

DEFENCE SUPPORT GROUP FRAMEWORK DOCUMENT 2008

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FOREWORD

By the Minister for Defence Equipment and Support, Baroness Taylor



Writing the foreword to the framework document of MoD's newest Trading Fund allows me to set out my expectations for the Defence Support Group in supporting of our Armed Forces into the future.

Merging ABRO's land support functions with the retained businesses of DARA, presents us with a unique ability to capitalise on the wealth of talent and expertise that exists within these two organisations. In creating a single new Trading Fund, we are placing greater emphasis on the importance of retaining in-house capabilities to help deliver the benefits that will support operations at home and abroad.

The fact that both ABRO and DARA have been trading successfully in their own right for several years is the foundation on which we can build a new equipment support organisation that is fully integrated into our future support strategies. Our greatest assets are the knowledge and know-how of our employees. We must retain these capabilities to ensure we can continue to support land and air equipment to a high standard.

My focus for the Defence Support Group is unambiguous – it will support our defence capabilities. The new organisation can capitalise on its many inherent strength and I encourage it to continue innovating and delivering unique equipment support solutions that will meet the Customer requirement in the most cost-effective way.

Critical to the future success of the Defence Support Group will be its role with Industry. Successful alliances with industry prime contractors is key to our new approach to partnering for through life support of land and air equipment. By retaining the Defence Support Group as an in-house support capability, we can continue to drive down costs and exert the commercial leverage that is essential if we are to add real value to our future defence needs. I will look for DSG, and Industry, to deliver business solutions that optimise best value outcomes for our future Defence needs.

In conclusion, I have every confidence in the Defence Support Group's ability to rise to the many challenges that lie ahead and I wish the Chief Executive and the Defence Support Group employees every success for the future.

Baroness Taylor
Minister for Defence Equipment and Support

27 March 2008

Introduction

On the 25 July 2007, the Minister of State for the Armed Forces Rt Hon Bob Ainsworth confirmed that the Ministry of Defence's would create the Defence Support Group (DSG) by merging together the MoD Land and Aviation repair agencies (ABRO and retained elements of DARA respectively) and certain other defence support facilities. DSG will begin formal trading as an MoD Trading Fund on 1 April 2008, subject to securing the necessary Parliamentary approval.

The purpose of this document is to set out, in one authoritative paper, what DSG is charged to deliver, and the governance, policy and financial frameworks under which it operates.

MoD, in conjunction with DSG, will undertake regular reviews of this Framework Document. The latest version will be published on the DSG website www.dsg.mod.uk, from where additional copies can be downloaded.

Printed copies of this framework document, and any subsequent amendments, will be placed in the Libraries of the Houses of Parliament.

Where relevant, this document includes links to sources of further detailed information.

1. The Purpose of the Defence Support Group

1.1. Status

DSG is a Government Trading Fund established to support the UK Armed Forces and the delivery of wider Defence objectives.

DSG has been formed through the merger of ABRO, the Defence Aviation Repair Agency's (DARA) Electronics and Large Aircraft business units, and certain other defence support facilities.

DSG launched on 1 April 2008 operating with the increased levels of delegation and accountability afforded to Government Trading Funds.

The DSG Trading Fund Order and HM Treasury Minute are at Annex A.

As a Trading Fund, the Secretary of State (for Defence) is the Minister with formal responsibility for DSG. Day-to-day ministerial oversight and the formal business ownership role is delegated to the Minister of State for Defence Equipment and Support.

Under its trading fund status, DSG is set agreed key targets and is expected to be financed from income earned from its customers.

1.2. Organisation

DSG's Head Office is currently located at Andover and provides strategic direction to its four main business units:

Armoured Vehicles – Specialises in depth repair, overhaul and upgrades for armoured vehicles and associated assemblies.

Land and B Vehicles - Provides a 'one-stop shop' facility to the Armed Forces conducting unscheduled repair and maintenance tasks across the full range of land based equipments. Also provides depth repair, overhaul and upgrades for B (soft skinned) Vehicles.

Large Aircraft – UK centre of deep maintenance for the VC10 Transport and Refuelling aircraft fleet.

DSG Electronics & Components- Programmed and unscheduled repair and maintenance of a

wide range of electronic, optronic, small arms and specialist military equipment.

1.3. Role

DSG has been retained in MoD ownership to support delivery of the Defence Industrial Strategy by securing access to in-house capacity and capability for the maintenance, repair, overhaul and upgrade of strategically important Land and Air in-service equipments (deploying personnel to operational theatres if required), and to build a similar capability to support future MoD equipment acquisition and support strategies.

DSG will support the achievement of the MoD's Public Service Agreement by helping ensure Land and Air equipments are in a suitable material condition to undertake military operations, and by driving down the costs to MoD of this support.

1.4. Mission

To provide expert in-house maintenance, repair, overhaul, and upgrade services for the through life support of UK Armed Forces Air and Land systems.

1.5. Vision

Excel in Supporting Defence

1.6. Top-Level Objectives (TLOs)

To achieve its mission, the Owner has set DSG the following top-level objectives:

- Deliver a responsive and value added maintenance, repair, overhaul and upgrade capacity and capability;
- Develop competitive and innovative solutions to support future MoD equipment acquisition and support strategies; and
- Operate as a socially responsible organisation.

As a Trading Fund, DSG is required to make a financial return at least equivalent to its cost of capital in delivering these objectives.

A more detailed articulation of each objective is at Annex B.

2. Governance Framework

2.1. Key Roles

The corporate governance and accountability arrangements for DSG draw on best practice in both the public and private sectors, and reflect its special position operating as both part of a Government department, and a commercial organisation.

The central features of the governance arrangements are illustrated in Figure 1 on page 9. The key roles are:

- **Ministerial Owner:** sets DSG's top level objectives, establishes its policy and financial framework, and approves major business decisions;
- **DSG Trading Fund Board:** comprising an independent non-executive Chairman, non-executive directors, the Chief Executive of DSG, and key DSG Directors who act on behalf of the Owner in scrutinising the business plans and performance of the organisation; and
- **DSG Management Board:** led by the Chief Executive and comprising all DSG Executive Directors who are responsible for leading, directing and managing the Trading Fund.

In exercising the role of Owner, the Minister receives advice from:

- CE DSG;
- departmental officials in MoD Centre;
- the DSG Trading Fund Board, via its Chairman; and
- an Owner's Advisory Council comprising senior stakeholders from within the MoD and across government.

2.2. Governance Levers

The principal business decisions underpinning this governance framework relate to the approval of the following;

- DSG's top-level objectives, overall business strategy, and five-year Corporate Strategic Plan. These are endorsed by the Trading Fund Board and formally approved by the Owner;
- business plans for individual Business Units and Corporate Functions with detailed objectives and targets for the first 12 months of the Corporate Strategic

Plan (CSP). These are approved by the DSG Management Board;

- annual Key Targets that enable the Owner to judge performance against the Top Level Objectives. These are endorsed by the Trading Fund Board, approved by the Owner, and published in Parliament; and
- specific major business proposals requiring approval at a level higher than the Management Board (for example major investments, rationalisation or new business ventures – see Annex E for more detail). Depending on their magnitude and wider significance, these are either approved by the Trading Fund Board or by the Owner (following endorsement by the Trading Fund Board).

The DSG Management Board initiates preparation of proposals in all these areas, apart from the development and review of top-level objectives, on which MOD Centre leads on behalf of the Owner.

The most significant of the above levers is the DSG CSP. Based on a full market analysis the DSG CSP sets out:

- the strategy for meeting DSG's top-level objectives over the next five years,
- the main activities, investments and other decisions which will deliver this strategy;
- how success will be measured, including objectives, targets and milestones;
- the way in which risks to success will be mitigated;
- the key underpinning assumptions; and
- a comprehensive financial analysis with projections across the five-year period.

The DSG CSP is refreshed annually and is a commercially sensitive document. When approved by the Owner, it forms the authoritative basis against which all business decisions within DSG are to be taken. Approval also authorises key assumptions on which the business is entitled to plan. Individual business decisions flowing from these assumptions still require specific approval under the framework at Annex E.

