash equivalents at the end of the period	**18**	**40,800**	**13,173**

Notes:

1. Investing cashflow figure for purchase of property, plant and equipment is calculated as £909 thousand capital addition (as per Note 9) plus cash payments to discharge opening liabilities of £3,097 thousand less closing liabilities of £2,224 thousand.
2. Investing cashflow figure for purchase of intangible assets is calculated as £1,124 thousand capital addition (as per Note 10) plus cash payments to discharge opening liabilities of £96 thousand less closing liabilities of £0.

The Notes starting on page 102 form part of these accounts.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2026

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance as of 31 March 2024		**(2,980)**	**5,648**	**2,668**
Gain on transfer of function		336		**336**
Total net operating expenditure		(1,390,526)	-	**(1,390,526)**
Net Parliamentary Funding – drawn down		1,293,788	-	**1,293,788**
Non-cash charges – Auditors Remuneration		150	-	**150**
Non-cash charges – Communicated costs		137,842	-	**137,842**
Transfer of assets to DIO		(1,158)		**(1,158)**
Net (loss)/gain on revaluation of property, plant & equipment		-	422	**422**
Net (loss)/gain on revaluation of intangible assets		-	963	**963**
Transfer between reserves		-	-	**-**
Balance as of 31 March 2025		**37,452**	**7,033**	**44,485**
Gain on transfer of function	2		-	
Total net operating expenditure	SoCNE	(1,342,919)	-	**(1,342,919)**
Net Parliamentary Funding – drawn down	Statement of Cash Flows	1,238,979	-	**1,238,979**
Non-cash charges – Auditors Remuneration	8	120	-	**120**
Non-cash charges – Communicated costs	7	130,222	-	**130,222**
Transfer of assets to Defence Infrastructure Organisation	SoCNE	(105,893)	-	**(105,893)**
Net (loss)/gain on revaluation of property, plant & equipment	9	-	(2,304)	**(2,304)**
Net (loss)/gain on revaluation of intangible assets	10	-	(1,486)	**(1,486)**
Transfer between reserves	SoCNE			
Balance at 31 March 2026		**(42,039)**	**3,243**	**(38,796)**

The Notes starting on page 102 form part of these accounts.

NOTES TO THE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements contained within the ARAc relate to FY 1 April 2025 to 31 March 2026 (2025-26) with comparative analysis for the prior year 2024-25. They have been prepared in accordance with the Accounts Direction given by HMT under Section 7 of the Government Resources and Accounts Act 2000 and in accordance with HMT guidance as set out in the FReM.

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

DE&S operates as an Executive Agency in line with Chapter 7 of Managing Public Money. The 2025-26 financial statements are the twelfth 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 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 (interim).

The operating cost envelope specifically encompasses staff (including travel and training), other operating and Private Sector Support (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 e.g. the Defence Infrastructure Organisation (DIO) 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 Annual Accounts, judgement and estimation is applied in establishing the value of DE&S receivables and payables and likewise the amount of revenue and expenditure to be reported during the Accounting Period. The key areas in which judgement and estimates are necessary are as follows:

- Accounting boundary: DE&S has robust well-established policies and governance arrangements supporting the delineation of costs between those recognised as DE&S operating costs and reported in the DE&S financial statements from those equipment procurement and 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. In 2025-26, several DE&S worked full time on implementing the NAD Group and these staff and their associated workforce costs have been removed from the DE&S accounts.
- Activities undertaken with our main industrial partners to deliver FLC equipment and support requirements continue to be treated as Equipment Programme 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 Equipment Programme expenditure and not PSS. Where PSS activity is contractually embedded within and indivisible from Equipment Programme 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 received some 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 2025-26, a guideline materiality threshold of £10,000 (2024-25, £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

In previous years, DE&S disclosed the effect of transfer of functions on the comparative figures in the accounts.

NEW ACCOUNTING STANDARDS - 2025-26

HMT has made changes that impact the FReM adaptations and interpretations of IAS 16: Property Plant and Equipment and IAS 38: Intangibles. These changes took effect from 1 April 2025.