2.3. The Owner

Ministerial responsibility for DSG is vested in the Secretary of State for Defence who delegates day-to-day ownership responsibility to the Minister of State for Defence Equipment and Support.

Under this delegation the Owner's main responsibilities are:

- to set and review DSG's top-level objectives;
- to establish a policy and financial framework;
- to approve major business decisions, including the long-term business strategy and five-year CSP; and
- to set annual Key Targets.

The detailed responsibilities are set out in Annex G.

2.4. The DSG Owner's Advisory Council

The DSG Owner's Advisory Council is a group of senior stakeholders from across and outside the MoD, which meets as necessary to discuss and advise on how the Minister should exercise his/her ownership responsibilities. Its detailed role and composition is given at Annex G.

2.5. The DSG Trading Fund Board

Led by an independent, non-executive Chairman, the DSG Trading Fund Board acts with delegated authority from the Owner. Its main role is to support and constructively challenge the DSG Management Board, and to apply scrutiny both in the development of business strategies, plans, business cases and targets; and in assessing the business performance of DSG in delivering the approved CSP.

In discharging this role, the Trading Fund Board has delegated authority to approve certain categories of business decisions (set out in Annex E). On issues requiring the Owner's approval, the Trading Fund Board will review the recommendations of the DSG Management Board and endorse them before they are formally submitted to the Owner.

The role and composition of the Trading Fund Board is set out in detail in Annex G.

The DSG Trading Fund Board has two key sub-committees, each chaired by a Non-Executive Director: the Audit Committee and the Remuneration Committee. The remits of both are set out at Annex C.

2.6. The Chairman of the DSG Trading Fund Board

The Chairman is responsible to the Owner for leading the DSG Trading Fund Board and

ensuring that it is effective in discharging its role. He has delegated authority (to be exercised via the Trading Fund Board as a whole) to scrutinise DSG's business plans and performance. He has a personal role, in advising the Owner about the high-level business issues affecting DSG, both directly and as a member of the Owner's Advisory Council.

The Chairman's detailed responsibilities are given in Annex G.

2.7. The Chief Executive

The role of the Chief Executive is to lead and manage DSG effectively in order to ensure delivery of the objectives and targets set for it by the Owner, and in particular the successful implementation of an approved CSP.

The Chief Executive is formally accountable to the Owner for all aspects of the operation of DSG. In view of its delegated authority, the Chief Executive is accountable to the Trading Fund Board (acting on the Owner's behalf) on issues of business strategy, plans, targets and performance, and also on major business proposals. The Chief Executive seeks the Trading Fund Board's approval or endorsement (as appropriate) for all significant decisions in these areas, within the framework set out in Annex E.

The Chief Executive's detailed responsibilities are set out in Annex G.

The Chief Executive is also appointed by HM Treasury as the Accounting Officer for DSG, and thus he has personal responsibility and accountability to Parliament for the propriety and regularity of the public finances under his control, for keeping proper accounts, and for the proper, efficient and effective use of available resources. As Accounting Officer, the Chief Executive may be required to appear before the Public Accounts Committee.

2.8. Ministry of Defence (MOD)

2.8.1 MoD Finance Director

The MoD's Finance Director has the day-to-day lead in advising the Owner on his/her responsibilities in relation to DSG. This involves balancing a range of interests that the department, and government more broadly, has in the organisation, including:

- **Customer:** the MoD is the principal customer of DSG;
- **Shareholder:** MoD owns the public dividend capital (equity) in DSG and agrees its dividend policy;
- **Finance provider:** as well as owning the public dividend capital, MoD is the only source from which DSG can receive loans; and
- **Sponsor of policy and standards:** as part of MoD and government, DSG is bound by certain policies and standards. The main ones are set out in Section 3.

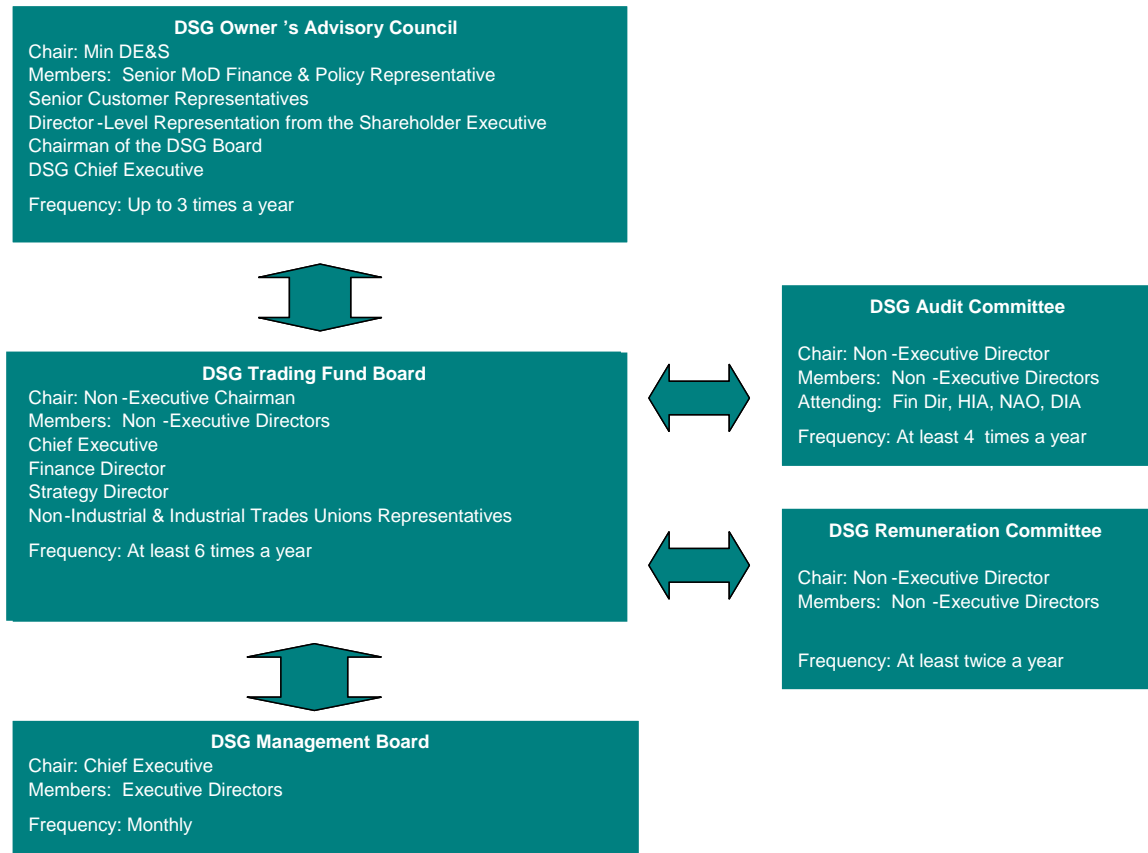
The MoD's Finance Director will be represented on the DSG Trading Fund Board by a Non Executive Director.

2.8.2 Chief of Defence Materiel

MoD's role as Owner of DSG is discharged as far as possible, separately from that of key customer. DSG's MoD Customer is represented by the Chief of Defence Materiel who leads the MoD's Defence Equipment & Support organisation.

Commitment from the MoD to sustain essential levels of capability and capacity will provide DSG with the clarity necessary to implement a programme of continuous improvement. DSG will therefore work closely with its MoD Customer and Defence Industry partners in formulating proposals that will ensure DSG capability and capacity represents best value for Defence.

Figure 1 - Central Features of DSG Governance Arrangements



3. Policy Framework

DSG is to conduct its affairs within the approved CSP, its Trading Fund Order, and such general instructions and guidance as the Owner, Her Majesty's (HM) Treasury and the Cabinet Office may provide from time to time.

DSG is also bound by policies and standards which are general across government, and by some which are more specific to MoD Trading Funds. The main non-financial elements in this framework are set out below. Policies and standards bearing on the financial management of DSG are set out in Section 4.