The changes impacting DE&S are:

- Indexation of intangible non-current assets ceased from 1 April 2025. The intangible asset value as of 1 April 2025 has been considered historic (deemed) cost. Historic deemed cost is where the previous carrying amount as at the transaction date under the revaluation model is considered henceforth to be the historic cost of the asset.
- For tangible assets, to introduce the concept of assets held for their operational capacity and to remove the specialised/non-specialised asset classification split for asset valuation purposes. This does not have a material impact in DE&S. The main balance in the tangible assets held as of 31 March 2025 related to the Assets Under Construction for the Longtown Defence Storage Facility. This asset was delivered to DIO in April 2025.
- The requirement in IAS 16 to revalue an asset when its fair value differs materially from it carrying value has been withdrawn.

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.

The MOD DoS has assessed the financial position of the entities within its accounting boundary (this includes DE&S). It has concluded that the going concern assumption remains appropriate for all such entities, as they will continue to deliver their statutory and operational functions within the MOD operating model and will receive ongoing supply funding in respect of on vote agencies, or continuing financial support for other bodies, as appropriate. The accounts have therefore been prepared 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 based on direct measurement of value to the customer using methods such as milestones and time elapsed.

ii. As agreed with HMT, DE&S can recover funds from suppliers relating to profits more than those expected at the time of contract let. In these circumstances DE&S conducts an audit and enters negotiations with the supplier to determine the value of monies owed. This is known as post costing income and is recognised at the point it is agreed by both parties.

iii. The third source is within Defence Munitions, where DE&S undertakes 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

Majority of the operating activities of DE&S are deemed to be outside the scope of VAT as they relate to direct staff costs, irrecoverable VAT is charged where appropriate to other expenditure categories. Expenditure associated with recoverable VAT is treated as excluding VAT in the DE&S accounts with formal recovery administered by the MOD. Except for DE&S Deca activity, DE&S is not separately registered for VAT and as such VAT is 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 FLCs (Royal Navy, British Army, RAF, 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 FLCs and the MOD. Where assets are purchased for the sole benefit of DE&S and funded through our Operating Cost Expenditure budget, these are considered for capitalisation where they meet the recognition threshold of £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 the MOD provide DE&S with support services under central support contracts. These infrastructure support services include DE&S usage of MOD non-current assets, such as property and office furniture. The underlying risks and rewards of ownership of these assets are deemed to reside with the MOD and are, 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. PPE Assets Under Construction (AUC) are not subject to indexation where the contract payments capitalised during the period of construction are deemed to reflect fair value.

1.12 INTANGIBLE NON-CURRENT ASSETS

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

Software and their associated licences are capitalised as intangible assets in accordance with IAS38, where they directly contribute to the delivery of DE&S business services.

Once initially recognised, intangible non-current assets are 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 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	Useful Economic Lives
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 the MOD for all activity other than DE&S Deca. Except for DE&S Deca, DE&S does not operate its own bank accounts, 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 FLCs are owned and reported in the MOD accounts as the risks and rewards of ownership are deemed to reside with the FLCs and the 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 MOD's judgement of the potential impact of events on future economic conditions. Sensitivity analysis was undertaken by the MOD to test the significance of changes to this judgement, and the impact was not material.

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

1.18 EMPLOYEE BENEFITS

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

The 2025-26 value of employee performance awards reflected within the SoCNE reflects those earned for performance in 2025-26.

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 the 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. HMT specifies the nominal rate (applied to cash flows which include inflation) to be used to discount general provisions. For ease, as per HMT Public Expenditure System guidance, DE&S has inflated cashflows using the combined rates (based on Office for Budget Responsibility Consumer Price Index forecasts for inflation and nominal rates for discounting).

1.22 LEASED ASSETS

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

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

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

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

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

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

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

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 the risks and rewards of ownership as a 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

No transfers of functions into or out of the DE&S Executive Agency took place in FY 2025-26.

3. STAFF NUMBERS AND RELATED COSTS

3.1 STAFF COSTS COMPRISE:

	2025-26			2024-25		
	Permanently Employed Staff £000	**Contingent Labour £000**	**Total £000**	**Permanently Employed Staff £000**	**Contingent Labour £000**	**Total £000**
Salaries and Wages	587,192	66,721	653,913	583,255	75,670	658,925
Social Security Costs	75,407	-	75,407	62,323	-	62,323
Other Pension Costs	186,545	-	186,545	186,228	-	186,228
Less Fulltime NAD Staff costs	(3,190)	-	(3,190)	-	-	-
Type 26 Recharge	(318)	-	(318)	-	-	-
Total	**845,636**	**66,721**	**912,357**	**831,866**	**75,670**	**907,536**
Paid to:						
Armed Forces	148,539	-	148,539	140,696	-	140,696
Civilian	697,097	-	697,097	691,170	-	691,170
Contingent Labour	-	66,721	66,721	-	75,670	75,670

Costs for permanently employed staff, including salary, social security and pension costs, have increased by £14 million. Contingent labour has decreased by £9 million.

Salaries and wages as well as other pension costs for permanently employed staff have increased to the previous financial year as staff pay has increased having been somewhat offset by the reduction in headcount this financial year. Social security costs have increased from 1 April 2025 due to employer national insurance contributions for both civil service and military personnel increasing. These increases have been offset by the removal of costs for Staff working full time on the set up and implementation of the NAD Group, which is deemed to fall outside the DE&S Boundary, and by a recharge on the staff costs associated with joint work on the Type 26 programme with Norway. Contingent Labour costs have decreased because of a reduction in contingent labour headcount which has been offset by an increase in contingent labour rates

3.2 AVERAGE NUMBER OF FULL-TIME EQUIVALENT STAFF EMPLOYED:

	2025-26			2024-25		
	Permanently Employed Staff	**Contingent Labour**	**Total**	**Permanently Employed Staff**	**Contingent Labour**	**Total**
Employed by DE&S	**11,327**	**450**	**11,777**	**11,961**	**499**	**12,460**
Of which:						
Armed Forces	1051	-	**1051**	1071	-	**1071**
Civilian Personnel	10,276	-	**10,276**	10,890	-	**10,890**
Contingent Labour	-	450	**450**	-	499	**499**

The decrease of civilian personnel has been driven by attrition because of MOD wide recruitment restrictions. The decrease in contingent labour is being driven by DE&S reduced use of contingent labour outside of business-critical roles.

4. EXTERNAL ASSISTANCE

	2025-26 £000	**2024-25 £000**
External Assistance (EA) Contractor Support – Other	141,514	158,651
EA for programmes in concept and assessment phases	2,048	3,724
EA for programmes in demonstration and manufacture phases	28,278	41,932
EA for programmes in in-service support and disposal phase	62,385	68,930
EA Consultancy Support (Project management, organisation design, finance & legal)	-	1,663
EA Other Professional Services	33,776	14,085
T26 Recharge	(460)	-
Total	**267,541**	**288,985**

Overall DE&S PSS has decreased by £21 million. This is driven by an £18 million decrease in EA contractor support due to a reduction in spend with our Engineering and Project delivery partner contracts and a reduction to the support to the Base Warehouse Inventory Management System. In addition, a £14 million decrease in spend on programmes in demonstration and manufacture phase through our engineering delivery partner contracts. A £6.5 million decrease in spend on programmes within the in-service support and disposal phase with our engineering and commercial delivery partner contracts.

There are also smaller decreases in spend on consultancy spend of £1.7 million due to the end of consultancy support to the Naval Support Integrated Global Network. There has also been a £1.7 million decrease in EA spend concept and assessment phase programmes predominantly driven by the end of weapon availability modelling work.

This has been offset by a £20 million increase in our spend on EA other professional services primarily driven by £15 million spend on support to the development of AI tools and £4.5 million increase on spend on commercial improvement programmes.

5. OTHER PROGRAMME COSTS (OPC)

	2025-26 £000	2024-25 £000
Staff travel and subsistence costs	17,108	16,756
IT and telecommunications	23,466	34,773
Other infrastructure expenditure	12,758	12,030
Staff training costs	6,513	6,875
Vehicle Rentals	4,278	4,442
Regulatory safety costs	2,112	1,729
OPC Defence Science and Technologies Laboratories (Dstl)	4,869	7,835
DE&S Deca materials costs	2,540	3,038
Other costs	8,577	8,382
Total	**82,221**	**95,860**

DE&S OPC have decreased overall by £13.6 million. This is primarily driven by lower IT expenditure (£11.3 million), reflecting the reclassification of AI tool development costs to external assistance, alongside a £3 million reduction in Dstl spend linked to decreased support for key programmes, and reduced DE&S Deca materials spend (£0.5 million) due to lower activity on F35 projects. These reductions reflect a combination of cost reclassification and reduced programme demand. This has been partially offset by a £0.7 million increase in infrastructure costs, driven mainly by higher DE&S Deca site expenditure.