3.1. Parliamentary Accountability

The Owner will normally deal personally with inquiries from Members of Parliament (MPs); Members of the European Parliament (MEPs); Members of the National Assembly for Wales and Members of the Scottish Parliament who specifically seek a ministerial response. MPs and MEPs are however encouraged to communicate directly with the Chief Executive on day-to-day operational matters, keeping the Secretary of State informed as appropriate. The Owner may invite the Chief Executive to respond directly to enquiries raised with Ministers. Any letters sent by the Chief Executive in reply to Parliamentary Questions are published in the Official Report.

As the Accounting Officer, the Chief Executive may be required to appear before the Public Accounts Committee (PAC).

At Select Committee hearings, the Owner will normally ask the Chief Executive to represent or accompany him/her if the Committee is concerned with the day-to-day operations of the Agency. The Chief Executive will also be responsible for implementing the recommendations of the PAC or other Parliamentary Select Committees if the government accepts them.

3.1.1. Parliamentary Commissioner for Administration

DSG is subject to the jurisdiction of the Parliamentary Commissioner for Administration. The Chief Executive is responsible for the preparation of replies on any matter concerning the operation of DSG, and for replying in the majority of cases. He is also subject to the jurisdiction of the Information Commissioner in relation to Freedom of Information obligations.

DSG operates within the complaints procedures set out for the wider MoD.

3.2. Delegations

As a matter of policy, the Chief Executive receives delegated authority in the areas of finance, contracts, people management, pay, health, safety and environment management, and security. These are articulated in a Letter of Authority issued by MoD's Permanent Under-Secretary of State. More details are at Annexes D to H. These delegations are vested in the Chief Executive who may sub-delegate within DSG, (Annex F separately details the Chief Executive's Appointment by Treasury as Accounting Officer).

3.3. Trades Unions

In accordance with the MoD's Employee Relations Policy, DSG will ensure that the Trades Unions are consulted about any proposed changes that impact upon their members. This will be through both the formal consultation process and through open and constructive engagement with the Non Industrial and Industrial Trades Unions within DSG's Whitley Council structure. DSG will also maintain informal day-to-day contact with the Trades Unions at both local and national level through its Employee Relations Focal Points.

DSG recognises the negotiating rights of all relevant Trades Unions and will negotiate with them on matters related to pay and conditions of service.

3.4. Best Practice & Accreditation

In order to meet best-practice standards as an employer and supplier DSG will be committed to meeting its obligations, responsibilities and adhering to all existing legislation on health, safety, environmental and airworthiness requirements.

DSG will maintain the appropriate accreditations to meet both regulatory and Customer requirements.

3.5. Competition Law

In providing services that are potentially or actually contestable, DSG must ensure that it is – and is seen to be – fully compliant with competition legislation, including avoiding misuse of its position as a key provider in certain sectors. Transparent processes are to be put in place to ensure that such services are fully priced and that there is no cross-subsidy between services delivered under commercial activities or the objectives set out in Annex B.

3.6. Intellectual Property Rights (Excluding Crown Copyright)

Original Equipment Manufacturers (OEMs) as the main equipment design authorities hold certain intellectual property rights. However, in the delivery of its objectives over a number of years, ABRO and DARA have developed a practical application of intellectual property through its knowledge of the current In-Service Equipments. This perceived intellectual property shall be held in the name of the Defence Secretary under the administrative and managerial control of DSG.

3.7. Policy in relation to External Stakeholders

3.7.1 HM Treasury

DSG will comply with current HM Treasury guidance to government departments and trading funds.

3.7.2 Cabinet Office

DSG will follow all relevant Cabinet Office instructions and guidance.

3.7.3 Shareholder Executive

The role of the Shareholder Executive (ShE) (located in the Department for Business Enterprise and Regulatory Reform but reporting to the Cabinet Secretary) is to provide specialist

advice to ministers and officials across government on a wide range of business ownership issues. The ShE is represented on the DSG Owner's Advisory Council, and also provides advice, as requested, to the organisation itself and to officials in MoD.

3.7.4 The Stationery Office (TSO)

Crown Copyright is vested by Royal Letters Patent in the Controller of Her Majesty's Stationery Office (part of the Office of Public Sector Information). The Controller has delegated powers, subject to some constraints, to the Chief Executive for the day-to-day administration of copyright in DSG data and publications, including the determination of rules and terms under which permission for their reproduction and use is given. The Controller of Her Majesty's Stationery Office regulates management of Crown Copyright by the TSO Information Fair Trade Scheme. DSG is committed to the principles of fair, open and transparent information trading embodied in the Scheme.

DSG practices in respect of the Fair Trade Scheme are subject to regular verification by TSO.

4. Financial Framework

This section sets out the broad financial basis on which DSG operates, together with related policies and standards.

4.1. Business Model

DSG provides services to a range of customers, primarily defence but with a small number of non defence customers. In pricing its services, DSG sets prices on the basis of both the cost and risk of providing that service.

In the case of services provided to, or on behalf of, the Government which are not generally capable of being competed, prices are set to recover costs, risk and any profit necessary for investment in the business. DSG is to maintain Service Level Agreements for services provided within government which clearly define the outputs and associated costs, and where possible provide incentives for cost-reduction and/or service enhancements.

In contrast, profit margins for business which is either competed or capable of being competed are to be dictated by market conditions. This applies to competed services to government departments.

In developing and considering strategies and plans, DSG and the MoD will also ensure that the department's widest financial interests are considered to ensure achievement of best value for defence.

4.2. Products and Services

A list of current products and services can be found on the DSG website at www.dsg.mod.uk

4.3. Accounting Officer Responsibilities

DSG operates as a trading fund in accordance with the Government Trading Funds Act 1973 as amended, and the DSG Trading Fund Order 2008.

As the Accounting Officer for the DSG Trading Fund, the Chief Executive is bound by the provisions of his formal Letter of Appointment from HM Treasury. The provisions are at Annex D. The Chief Executive cannot sub-delegate the Accounting Officer responsibilities

4.4. Major Decision Making

The policy governing key financial decisions in DSG is set out in Annex E. This sets out the

circumstances in which the Chief Executive is required to seek higher approval, either from the DSG Trading Fund Board or the Owner, before a decision is taken.

4.5. Annual Report and Accounts

DSG will prepare an annual report together with a statement of accounts, in accordance with relevant guidance from HM Treasury.

The *Annual Report and Accounts* reviews the operations of DSG over the previous year, provides details of performance against the objectives and targets and reviews planned developments. The *Accounts* will meet the accounting and disclosure requirements set by HM Treasury.

The accounts will be submitted to the Comptroller and Auditor General within an agreed timetable for audit and certification. The audited accounts will be laid before both Houses of Parliament, and will be published, including but not limited to the DSG website.

4.6. Capital Structure

The net assets of the DSG Trading Fund at vesting day, 1 April 2008, will be financed by a combination of loans and Public Dividend Capital. With the concurrence of the MoD and the Chief Secretary to the Treasury, DSG will establish and maintain general capital and other reserves.

DSG will, with MoD, regularly review its capital structure and funding requirements.

4.6.1. Loan Funding

The sole provider of loans to DSG is the MoD. The MoD will set the terms on advice from HM Treasury. Where a loan is used to finance commercial services or activities rather than to provide non-competed services to government, the expectation is that the loan shall be made on arm's-length commercial terms.

All loans must be subject to the presentation of a timely and compelling business case built around the high-level business objectives set out in the CSP. Like all requests for funding from the Defence budget, business cases supporting loan applications will be subject to scrutiny by MoD Centre.

4.6.2. Income and Expenditure

DSG revenue will come from payments made by customers for its services. All sums received by

DSG will be paid into, and all expenditure incurred will be paid out of, the Trading Fund.

4.6.3. Return on Capital Employed (ROCE)

The Owner will, with the concurrence of HM Treasury, set a ROCE target that reflects the prevailing cost of capital to government, and the level of risk inherent in the services provided.

4.6.4. Dividends Policy

The dividend policy will be agreed by DSG with the Owner on an annual basis, but unless specifically agreed otherwise, DSG will (as a minimum) aim to cover through interest and a dividend to MoD the cost of capital charge to the defence budget against its net assets. The Owner retains the right to seek additional dividend payments if he/she judge that the cash position and business circumstances of DSG so permit, although the Owner will seek to obtain the agreement of the DSG Trading Fund Board in such circumstances.