6. PROGRAMME INCOME

	2025-26 £000	2024-25 £000
Defence Munitions commercial revenue	9,295	8,006
DE&S Deca Revenue	39,240	35,063
Logistics Commodities Services Revenue (Including British Forces Post Office)	1,688	1,225
DE&S Executive Agency corporate receipts	6,491	9,228
Other Programme Income	6,713	1,428
Total	**63,427**	**54,950**

Almost all DE&S income falls within scope of IFRS 15 – Revenue from contracts with customers. Income has increased by £8.5 million, with the main driver being increases in relation to the income for both DE&S Deca income £4.2 million and Defence Munitions activities of £1.3 million. This is offset by a reduction in post costing receipts of £2.7 million which fluctuates from year to year as explained below. The remaining increase is driven by an increase in other programme income generated by exports activity.

DE&S Deca income is generated predominantly from contracts with the MOD (£35.3 million) with the remaining income being generated from contracts with industry (£4 million). The DE&S Executive Agency corporate receipts income generated by post-costing activity on the DE&S contracts with industry varies depending on the contracts being audited, and 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, where services are rendered and availability targets met. Revenue generated is used to offset the cost 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 non-cash within 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	2025-26 £000	2024-25 £000
UK Strategic Command	Defence Digital Information systems and communication services	Number of DE&S users relative to MOD users	63,352	70,960
DIO	Infrastructure and facilities management costs	Cost per employee at DE&S headquarters extrapolated to DE&S total head count	24,890	27,710
UK Strategic Command	Training services through the Defence Academy and Surgeon General Services	Number of DE&S training days relative to total MOD training days and total DE&S users relative to total Abbey Wood staff	1,801	2,006
DIO	MOD Guard Service	Costs of main DE&S geographical locations extrapolated across total DE&S headcount	16,806	16,767
Defence Business Services	Personnel and Payroll Services	Number of DE&S employees relative to total MOD employees	12,149	11,979
DoS and Corporate Services	Phoenix Car Hire administration and MOD Police services	Based on actuals	810	1,021
Army Command	Army personnel support to DE&S projects	Based on actuals	10,414	7,399
Total			**130,222**	**137,842**

Overall communicated costs have decreased by £7.6 million. The increase is primarily driven by a £7.6 million reduction in Defence Digital service costs, from a reduction in their Resource Departmental Expenditure Limit spend, and DE&S, as a portion of the MOD staff decreasing. Other major movements are an increase of £3 million in British Army personnel providing support to DE&S projects and a decrease of £2.8 million DIO infrastructure costs, mainly driven by reduction in hard infrastructure spend.

8. AUDITOR'S REMUNERATION

DE&S is audited by the Comptroller and Auditor General. The £120,000 charge reflects the costs incurred by the auditor in respect of the audit of the DE&S 2025-26 ARAc. This is a notional, non-cash charge and is reflected in the SoCNE. The auditor's remuneration paid in 2024-25 was £150,000.

9. PROPERTY, PLANT AND EQUIPMENT

	IT & Comms £000	Plant Machinery and Vehicles £000	Transport £000	AUC £000	Total £000
Cost or Valuation					
As of 31 March 2024	**4,813**	**13,967**	**-**	**112,647**	**131,427**
Additions	-	-	-	19,477	19,477
Disposals	-	(1,019)	-	-	(1,019)
Impairments & Adjustments	-	(1,691)	-	-	(1,691)
Revaluations	498	41	-	-	539
Transfer to DIO	-	-	-	(1,158)	(1,158)
Reclassifications	-	1,957	-	455	2,412
Write off	-	-	-	(8,200)	(8,200)
Balance as of 31 March 2025	**5,311**	**13,255**	**-**	**123,221**	**141,787**
Additions	-	-	-	909	909
Disposals	(210)	(1,150)			(1,360)
Impairments & Adjustments[1]		2	-	(6,108)	(6,106)
Revaluations	(134)	(1,795)	-	-	(1,929)
Transfer to DIO[2]	-	-	-	(105,893)	(105,893)
Reclassifications[3]	2,899	1,288	-	(4,187)	-
Write off[4]	-	-	-	(3,270)	(3,270)
Balance as of 31 March 2026	**7,866**	**11,600**	**-**	**4,672**	**24,138**
Depreciation					
Balance as of 31 March 2024	**(1,572)**	**(4,311)**	**-**	**-**	**(5,883)**
Charged in-year	(491)	(1,586)	-	-	(2,077)
Disposals	-	1,019	-	-	1,019
Impairments	-	817	-	-	817
Revaluations	(156)	39	-	-	(117)
Reclassifications	-	-	-	-	-
On 31 March 2025	**(2,219)**	**(4,022)**	**-**	**-**	**(6,241)**
Charged in-year	(643)	(805)	-	-	(1,448)
Disposals	210	1,150	-	-	1,360
Impairments	-	-	-	-	-
Revaluations	(186)	(189)	-	-	(375)
Reclassifications	-	-	-	-	-
On 31 March 2026	**(2,838)**	**(3,866)**	**-**	**-**	**(6,704)**
Net Book Value					
Balance as of 31 March 2024	3,241	9,656	0	112,647	125,544
Balance as of 31 March 2025	3,092	9,233	0	123,221	135,546
Balance as of 31 March 2026	**5,028**	**7,734**	**0**	**4,672**	**17,434**

1 The AUC impairment relates to solar panels.
2 Transfer relates Defence Centre North construction completion and transfer to DIO.
3 Reclassifications relate to transfers from AUC to Plant Machinery and Vehicles on delivery of assets into service and to movements between tangible and intangible classifications.
4 Write-offs relating to Net Zero Solar Farm installation.

DE&S holds PPE assets including Defence Ordnance Safety Group test equipment to enable DE&S to fulfil safety obligations and equipment used by DE&S Deca in its production and repair activities. In-year movements principally relate to AUC with the completion of construction of a new storage facility which was transferred to DIO.

10. INTANGIBLE NON-CURRENT ASSETS

	Software £000	AUC (Development Costs) £000	Total £000
Cost or Valuation			
Balance as of 31 March 2024	**14,892**	**4,459**	**19,351**
Additions	-	1,617	1,617
Disposals	(55)	-	(55)
Impairments/Adjustments	-	-	-
Revaluations	1,524	-	1,524
Reclassifications	1,320	(3,732)	(2,412)
Write Off		(170)	(170)
As of 31 March 2025	**17,681**	**2,174**	**19,855**
Additions	-	1,124	1,124
Disposals	(2,003)	-	(2,003)
Impairments/Adjustments	-	-	-
Revaluations[2]	(996)	-	(996)
Reclassifications[1]	3,298	(3,298)	-
Write Off	-	-	-
As of 31 March 2026	**17,980**	**-**	**17,980**
Amortisation			
Balance as of 31 March 2024	**(5,309)**	**-**	**(5,309)**
Charged in-year	(2,144)	-	(2,144)
Disposals	55	-	55
Impairments	-	-	-
Revaluations	(561)	-	(561)
Reclassifications	-	-	-
As of 30 March 2025	**(7,959)**	**-**	**(7,959)**
Charged in-year	(1,134)	-	(1,134)
Disposals	2,003	-	2,003
Impairments	-	-	-
Revaluations[2]	(490)	-	(490)
Reclassifications	-	-	-
As of 31 March 2026	**(7,580)**	**-**	**(7,580)**
Net Book Value			
Balance as of 31 March 2024	9,583	4,459	14,042
Balance as of 31 March 2025	9,722	2,174	11,896
Balance as of 31 March 2026	**10,400**	**-**	**10,400**

1 Reclassifications relate to transfers from AUC to software on delivery into service.
2 Revaluations figure relates to alignment of Net Book Value (NBV) value with MOD non-current asset register due to a change in accounting policy as indexation of intangible non-current assets ceased from 1 April 2025.

Most DE&S intangibles relate to software. This includes the MyHR software tool (£4.9 million NBV), a software license (£1.2 million NBV) and an Anthropometric Survey Database (£1.2 million NBV). Additions relate to the DE&S Deca ERP system and the P3M Oracle License.

11. TRADE AND OTHER RECEIVABLES

	2025-26 £000	2024-25 £000
Amounts falling due within one year		
Accrued Income	958	360
Other Receivables	2,590	2,433
Trade Receivables	11,055	10,633
Prepayments	3,083	2,391
Total Current Receivables	**17,686**	**15,817**
Amounts falling due after more than one year		
Prepayments	232	353

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

	2025-26 £000	2024-25 £000
Amounts falling due within one year		
EA accruals	(35,742)	(48,858)
Direct staff accruals	(77,388)	(68,954)
Other liabilities	(9,582)	(12,810)
Lease liability	(914)	(867)
VAT owed to His Majesty's Revenue and Customs (HMRC)	(1,499)	(1,168)
Total Current Liabilities	**(125,125)**	**(132,657)**
Amounts falling due after more than one year		
Lease liability	(1,952)	(1,494)

There has been a £7 million decrease in liabilities. Payables balances fluctuate throughout the year depending on the timing of payments to suppliers. The 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

	2025-26 £000	2024-25 £000
At 1 April	**65**	**63**
Net movement during year	-	2
Balance at 31 March	**65**	**65**

13.2 WORK IN PROGRESS

	2025-26 £000	2024-25 £000
At 1 April	**131**	**267**
Net movement during year	-	(136)
Balance at 31 March	**131**	**131**

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 due to motor or 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.