4.6.5. Retained Earnings

As soon as possible after the end of the trading year, DSG will calculate its net operating surplus/deficit after deduction of interest charges. This surplus may be retained in the business or paid as dividends in proportions to be approved by the Owner.

DSG may reinvest retained earnings in the business in line with the CSP, subject to the delegations set out in Annex D.

4.6.6. Assets

DSG will retain, maintain and renew only the assets it needs to deliver its top level objectives and will dispose of any surplus land, buildings, plant and equipment to achieve economy in its operations. Any proposals to alter significantly the assets held by DSG will be considered during the CSP process and endorsed by the DSG Trading Fund Board. Appraisals for all major investments will be undertaken in accordance with HM Treasury guidance.

Distribution of proceeds over £5M (net of sale costs) will be decided jointly by MoD Finance Director & DSG with priority given to the cash flow situation of DSG, followed by repayment of any debt associated with the asset subject to value for money considerations.

The assets appointed to DSG are shown in the DSG Trading Fund Order; changes in these

assets or their valuations are indicated in the Annual Report and Accounts, and in the DSG CSP. Ownership of the assets apportioned to DSG remains vested in the Defence Secretary.

DSG will maintain its estate to ensure statutory compliance, best value for money in support of business objectives, and alignment with the MoD's Defence Estates Strategy. Any disposal of land and/or buildings should be considered as part of the CSP round (or a separate business case). In order to achieve the best value for Defence, Defence Estates should be fully consulted about the disposal and acquisition of both land and buildings.

4.6.7. Liabilities

DSG is responsible for all site liabilities occurring after vesting day. The MoD is responsible for the settlement of third-party claims in respect of incidents that occurred at respective sites prior to the formation of the original vesting dates of the ABRO and DARA trading funds.

Claims by DSG against the MoD will be informed by Land Quality Assessments and Vesting Documents for individual sites.

4.6.8. Capital Investment

The DSG five-year capital investment programme is approved by the DSG Trading Fund Board. The five-year profile is set out in the CSP. Approval of the investment programme authorises assumptions on which DSG is entitled to plan. Decisions on individual investments in the programme require specific approval under the framework at Annex E.

4.7. Internal Audit

The Chief Executive and the Audit Committee are responsible for commissioning such internal audit services and studies as may be required to ensure proper and efficient management of DSG's affairs. The Chief Executive is required to discharge his/her responsibilities as Accounting Officer, in a manner that best demonstrates value for Defence.

The Department's Directorate of Internal Audit (DIA) has remit from the Permanent Under-Secretary of State (PUS) and the Defence Audit Committee to carry out audits on all MoD departments. They are to have continuous unrestricted access to all records, personnel, property and operations of the MoD (including Trading Funds), with strict responsibility for confidentiality and safekeeping and

compliance with all statutory instruments relating to the use, retention and disclosure of data.

In order that PUS can be provided with an assurance that the Trading Fund's internal audit arrangements are both adequate and compliant with Government Internal Audit Standards, PUS requires a DIA representative to attend Trading Fund Audit Committee meetings, particularly where they choose not to employ the services of DIA as their internal auditor.

The Chief Executive may choose to use the services of the DIA, or employ qualified auditors so long as they fully meet required Government and Departmental Audit standards. If external provision is the selected route for the provision of internal audit a review of the Agency's arrangements by DIA will be required periodically to ensure compliance with the Government Internal Audit Standards.

4.8. Risk Management

DSG operates risk management processes at all levels, from strategic risks through to project delivery. The Audit Committee reviews the risk management strategy and, in particular, assesses the adequacy of the internal controls operating within all key processes in relation to risk identification, assessment, response and monitoring.

4.9. Subordinate Companies and Joint Ventures

The DSG Trading Fund Board must satisfy itself as to the rigour and overall effectiveness of the governance arrangements for any companies administered by DSG on behalf of the Defence Secretary, and any joint ventures or other enterprises in which DSG has a formal financial interest. To that end, initiation of any new business enterprise will require approval from the Owner, following full and early consultation with MoD's Finance Director.

- C. Terms of Reference for the DSG Audit Committee and Remuneration Committee.
- D. Delegations.
- E. Framework for Major Business Decisions.
- F. Provisions from the Chief Executive's Letter of Appointment as Accounting Officer.
- G. Roles, Responsibilities, and Accountabilities.
- H. People.

ANNEXES:

- A. DSG Trading Fund Order & HM Treasury Minute.
- B. DSG Top Level Objectives.

Annex A – Defence Support Group Trading Fund Order & HM Treasury Minute

STATUTORY INSTRUMENTS

2008 No. 563

GOVERNMENT TRADING FUNDS

The Defence Support Group Trading Fund Order 2008

Made - - - - - *27th February 2008*

Coming into force - - - - - *1st April 2008*

(1) It appears to the Secretary of State for Defence (“the Secretary of State”) that—

(a) the operations of the Ministry of Defence described in article 2 of, and Schedule 1 to, this Order are suitable to be financed by means of a fund established under the Government Trading Funds Act 1973⁽¹⁾ (“the 1973 Act”) and, in particular, to be managed so that the revenue of the fund would consist principally of receipts in respect of goods or services provided in the course of the operations in question, and

(b) the financing of the operations in question by means of a trading fund would be in the interests of the improved efficiency and effectiveness of the management of those operations;

(2) The Secretary of State has, in accordance with section 2 of the 1973 Act and with the concurrence of the Treasury, determined what Crown assets and liabilities are properly attributable to the operations in question and are suitable to be appropriated to the fund;

(3) A draft of this Order has been laid before the House of Commons in accordance with section 6(2) of the 1973 Act and approved by a resolution of that House;

Accordingly the Secretary of State, with the concurrence of the Treasury, in exercise of the powers conferred by sections 1, 2(1), 2(7), 2AA(1), 2A(1), 2C(1) and 6(1) of the 1973 Act makes the following Order:—

Citation and commencement

1. This Order may be cited as the Defence Support Group Trading Fund Order 2008 and shall come into force on 1st April 2008.

Establishment of the fund

2.—(1) From 1st April 2008, there shall be established a trading fund to be known as the Defence Support Group Trading Fund (“the fund”).

(2) The operations of the Defence Support Group described in Schedule 1 shall be financed by means of the fund.

⁽¹⁾ 1973 c. 63, as amended by the Government Trading Act 1990 (c. 30). The 1973 Act, as so amended, is set out in Schedule 1 to the 1990 Act. The 1973 Act was further amended by section 119 of the Finance Act 1991 (c. 31) and Schedule 22 to the Finance Act 1993 (c. 34).

Source of Loans

3. The Secretary of State is designated as the source of issues to the fund by way of loan.

Assets, liabilities, reserves and public dividend capital

4.—(1) The Crown assets and liabilities set out in Schedule 2 to this Order shall be appropriated as assets and liabilities of the fund.

(2) 30 per cent of the balance of the amount by which the values of the assets exceed the amounts of the liabilities shall be treated as revaluation reserves in the accounts of the fund and shall be maintained as reserves.

(3) 50 per cent of the balance of—

(a) the amount by which the value of the assets exceed the amounts of the liabilities, less

(b) the amount to be treated as revaluation reserves in accordance with paragraph (2) above, shall be treated as public dividend capital of the fund.

Maximum borrowing, etc.

5. The aggregate of the following shall not exceed £300,000,000—

(a) the total outstanding at any given time in respect of amounts issued to the fund under section 2B of the 1973 Act (other than as originating debt), and

(b) the total at that time constituting public dividend capital issued to the fund under section 2A(2A) of the 1973 Act.

Revocation

6. The ABRO Trading Fund Order 2002⁽²⁾ is revoked.

Des Browne
Secretary of State for Defence

26th February 2008

We concur

Alan Campbell
Dave Watts

27th February 2008

Two of the Lords Commissioners of Her Majesty's Treasury

SCHEDULE 1

Article 2

FUNDED OPERATIONS

The operations of the Defence Support Group to be funded by the fund are—

(a) the provision of engineering and logistics support, including maintenance, repair, overhaul and upgrade services for equipment, and associated goods and services to the Ministry of Defence and to other Crown bodies;

(b) the provision of such goods and services to other customers in the United Kingdom and overseas; and

⁽²⁾ S.I. 2002/719

(c) operations incidental, conducive or otherwise ancillary to the foregoing.

SCHEDULE 2

Article 4

ASSETS AND LIABILITIES APPROPRIATED TO THE FUND

ASSETS

Land and buildings, as at 1st April 2008 used or allocated for use in the funded operations.

Plant, facilities, machinery, fixtures, fittings, vehicles, equipment and computer hardware and software, as at 1st April 2008, used or allocated for use in the funded operations.

Intangible assets arising from the funded operations as carried on as at 1st April 2008.

Current assets as at 1st April 2008 used or allocated for use in, or arising from, the funded operations.

LIABILITIES

Creditors, accruals, deferred income and provisions as at 1st April 2008 in relation to the funded operations.

EXPLANATORY NOTE

(This note is not part of the Order)

This Order provides for the setting up, from 1st April 2008, of a fund with public money under the Government Trading Funds Act 1973 for the operations of the Ministry of Defence known as the Defence Support Group (DSG). The DSG is an engineering and logistics support organisation for equipment for Her Majesty's armed forces and others. The DSG is a merger, from 1st April 2008, of all the operations of the Ministry of Defence known as ABRO (formally known as the Army Base Repair Organisation) and the Electronics and Large Aircraft business units of the Ministry of Defence known as the Defence Aviation Repair Agency.

Article 3 designates the Secretary of State for Defence as the authorised lender to the fund.

Article 4(1) provides for, and schedule 2 specifies, the assets (estimated at £139,000,000) and liabilities (estimated at £71,000,000) which are to be appropriated to the fund.

Article 4(2) provides for a proportion of the difference in value between those assets and liabilities to be treated as revaluation reserves in the accounts of the fund and shall be maintained as reserves.

Article 4(3) provides for 50 per cent of the balance of the net assets less the amount of the revaluation reserves to be treated as public dividend capital of the fund.

Article 5 specifies the maximum aggregate amount that may at any time constitute outstanding loan issued to the fund (other than as originating debt) and public dividend capital.

Article 6 revokes the ABRO Trading Fund Order 2002.

DEFENCE SUPPORT GROUP TRADING FUND

TREASURY MINUTE DATED [X] MARCH 2008

1. Section 4(1) of the Government Trading Funds Act 1973 (“the 1973 Act”) provides that a trading fund established under the Act shall be under the control and management of the responsible Minister and, in the discharge of his function in relation to the fund, it shall be his duty:

- a. To manage the funded operations so that the revenue of the fund:
 - (1) consists principally of receipts in respect of goods and services provided in the course of the funded operations, and
 - (2) is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to revenue account; and
- b. To achieve such further financial objectives as the Treasury may from time to time, by minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with Treasury concurrence) to be desirable of achievement.

2. The trading fund for the Defence Support Group was established on 1 April 2008 under the Defence Support Group Trading Fund Order 2008 (SI 2008 No. [563])

3. The Secretary of State for Defence, being the responsible Minister for the purposes of Section 4(1)(a) of the 1973 Act, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by the Defence Support Group Trading Fund for the 5-year period from 1 April 2008 to 31 March 2013 shall be to achieve a return, averaged over the period as a whole, of at least 3.5 per cent in the form of a surplus on ordinary activities before interest (payable and receivable) and dividends expressed as a percentage of average capital employed. Capital employed shall consist of the capital (PDC and long-term element of loans) and reserves.

4. Let a copy of this Minute be laid before the House of Commons pursuant to Section 4(1) of the Government Trading Funds Act 1973.

Annex B – Defence Support Group (DSG) Top Level Objectives

To achieve its prime role of supporting the UK Armed Forces and wider Defence objectives, the Owner has set DSG the following top-level objectives:

Objective One: Deliver a responsive and value added maintenance, repair, overhaul and upgrade capacity and capability.

In delivering this objective, DSG should:

- at all times retain appropriate levels of capacity and capabilities to meet the agreed needs of the Customer;
- deliver its outputs as efficiently and effectively as possible, ensuring that all expenditure and investment represents the best possible value for money both for DSG and Defence, taking into account the MoD's wider interests;
- maintain a flexible approach to the provision of services to enable short-term and evolving defence operational capability requirements to be delivered.

Objective Two: Develop competitive and innovative solutions to support future MoD equipment acquisition and support strategies.

In delivering this objective, DSG should work with its MoD Customer to:

- shape its capacity and capability in support of Defence
- retain capability and capacity to ensure MoD has access to the necessary intellectual capital required to maintain operational sovereignty in key areas as set out in Defence industrial strategies.

Objective Three: Operate as a socially responsible organisation.

In delivering the above objectives, the Government requires DSG to demonstrate:

- a working environment that fosters fairness, individual dignity and respect, organisational diversity, leadership, personal development, innovation and team working;
- sustainable development is embedded into DSG's core business and planning mechanisms;
- that all obligations, contractual or otherwise, to its customers and suppliers are met in line with government policy; and
- that the business is operated in accordance with recognised industry standards.

Annex C – Terms of Reference for the DSG Audit Committee and Remuneration Committee

Terms of Reference of the Defence Support Group (DSG) Audit Committee

Constitution

1. The DSG Trading Fund Board will establish a Committee of the Board to be known as the DSG Audit Committee.

Membership

2. The Chairman and members of the DSG Audit Committee shall be appointed from non-executive members of the DSG Board with a quorum of two members.

3. The Secretary shall be appointed by the DSG Audit Committee and provided by DSG.

Meetings

4. The DSG Audit Committee shall meet at least four times yearly and in addition at such times as requested by external or internal auditors.

5. The DSG Finance Director will attend meetings of the DSG Audit Committee, along with Head of Internal Audit (HIA). The Chief Executive and other members of the DSG Trading Fund Board and management team may be invited to attend meetings where appropriate. Representatives from both the National Audit Office and Defence Internal Audit will also be invited attendees.

6. There should be provision for the DSG Audit Committee to meet annually in closed session with the external and internal auditors to resolve any outstanding issues of concern.

Authority

7. The DSG Audit Committee is a sub-committee of the DSG Trading Fund Board. It is an advisory body and will have no executive powers. It is authorised to investigate any activity within these Terms of Reference. Responsibility for the System of Internal Control rests with the Chief Executive as Accounting Officer.

8. The DSG Audit Committee has the authority to call for any information it requires from civilian or service personnel employed by DSG and can require their attendance when necessary.

9. The DSG Audit Committee is authorised by the DSG Trading Fund Board to obtain outside legal or other independent professional advice if considered necessary.

Objectives and Duties

10. The primary objectives of the DSG Audit Committee are to advise the DSG Trading Fund Board on the adequacy and effectiveness of the governance arrangements, risk management internal control processes and the Statement on Internal Control, and to promote their improvement. In particular, the DSG Audit Committee will advise the DSG Trading Fund Board and Accounting Officer on:

- a. the accounting policies, the accounts, and the annual report of DSG, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;

- b. the planned activity and results of both internal and external audit and consider and finalise the HIA's proposal for the provision of the Internal Audit service;
- c. the strategic processes for risk, control, and governance and the Statement on Internal Control;
- d. the adequacy of management response to issues raised by audit activity, including external audit's management letter;
- e. DSG's internal audit and assurance providers on Health, Safety & Environment, Quality, Security, Fraud & Theft, Business Continuity Planning and whistle-blowing through the provision of regular updates and reports;
- f. any other matters relating to the financial and commercial affairs of DSG that it deems appropriate;
- g. the annual and long-term audit and assurance programmes of DSG's Health, Safety & Environment, Quality and Security functions;
- h. DSG's annual Business Continuity, Security and Health & Safety Reports prior to their submission to the MoD; and
- i. the effectiveness of the DSG Audit Committee by undertaking an annual review.

Reporting

- 11. The Chairman of the DSG Audit Committee will report to the DSG Trading Fund Board on its proceedings following each meeting.
- 12. The Secretary shall circulate minutes of the DSG Audit Committee meetings to the members of the DSG Trading Fund Board.

Approval

- 13. These Terms of Reference were approved by the DSG Chairman on 18 March 2008.