	2025-26 £000	2024-25 £000
At 1 April	**654**	**452**
Increase/(Decrease) in Provision	888	429
Provisions used	(300)	(225)
Unwinding Discount	2	(2)
Balance as of 31 March	**1,244**	**654**

ANALYSIS OF EXPECTED TIMING OF DISCOUNTED CASH FLOWS:

	2025-26 £000	2024-25 £000
Due within one year	779	346
Due over one year and less than five years	465	308
Due over five years	-	-
Balance at 31 March	**1,244**	**654**

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 due to motor or other workplace incidents.

Descriptions and Key uncertainties	31 March 2025 £000	Increase/ Decrease in-year £000	Liabilities Crystallised in-year £000	Obligation Expired in-year £000	31 March 2026 £000
Legal claims (personal)	161	181	(43)	(33)	266
This liability is created by the percentage of legal claims that are repudiated by the company who manage the MOD's legal claims. The percentage remains variable.					

There are no contingent assets.

16. 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:

16.1 CAPITAL COMMITMENTS

	31 March 2026 £000	31 March 2025 £000
Property, plant and equipment	-	263
Intangible	-	-
Total	**-**	**263**

Capital commitments have decreased to zero following completion and delivery of the Defence Centre North, which completed in April 2025 and represented our prior year capital commitment. This resulted in a nil commitment balance this year.

DE&S has also entered non-cancellable contracts which are not leases, Private Finance Initiative 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.

16.2 OTHER FINANCIAL COMMITMENTS

	31 March 2026 £000	31 March 2025 £000
Not later than 1 year	196	1,566
Later than 1 year but not later than 5 years	908	914
Later than 5 years	-	-
Total	**1,104**	**2,480**

Financial commitments have decreased by £1.4 million. This decrease is due to non-cancellable contracts ending in the current FY.

17. LEASES

DE&S lease contracts comprise leases of buildings (domestic accommodation for DE&S staff and their families who have relocated to the USA) and transport (a fleet of vehicles for use by DE&S employees on business travel).

17.1 RIGHT-OF-USE ASSETS

	Dwellings £000	Vehicles Costs) £000	Total £000
Cost or Valuation			
On 31 March 2024	1,430	2,791	4,221
Additions – New Leases	57	1,121	1,178
Disposals	(587)	(597)	(1,184)
Impairments/Adjustments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
On 31 March 2025	**900**	**3,315**	**4,215**
Additions – New Leases	3	1,405	1,408
Disposals	(505)	(369)	(874)
Impairments/Adjustments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
On 31 March 2026	**398**	**4,351**	**4,749**
Amortisation			
On 31 March 2024	**(791)**	**(1,144)**	**(1,935)**
Charged in-year	(418)	(737)	(1,155)
Disposals	587	597	1,184
Impairments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
On 31 March 2025	**(622)**	**(1,284)**	**(1,906)**
Charged in-year	(190)	(750)	(940)
Disposals	505	369	874
Impairments	-	-	-
Revaluations	-	-	-
Reclassifications	-	-	-
On 31 March 2026	**(307)**	**(1,665)**	**(1,972)**
Net Book Value			
Balance as of 31 March 2024	639	1,647	2,286
Balance as of 31 March 2025	278	2,031	2,309
Balance as of 31 March 2026	**91**	**2,686**	**2,777**

17.2 LEASE LIABILITIES

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

Amounts falling due	2025-26 £000	2024-25 £000
Less than 1 Year	(825)	(815)
1-5 Years	(1,632)	(1,371)
Greater than 5 Years	(409)	(175)
Total lease liabilities	**(2,866)**	**(2,361)**

17.3 AMOUNTS RECOGNISED IN THE SOCNE FOR LEASES

Lease values recognised	2025-26 £000	2024-25 £000
Depreciation	938	1,156
Interest expense	97	56
Low value and short-term leases	305	332
Total	**1,340**	**1,544**

17.4 AMOUNTS RECOGNISED IN THE CASHFLOW STATEMENT FOR LEASES

Lease values recognised	2025-26 £000	2024-25 £000
Interest expense	97	56
Repayment of Principal on Leases	988	1,158
Total	**1,085**	**1,214**

18. CASH AND CASH EQUIVALENTS

Lease values recognised	2025-26 £000	2024-25 £000
At 1 April	13,173	10,175
Net change in cash and cash equivalents	27,627	2,998
Balance as of 31 March	**40,800**	**13,173**

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. The net change represents net inflows in-year from DE&S Deca trading activity of £27.6 million.