TERMS OF REFERENCE FOR THE DEFENCE SUPPORT GROUP REMUNERATION COMMITTEE

1. Overall Purpose

1.1. The Remuneration Committee is a sub-committee of the Defence Support Group (DSG) Trading Fund Board. It exists to advise the MOD Owner, DSG Chairman, Chief Executive and Trading Fund Board on matters relating to remuneration as set out in this document

1.2. The creation of DSG from the merger of ABRO with DARA's retained businesses has resulted in a number of different remuneration structures operating across the Trading Fund. These Terms of Reference have been written to reflect the various remuneration structures in place at vesting and will be updated as appropriate following the development of an appropriate DSG Pay and Reward Strategy.

1.3. The Remuneration Committee will work within MoD and other Governmental guidelines as appropriate.

2. Membership

2.1. Members of the Committee shall be appointed by the DSG Trading Fund Board. The Committee shall be made up of at least three members and one shall be appointed to act as Chairman. One member shall be the MoD Finance Director's representative and all other members shall be the independent non-executive members of DSG Trading Fund Board (excluding representatives from the Non-Industrial and Industrial Trades Unions).

2.2. For meetings regarding the Chief Executive's remuneration, the DSG Chairman will also be invited to attend the Committee.

2.3. Only members of the Committee have the right to attend Committee meetings but other individuals (e.g. Chief Executive and DSG Executive Directors) may be invited to attend all or part of any meeting as appropriate.

3. Secretary

3.1. The Secretary shall be appointed by the DSG Remuneration Committee and provided by DSG. The Secretary of the Committee will keep full minutes of all Committee meetings and circulate draft and final versions to all Members for their comment and records respectively. In both cases minutes will be circulated within a reasonable time after the meeting.

4. Quorum

4.1. The quorum necessary for the transaction of business shall be two members. However, issues relating to the remuneration of board members can only be considered after ensuring the MoD Finance Director's representative has been fully informed, and the relevant MoD position clearly established and understood.

5. Frequency of Meetings

5.1. The Committee shall meet at least twice a year with additional meetings to be held should the Committee so request.

6. Reporting

6.1. As a sub-committee, the Remuneration Committee will report to the Trading Fund Board. However, for the Chief Executive's remuneration, the Remuneration Committee will report, alongside the DSG Chairman, directly to MoD Centre.

7. Duties of the Remuneration Committee

7.1. For DSG Chief Executive:

7.1.1. Review and endorse objectives for DSG Chief Executive as proposed by the DSG Chairman.

7.1.2. Based on the DSG Chairman's recommendation, consider performance and related bonus payments. The Remuneration Committee will be responsible for endorsing the DSG Chairman's recommendations before they are forwarded to the MoD Centre for final approval.

7.2. For DSG Executive Directors and certain other senior staff (the precise scope of staff to be agreed by the Remuneration Committee, in consultation with the Chief Executive):

7.2.1. Determine and either agree (where the trading fund has authority to do so) or advise (where the MoD or other Government department has the authority to do so) the framework and broad policy for the remuneration packages and the establishment of a formal and transparent procedure for developing policy on such remuneration.

7.2.2. Review and endorse objectives for Executive Directors as proposed by the Chief Executive.

7.2.3. Based on recommendations from the Chief Executive, consider individual performance and related bonus payments. For Executive Directors who are subject to the wider MOD Senior Civil Servant (SCS) performance process, the Remuneration Committee will be responsible for endorsing the Chief Executive's recommendations before they are forwarded to the appropriate MOD pay committee where the final award will be determined. For Executive Directors and other senior staff who are not subject to the wider MoD SCS performance process the Remuneration Committee will be responsible for approving the Chief Executive's recommendations.

7.3. For the DSG Corporate Bonus scheme:

7.3.1. Agree the formula for payments based on assessment of the performance of DSG against its Key Targets and the level of operating profit.

7.3.2. Endorse or comment on the affordability of making the payments.

7.3.3. Review and approve any proposed revisions to the Corporate Bonus Scheme.

7.4. Endorse the DSG pay offer prior to its presentation to the DSG Trades Unions.

7.5. Consider and advise on any other remuneration issues as directed by or requested by the DSG Chairman or the Chief Executive.

7.6. The Committee shall ensure it remains aware of relevant MoD and wider Government guidance on remuneration matters.

8. Other

8.1. No DSG Executive Board member shall be involved in the determination of his/her own remuneration package.

8.2. The Committee has responsibility for the selection, appointment, terms of reference and dealings with any remuneration consultants who advise the Committee.

8.3. The Chairman of the Committee shall report to the DSG Trading Fund Board on its proceedings following each meeting.

8.4. The Committee itself and the DSG Trading Fund Board shall at least once a year review the performance of the Committee and its Terms of Reference and recommend any changes it considers necessary to the DSG Trading Fund Board for approval.

9. Authorities

9.1. The Committee is authorised:

9.1.1. to seek any relevant information it requires from any employee of DSG in order to perform its duties;

9.1.2. to obtain, at the DSG's expense, outside legal or other professional advice on any matter within its terms of reference; and

9.1.3. to call any employee to provide information or evidence at a meeting of the Committee as and when required.

10. Approval

10.1. These Terms of Reference were approved by the DSG Chairman on 18 March 2008.

Annex D – Delegations

Financial

The Chief Executive is authorised to exercise full financial authority delegated to the MoD by HM Treasury.

Financial authority, is delegated to the Chief Executive as Accounting Officer by HM Treasury (see Annex F)

This authority, which may be sub-delegated to suitably qualified members of staff, must be exercised in accordance with Treasury guidance, reinforced and amplified by DSG internal guidance on the efficient conduct of business. All novel or contentious items, or issues raising questions of financial principle, must be referred to the Treasury for approval regardless of the sums involved. The Chief Executive should consult with MoD Finance Director's staff before approaching the Treasury on matters of financial principle, as distinct from individual casework. The Owner should also be consulted if a proposed course of action could have wider implications for the Department, or could generate interest in Parliament.

Audit

The Chief Executive is to ensure that DSG systems and procedures are subject to regular audit as required by the Government Internal Audit Standards. Whilst normally these audits are to be conducted by the Department's Directorate of Internal Audit, the Chief Executive may, however, choose to employ qualified auditors, so long as they fully meet required Government and Departmental Audit standards. If external provision of these services is put in place a review of the Agency's internal audit arrangements will be conducted by DIA periodically.

Contractual

The Chief Executive is authorised to enter into contractual commitments on behalf of the Secretary of State, provided financial approval in accordance with Annex E has been obtained where necessary. Contracts will conform to HM Treasury and MoD guidance and Government purchasing policy and will follow best contracting practice. The Chief Executive should ensure that, when delegating authority to members of his/her staff, financial and contracting authority are not vested in the same individual. Contractual powers must only be exercised via commercial officer(s) who have been formally licenced by the MoD; administered thro' DE&S DG Comm. The contractual delegations to the Chief Executive are on a "pass-through in full" basis to a suitable licenced commercial officer.

Management of People

Within the terms of the Framework Document the Chief Executive is responsible for the management of staff and for developing and implementing personnel policies to meet the needs of the Trading Fund and for ensuring the quality and consistency of Trading Fund personnel standards and practices. The Chief Executive may exercise the authority in personnel matters in accordance with the principles and standards laid down in the Civil Service Management Code for the management of the Civil Service as a whole and in accordance with the principles governing the management of staff throughout the Department. Attention is drawn to the Department's Personnel Policy Statement directed at all staff and their line managers. In any cases where changes are envisaged to DSG personnel policy or practice that might have wider implications for the rest of the Department, the Chief Executive should discuss these with MoD Personnel Director's staff. A detailed list of delegations is at Annex H.

Safety, Health and Environmental Management

The Secretary of State for Defence's Policy Statement on Safety, Health, and Environmental Protection makes the Chief Executive responsible for ensuring an organisational structure and management arrangements exist within DSG that will ensure the strategic principles and general

duties of the Policy Statement are achieved. The DSG Chief Executive will continually strive for excellence in safety and environmental performance to provide a safe and healthy workplace and to protect defence assets, the environment, and members of the public.