19. RELATED PARTY TRANSACTIONS

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

DE&S Deca is part of DE&S and most of its income relates to work undertaken for the MOD. For 2025-26, £35.3 million of DE&S Deca's income is from the MOD (2024-25, £31 million) and a trade receivables balance of £6.5 million as of 31 March 2026 was owed to DE&S Deca by the MOD (2024-25, £7 million).

Dstl is a related party, and DE&S incurred costs of £4.9 million during 2025-26 undertaking business activities with Dstl (2024-25, £7.8 million). All contracts with Dstl are charged at cost, with no profit.

The MOD continues to undertake several transactional activities on behalf of DE&S, the most significant of which relate to direct staff costs including the calculation and processing of taxation with HMRC and pension benefits for both the AFPS and the PCSPS.

DE&S provides corporate services to the Submarine Delivery Agency (SDA) to assist in delivering its objectives and to maintain compliance with Government requirements. Corporate services include, but are not limited to, business support, function management, People services, communications, infrastructure and estate. DE&S recharges SDA for its share of the DE&S corporate overheads. In 2025-26, this was £10.9 million (2024-25, £10.1 million).

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

No Board Members, senior employees or their related parties have undertaken any material business transactions with DE&S in the period to 31 March 2026.

David Johnson, Finance Director, is a member of the Army FLC Audit and Risk Committee. Army FLC are a related party of DE&S.

In addition, the following senior officials and Board members declared close family relationships with individuals employed by, or providing services to, companies that had financial transactions with DE&S during the year:

- Lieutenant General Sir Simon Hamilton, Interim DE&S CEO - Anduril Industries Inc.
- Paul Marshall, DG Options and Commissioning - BAE Systems.
- Claire Hawkings, NED - a construction subcontractor of AWE Nuclear Security Technologies.

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 2025-26, we were given an operating budget of £1,187 million, which excluded budgets relating to support to Ukraine and the MOD wide Civil Service VES. DE&S spent £14 million on support to Ukraine, and £9 million on the VES, which were separately funded. The outturn position for the year including operational spend for Ukraine and the centrally funded MOD wide VES was £1,202 million (£1,199 million revenue and £3 million capital). This represents a reduction against budget of £8 million (total spend £1,202 million less operational spend in support of Ukraine, £14 million, and the VES of £9 million equalling £1,179 million spend against a budget of £1,187 million).

The net revenue outturn position of £1,199 million is captured in the SoCNE and is made up of Direct Staff Costs, PSS Costs and OPC of £1,262 million offset by the income generated by DE&S in 2025-26 of £63 million.

The capital outturn position of £3 million is primarily related to the continued investment in the construction of a storage facility which was delivered in FY 2025-26 along with IT systems and licences. This is highlighted in the PPE and Intangible Non-Current Asset Notes, 1.11 and 1.12 on page 105.

DE&S also has an infrastructure budget which is invested in improving and maintaining the estate that DE&S uses. While DE&S manages and directs this expenditure, the costs are included in the DIO accounts as this organisation is responsible for the MOD estate. For 2025-26, DE&S was given an infrastructure budget of £156 million of which £149 million was spent. This represents a reduction against budget of £7 million.

In total, for 2025-26, DE&S had a budget of £1,343 million (£1,187 million operating expenses and £156 million of infrastructure). We spent £1,328 million against this budget (£1,178 million operating expenses excluding support to Ukraine and VES plus £149 million infrastructure), giving an underspend of £15 million.

21. EVENTS AFTER THE REPORTING DATE

On 1 April 2025, DE&S became part of the NAD Group, with full integration completed on 1 April 2026. While DE&S is retained as an Executive Agency for next year for the purposes of delivery, work has been aligned to operate under new DG business areas within the NAD Group design. Legacy DE&S staff have retained their existing terms and conditions, and the freedoms and delegations held by DE&S remain extant for use within its legacy boundary. Work is ongoing to determine the longer-term NAD Group operating requirements, including the flexibilities and freedoms it needs to deliver.