Security

Within the terms of the Framework Document the Chief Executive is responsible for establishing an effective organisation to implement security arrangements to meet the security requirements specified by the MoD Departmental Security Officer and in accordance with JSP440. DSG will be subject to periodic security audit and reporting to MoD Centre.

The Chief Executive is required to nominate a senior business manager (if practicable a member of the Management Board) as the DSG Security Risk Manager (SRM). The SRM is responsible for ensuring that the system of security risk management is functioning properly within DSG. The SRM will also provide advice to the Chief Executive as the Senior Risk Owner on individual risks that may occur at Board level, and on the balance between business needs and security requirements, taking account of affordability.

The CE will also appoint a Principal Security Adviser (PSyA) to provide professional corporate security advice to the Senior Risk Owner, the DSG Executive, and the SRM. The PSyA will provide strategic oversight of security activity across DSG ensuring compliance with MoD policy as implemented within the context of a risk-based approach to security management.

Annex E – Framework for Major Business Decisions

This Annex sets out the basis on which major DSG business decisions are to be approved. This planning framework is subject to periodic review.

Five-Year Corporate Strategic Plans

Drafts of these are to be developed by the DSG Management Board, scrutinised and endorsed by the DSG Trading Fund Board, and submitted to the Owner for approval. Approval authorises the key assumptions on which the business is entitled to plan. Individual business decisions flowing from these assumptions still require approval under the framework set out below.

At their discretion, the Owner may seek advice from the DSG Owner's Advisory Council. The DSG Corporate Strategic Plan is to be refreshed annually under the same approvals process.

Annual Key Targets

Drafts of these are to be developed by the DSG Management Board, scrutinised and endorsed by the DSG Trading Fund Board, and submitted to the Owner for approval, together with a rationale paper demonstrating that they flow from the Business Plan, are stretching but achievable, and will drive delivery of the DSG top level objectives.

Specific Major Business Proposals

All novel or contentious items, or those with wider implications for the Department, or likely to generate public or Parliamentary interest, are to be submitted to the Owner for approval with reference to the financial value involved. Before this is done DSG staff should, in the first instance, consult with the MoD Finance Director's staff. HM Treasury approval will be needed on all issues raising matters of financial principle.

The financial approval thresholds in relation to other decisions are set out in the table below. The thresholds will be reviewed from time to time by the Owner in conjunction with the Chairman and Chief Executive. Where contracts, bids, projects, programmes or other relevant items comprise discrete sub-elements or are applicable over a number of years, it is the total overall cost or value of that arrangement to which the limits apply.

Table 1 – Approval Thresholds

Type of Expenditure ³ or other item	Limit above which the CE must seek DSG Trading Fund Board endorsement	Limit above which the Owner's approval must be sought (following DSG Trading Fund Board endorsement)
Capital Expenditure (excluding property) included in the Corporate Strategic Plan (CSP).	£2,000,000	£8,000,000
Capital Expenditure (excluding property) not included in, or going beyond, the CSP	£1,000 000	£4,000,000
Non-Capital Investment and Expenditure (excluding property) included in the CSP	£4,000,000	£8,000,000
Non-Capital Investment and Expenditure (excluding property) not included in, or going beyond, the CSP.	£2,000,000	£4,000,000
Expenditure on Land and Buildings	£500,000	£1,000,000

³ All expenditure should be subject to DSG's own internal approvals processes

Table 2 – Other Financial Commitments

Type of financial commitment	Limit above which the Chief Executive must consult the Trading Fund Board	Limit above which the Chief Executive must consult the Owner
Actions leading to Write-Offs/Write Downs	£500,000	£1,000,000
Loan applications	£500,000	£2,000,000
Special Payments	£250,000	N/A ⁴
External Assistance (annual limit per contract)	£250,000	N/A ²

Table 3 – Bids & Sales Contracts

Type of financial commitment	Limit above which the Chief Executive must consult the Trading Fund Board	Limit above which the Chief Executive must consult the Owner
Aggregate value of binding bids and sales contracts specified in the CSP	£5,000,000	£20,000,000
Aggregate value of binding bids and sales contracts not specified, or going beyond, the CSP	£3,000,000	£12,000,000

⁴ The Board should determine for individual cases whether consultation with the Owner is required.

Annex F – Provisions of the Chief Executive’s Letter of Appointment as Accounting Officer

The appointment of the Chief Executive as Accounting Officer is in accordance with section 4 (6) of the Government Trading Funds Act 1973.

In essence, as an Accounting Officer the Chief Executive has personal responsibility for ensuring within DSG that there is:

- a high standard of financial management, including a sound system of internal control;
- that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity;
- that financial considerations are fully taken into account in decisions on policy proposals; and
- risk is considered in relation to assessing value for money.

The Memorandum setting out the responsibilities of an Accounting Officer (Annex 4.1 of Government Accounting) is available online at <http://www.government-accounting.gov.uk/current/frames.htm>. As part of these responsibilities, the Chief Executive may be invited to attend as a witness to a hearing of the Public Accounts Committee (PAC). Appearing as a witness before the PAC is not optional. It is only with specific PAC agreement that an Accounting Officer may defer their appearance or send a substitute.

Section 4(6)(a) of the Government Trading Funds Act also applies, requiring that the Accounting Officer shall be responsible for the preparation of the DSG Trading Fund Accounts, in accordance with the accounts direction issued by the Treasury, and for their transmission to the Comptroller and Auditor General.

Annex G – Roles, Responsibilities, and Accountabilities

1 – OWNER’S RESPONSIBILITIES AND ACCOUNTABILITIES

Responsibilities:

On advice from the Chief Executive, departmental advisers and the DSG Board, and in consultation as necessary with the DSG Owner’s Advisory Council, and other relevant customers and stakeholders across government, to:

- set and review, coherent and prioritised top-level objectives which balance the government’s customer, shareholder, finance provider, and policy interests in DSG;
- approve the long-term business strategy for achieving the top level objectives;
- approve the five-year Corporate Strategic Plan for delivering the strategy;
- set annual Key Targets for DSG that are stretching but achievable, and will drive delivery of the DSG Top Level Objectives;
- define the policy and finance framework within which the Chief Executive is to operate;
- satisfy themselves that the DSG Board is working effectively, under delegated authority, on their behalf to:
 - scrutinise the business strategies, plans, targets and performance, to ensure the approved Corporate Strategic Plan is being effectively implemented;
 - approve major business decisions which do not need their personal involvement;
 - develop, scrutinise and endorse advice to themselves on issues which require their personal approval (i.e. those with significant financial, operational and/or presentational consequences including major investments, rationalisations, acquisitions and any novel or contentious issues – (see Annex E)); and
 - provide appropriate support and constructive challenge to the Chief Executive and the senior executive team in delivering the Corporate Strategic Plan.
- account to Parliament on all aspects of policy, the operation, performance, achievements, and governance of DSG. (N.B. This is the Ministerial accountability function, and is different from the Accounting Officer role attached to the Chief Executive – see Annex F). This includes announcing Key Targets to Parliament;
- endorse the appointment of the Chairman of the DSG Board, following normal selection procedures;
- endorse the appointment of the Chief Executive, following normal selection procedures; and
- on appropriate advice, determine the Chief Executive’s performance pay and that of other senior executives as appropriate.

Accountability:

- to the Defence Secretary; and
- to Parliament.

2 – ROLE AND COMPOSITION OF THE DSG OWNER’S ADVISORY COUNCIL

Role: As required, to provide advice and assistance to the Owner in:

- setting coherent and prioritised top-level objectives which balance the government’s customer, shareholder, finance provider, and policy interests in DSG;
- approving the long-term business strategy for achieving the top level objectives;
- approving the five-year Corporate Strategic Plan for delivering DSG strategy;
- approving annual Key Targets for DSG that are stretching but achievable, and will drive delivery of the Top Level Objectives; and
- defining the policy and finance framework within which the Chief Executive is to operate.

Composition:

- Chairman (Minister of State for Defence Equipment and Support);
- Senior Finance and Policy Representative;
- Senior Customer Representatives;
- Director-level representation from the Shareholder Executive;
- Chairman of the DSG Board; and
- DSG Chief Executive.

The secretariat function to the DSG Owner’s Advisory Council will be provided by MoD Centre.