To support the establishment of a single, coherent organisational structure across the NAD Group, DG business areas, including legacy DE&S ones, were renamed as follows:

International Collaboration and Exports became National Armaments International.

- Commercial and Industry became National Armaments Commercial and Industry.
- Options and Commissioning became National Armaments Plans and Portfolios.
- The innovation pillar (within which Dstl, UKDI and the Defence Investment Unit sit) became National Armaments Innovation.
- DE&S Core Delivery became National Armaments Materiel.
- Corporate and Shared Services became National Armaments Corporate.
- Defence Support became National Armaments Logistics and Support.
- Defence Digital became National Armaments Digital and Data.

Following integration into the NAD Group, governance and oversight transferred from the DE&S Board to the NAD Group Advisory Board. As part of these changes the DE&S Chair, Mark Russell, stepped down; the interim DE&S CEO, Lt Gen Sir Simon Hamilton, left his role; and two DE&S NEDs (Air Marshal Tim Jones and Nick Folland) also stepped down. In addition, five DE&S NEDs transferred to become NAD Group Non-Executive Members. These were:

- Carolyn Battersby.
- Claire Hawkings.
- Andy Lord.
- Tony Meggs.
- Tracy Sheedy.

The DIP was published after the reporting period, on 30 June 2026. It sets out future defence investment priorities and will inform the NAD Group's forward plans and resource allocations. This development does not adjust the 2025–26 financial statements but is disclosed for completeness given its significance in shaping the operating context.

ACCOUNTS AUTHORISED FOR ISSUE DATE

The accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General Audit Certificate.

GLOSSARY

Acronym	Definition
AAR	Annual Assurance Report
AI	Artificial Intelligence
ARAc	Annual Report and Accounts
AUC	Assets Under Construction
BAR	Business Appointment Rules
BCM	Business Critical Model
CASD	Continuous At Sea Deterrent
CASP	Command Acquisition and Support Plan
CCIAF	Commercial Continuous Improvement Framework
CEO	Chief Executive Officer
CIRAM	Climate Impact Risk Assessment Methodology
DE&S	Defence Equipment and Support
DoS	Department of State
DG	Director General
DIDB	DE&S Infrastructure Delivery Board
DIO	Defence Infrastructure Organisation
DIS	Defence Industrial Strategy
DIP	Defence Investment Plan
EA	External Assistance
EDP	Early Departure Payment
EP	Equipment Plan
ELT	Executive Leadership Team
EMS	Environmental Management System
FLCs	Front Line Commands
FReM	Financial Reporting Manual
FY	Financial Year
GIAA	Government Internal Audit Agency
GGC	Greening Government Commitments
GHG	Greenhouse Gas
HMRC	His Majesty's Revenue and Customs
HMT	His Majesty's Treasury
IFRS	International Financial Reporting Standard
IOC	Initial Operating Capability
IRM	Information and Records Management
JSP	Joint Service Publication
KPI	Key Performance Indicator
MI	Management Information
MSHQ	Military Strategic Headquarters
MOD	Ministry of Defence
MOS	Management Operating System

Acronym	Definition
NAD Group	National Armaments Director Group
NAO	National Audit Office
NBV	Net Book Value
NED	Non-Executive Director
OGD	Other Government Department
OGSM	Objectives, Goals, Strategies and Measures
OIEP SG	Operations and Infrastructure Environmental Protection Steering Group
OMT	Operating Model Transformation
OPC	Other Programme Costs
PCSPS	Principle Civil Service Pension Scheme
PPE	Property, Plant, and Equipment
PSS	Private Sector Support
QA	Quality Assurance
RAF	Royal Air Force
RFA	Royal Fleet Auxiliary
SCS	Senior Civil Service
SDG	Sustainable Development Goal
SDR	Strategic Defence Review
SHEC	Safety, Health and Environmental Committee
SLG	Senior Leadership Group
SoCNE	Statement of Comprehensive Net Expenditure
SDA	Submarine Delivery Agency
SQEP	Suitably Qualified and Experienced Personnel
SOFP	Statement of Financial Position
TCFD	Task Force Climate-related Financial Disclosure
TU	Trade Union
UK	United Kingdom
VAT	Value Added Tax

Ministry of Defence

de&s

E03605893
978-1-5286-6491-2