3 – ROLE AND COMPOSITION OF THE DSG TRADING FUND BOARD

Role: Under the leadership of the Chairman, and with authority delegated (via the Chairman) from the Owner, the role of the DSG Trading Fund Board is to challenge and support the DSG Management Board, and carefully scrutinise its proposals and/or performance in relation to:

- developing a long-term business strategy, a five-year Corporate Strategic Plan, and annual Key Targets. The DSG Trading Fund Board is to endorse these prior to submission to the Owner for approval;
- developing other major business strategies, plans or proposals in support of the approved Corporate Strategic Plan. The DSG Trading Fund Board must judge case by case (guided by the principles at Annex E) whether it can approve these itself, or endorse them prior to submission to the Owner for approval; and
- delivering the approved Corporate Strategic Plan and achievement against the DSG Top Level objectives, including performance against the published Key Targets.

In exercising this role, the DSG Trading Fund Board is to ensure, as far as possible, that the Owner is given full and accurate advice on matters requiring his/her attention.

The presumption is that wherever possible, the DSG Trading Fund Board will seek to operate on the basis of unanimity. The precise decision making arrangements are a matter for the Chairman, in consultation with the Chief Executive. However, where there are significant differences of view on material issues, the Owner expects the Chairman to consult DGFM in the first instance, with the ultimate option of referring the issue to the Owner for consideration.

Composition: The size and broad composition of the DSG Trading Fund Board will be agreed with the Owner by the DSG Chairman. The quorum for the DSG Trading Fund Board is three (note: this must include at least one NED and the CE). The Chairman is to ensure that there is an appropriate balance of the necessary skills and experience, and between executive and non-executives. Both the Industrial and Non-Industrial Trades Unions will be invited to attend the DSG Trading Fund Board.

- Chairman (DSG Non Executive Chairman);
- Chief Executive, Finance Director, and Strategy Director;

- External NEDs – chosen to ensure that the DSG Trading Fund Board has an appropriate mix of skills and experience. The role of the NEDs is to provide expert advice, guidance and challenge to the DSG Management Board;
- Representative of MoD’s Finance Director, sitting as a formal NED.

A representative from both the Industrial and Non-Industrial Trades Unions will be invited to attend DSG Trading Fund Board meetings.

The secretariat function to the DSG Trading Fund Board will be provided by DSG.

4 – RESPONSIBILITIES AND ACCOUNTABILITIES OF THE DSG CHAIRMAN

Responsibilities: Working under delegated authority from the Owner, with secretariat support from within DSG, and in consultation with key stakeholders both inside and outside DSG, to:

- ensure that the Board as a whole is effective in its overall role
- determine and agree with the Owner the composition of the DSG Trading Fund Board, in consultation with the Chief Executive, including seeking approval for the appointment of new NEDs;
- organise and chair DSG Trading Fund Board meetings, including:
 - determining frequency of meetings and the agenda for each; and
 - ensuring all directors receive relevant and timely information in preparation for meetings.
- facilitate effective support and constructive challenge by the NEDs to the DSG Management Board;
- provide personal advice to the Owner, where appropriate, on issues affecting DSG, including being a member of the Owner’s Advisory Council;
- ensure that the Remuneration and Audit Committees are properly constituted and operate effectively; and
- advise on the appointment of a new Chief Executive, including sitting on the selection panel.

Accountability:

- To the Owner.

5 – RESPONSIBILITIES AND ACCOUNTABILITIES OF THE DSG CHIEF EXECUTIVE

Responsibilities: Working with the DSG Trading Fund Board and within the policy and financial framework set by the Owner, to:

- discharge the role of Accounting Officer, i.e. personal and direct accountability to Parliament for all DSG’s expenditure and financial systems;
- lead the DSG Management Board;
- develop for endorsement by the DSG Trading Fund Board, and approval by the Owner, a business strategy and Corporate Strategic Plan to deliver the top-level objectives set for DSG, and annual Key Targets;
- Implement the approved Corporate Strategic Plan, including development of appropriate internal strategies and policies, developing new products and services, leading and motivating DSG staff, improving business processes, and maintaining effective and efficient management systems;

- report regularly to the DSG Trading Fund Board performance against the Corporate Strategic Plan and Key Targets; bring to its timely attention all matters requiring its or the Owner's approval; and generally make it aware of broader issues relevant to its role; and
- be a Member of the DSG Trading Fund Board and the Owner's Advisory Council.

Accountabilities:

- to the Owner for the efficient and effective management of DSG, and for delivering the aims, objectives and targets set for it;
- to Parliament as Accounting Officer; and
- to the DSG Trading Fund Board in its role of agreeing business strategy and the Corporate Strategic Plan, and scrutinising performance on behalf of the Owner. In the event that the Chief Executive believes that a decision taken by the DSG Trading Fund Board will cause a conflict with his/her responsibilities as Accounting Officer, he/she will seek to remedy this in discussion first with the Chairman, then with DGFM, and ultimately through to the Owner. Ultimately, however, the Chief Executive is bound by his/her personal responsibilities as Accounting Officer, a fact that the DSG Trading Fund Board must bear in mind.

Annex H – People

Terms and Conditions of Service

DSG civilian staff are Crown employees working within the DSG Trading Fund, subject to the Civil Service Management Code and are members of the Principal Civil Service Pension Scheme. For day-to-day operational matters, including those to do with the management of staff, DSG operates as a discrete body within the MoD. DSG is subject to all relevant Cabinet Office instructions and guidance, including the Civil Service Code

Where the Chief Executive wishes to make proposals for changes to existing terms and conditions of employment that would exceed current management flexibilities, these will need to be agreed with the MoD, HM Treasury and the Office of Public Service as appropriate.

There will be full consultation with staff and their representatives on any changes that affect terms and conditions of appointment.

Management of People

DSG's management policies for its people aim to achieve a well-motivated, properly trained and developed workforce with appropriate skills and expertise to meet the aims and objectives of the business and in which individuals are committed to serving customer needs. DSG will encourage and facilitate a two-way flow of information and ideas between management and staff.

The Chief Executive will develop and maintain a personnel management strategy which enables DSG to recruit, develop, retain and motivate staff in the numbers and with the appropriate skills and expertise; whilst observing the principle of equitable treatment of all.

Pay and Performance

The Chief Executive has authority for pay bargaining under delegation from central departments and is responsible for setting the terms and conditions of service for all DSG staff below Senior Civil Service level. This is carried out under the provisions of the Civil Service (Management Functions) Act 1992.

Recruitment

The Chief Executive will normally be appointed through open competition. DSG will recruit its other staff directly, with the recruitment of Senior Civil Service level staff managed by the MoD's senior staff management team. Recruitment will be undertaken on the basis of fair and open competition.

Non-Executive Directors will have an input into the recruitment process of Executive Directors.

Conduct and Discipline

The Chief Executive is responsible for ensuring that civilian disciplinary and restoring efficiency cases are handled in accordance with MoD guidelines. He/she will have full powers in matters relating to the conduct and discipline of all employees. The full range of disciplinary sanctions will be at the Chief Executive's disposal; this includes dismissal, demotion, loss of seniority, loss of pay, reprimands and postings.

A three stage grievance procedure is in place that is available to all staff, which includes the right to an appeal either to a more senior manager within the appropriate management chain, or to an independent Grievance Appeal Panel. Any conduct or disciplinary issues involving military personnel will be taken forward in consultation with the appropriate Service Secretary.

Staff Development and Performance Assessment

DSG is committed to ensuring that its staff are developed and trained so that they are able to make the maximum contribution to the success of DSG. Staff will be given the opportunity to participate in their personal development and to link their skills and experience with the needs of the organisation. Staff will be supported, as necessary, by a development strategy that offers technical, professional and managerial training, and appropriate vocational qualifications.

All staff will be encouraged to participate in performance assessment procedures, and discuss their development needs as part of the performance appraisal process.

Equality and Diversity

The Chief Executive will conform to all current legislation and promote best practice in the area of Equal Opportunities. He/she will ensure that his/her staff are provided with a working environment free from discrimination and harassment.

Investors in People

DSG is an accredited Investor in People and will aim to retain its accreditation.