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Defence Science and Technology Laboratory

# Framework Document



**[dstl]**

November 2006

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## Foreword

I am delighted to introduce the revised Framework Document for the Defence Science and Technology Laboratory (Dstl).

Dstl has built a world class reputation, due largely to the quality and commitment of its staff. Dstl's value is demonstrated daily across the full breadth of defence. As well as undertaking advanced scientific research in sensitive areas, it provides independent and high quality advice and support in areas as diverse as policy formation, equipment development and current in-theatre operations.

This Framework Document builds upon its predecessor and now sets out in one place what is required from Dstl as a Next Steps Agency. It identifies Dstl's purpose, vision and role, together with the policy and business parameters that guide its day-to-day operation. In short, the Framework Document explains the Ministry of Defence's expectations of the organisation, including its top level objectives, and the mechanics and governance arrangements in place to ensure their effective delivery.

Dstl's staff can be justifiably proud of their work and achievements since the formation of the agency in 2001. This document seeks to build on these successes by providing a robust framework to support Dstl in addressing the challenges of the future.

A handwritten signature in black ink, reading "Paul Drayson". The signature is fluid and cursive, with the first name "Paul" and the last name "Drayson" clearly legible.

**Paul Drayson**

Minister for Defence Procurement

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## Introduction

The Defence Science and Technology Laboratory (Dstl) is the centre of scientific excellence for the UK Ministry of Defence (MOD), employing one of the largest groups of scientists and engineers in public service in the country.

With the brief to ensure that the UK Armed Forces and Government are supported in-house by the very best impartial scientific expertise and advice, Dstl delivers a range of support and specialist technical services underpinned by a programme of defence research and analysis. Dstl also has the ability to track global technological developments and, through its technical networks with industry and academia, links into world class teams, both nationally and internationally.

The work that Dstl delivers is used in support of all parts of MOD, including defence equipment acquisition processes, major procurement decisions, defence policy development and operations.

As a Next Steps Agency within government, Dstl is required to have a published Framework Document setting out the basis on which it operates.

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

MOD, in conjunction with Dstl and the Dstl Board, will undertake an annual review of this Framework Document. The latest version will be published on the Dstl website <http://www.dstl.gov.uk> from where additional copies may 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. Purpose of Dstl

## 1.1. Status of Dstl

Dstl is a British Government organisation responsible for providing scientific and technological knowledge, expertise and advice to the Ministry of Defence (MOD). It was established as an Executive Agency on 1 July 2001 and has operated as a Trading Fund since that date. The Dstl Trading Fund Order and Treasury Minute can be found at Annex A.

Dstl's headquarters is located in Porton Down, Wiltshire. It has laboratories at various other locations in southern England.

The Defence Secretary is the Minister with formal responsibility for Dstl. Day-to-day ministerial oversight and the formal business ownership role are delegated to the Minister for Defence Procurement (see Chapter 3).

As a Trading Fund, Dstl covers its costs and aims to generate a surplus by charging customers for the services it provides.

## 1.2. Role

Dstl exists to provide independent, high quality scientific and technological services to MOD, the UK Armed Forces and Government, in those areas inappropriate for the private sector. Its primary purpose is to meet the requirements of its defence customers in the most efficient and cost effective manner. It will transfer knowledge to defence industries, spin off knowledge for civil application and undertake collaborative research with other institutions in accordance with MOD policies. Dstl will not directly compete with industry for the provision of services to MOD.

## 1.3. Vision

It is Dstl's vision to be the indispensable source of Science and Technology at the heart of Defence.

## 1.4. Top-Level Objectives

The overall objective of the Dstl Trading Fund is to deliver value to the UK taxpayer, by using its assets and capabilities to deliver the outputs of research, timely advice and solutions to the Government's most important defence and national security-related problems in the most efficient and effective manner.

The scope of these value generating activities is bounded to ensure that Dstl is focused on:

- Meeting the requirements of MOD
- Meeting the defence and national security-related requirements of other Governmental customers, and
- Exploiting Dstl's intellectual property, in line with Government policy for technology transfer in order to generate value for money for the taxpayer.

To fulfil its role Dstl is expected to:

- Maintain a high-level overview of science and engineering advances in areas of relevance to its customers – in line with the areas identified in the Defence Technology Strategy
- Be world leading in areas such as systems and capability engineering advice, and
- Actively engage with industry, government laboratories and academia both in the UK and internationally.

The following paragraphs summarise the top-level business objectives placed upon Dstl by the Owner. They are repeated in fuller detail at Annex B.

In meeting the objectives below as a Trading Fund, Dstl is required to make a financial return at least equivalent to its cost of capital.

### **Objective 1: Delivery of High Quality Programmes of work to Customers**

The core role and priority of Dstl is to provide independent and objective, high quality scientific, analytical, technological and engineering research output, expert support and services to MOD and the UK Armed Forces in accordance with MOD policy and ensuring alignment with MOD's Science and Technology Policy.

Dstl may also deliver solutions for other Governmental defence and national security customers, so long as the ability to deliver work to MOD's requirements is not compromised. In the event of a conflict of interest, MOD requirements will take priority. The solutions could be in any of the areas identified for MOD above, but must be funded by other Governmental defence and national security customers. Capabilities must not be cross-subsidised between departments unless this has been specifically agreed by all departments concerned.

Subject to the work not being in conflict with MOD and wider governmental policy, Dstl may, with the Owner's permission, also deliver solutions for:

- Other Governmental customers
- Overseas governments, and
- Commercial customers.

### **Objective 2: Sustaining S&T Capabilities**

Since Dstl exists to undertake work that it would be inappropriate to do in the private sector, it must continue to build or retain the technical capabilities that its MOD and other Government customers will require from it in the future. In developing its workforce and human capital, Dstl should also plan to provide Science and Technology (S&T) specialist staff to other areas of MOD and Government in line with their needs. The quality and quantity of the different technical capabilities that Dstl should sustain should be agreed with the Owner.

As well as sustaining in-house capabilities, Dstl must develop its network of contacts with leading universities, laboratories and industry to bring in external experts to augment its own when required.

### **Objective 3: Exploiting Intellectual Property**

Based on the solutions delivered above, Dstl is to exploit its intellectual property (IP), in line with MOD and Government policy for technology transfer, in order to generate value for money for the taxpayer. This should be done, for example, by generating a financial return for the taxpayer through developing equity by Joint Ventures and income through licensing.

### **Objective 4: Creating Organisational Excellence**

Dstl should develop its infrastructure, business processes and systems to enable it to continue to improve the quality of its organisational performance, both financial and non-financial. It will adopt a performance management and reporting regime that demonstrates delivery against its goals and key targets in key areas of its business.

## 2. Governance Framework

### 2.1. Key Roles

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

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

- Ministerial Owner, who sets Dstl's top level objectives, establishes its policy and financial framework, and approves major business decisions
- Dstl Board, under an independent non-executive Chairman, which acts on behalf of the Owner in scrutinising the business plans and performance of the organisation, and
- Chief Executive, who leads and manages Dstl.

In exercising his role, the Ministerial Owner receives advice from:

- Departmental officials in MOD's Directorate of Business Delivery (DBD)
- The Dstl Board, via its Chairman, and
- An Owner's Council, comprising senior stakeholders from across and outside Government.

### 2.2. Governance Levers

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

- Dstl's top-level objectives, overall business strategy, and five-year Corporate Plan. These are endorsed by the Board and formally approved by the Owner
- A Business Plan, with detailed objectives and targets for the first 12-24 months of the Corporate Plan. This is approved by the Board.
- Annual Key Targets derived from the Business Plan, and supporting the broader Corporate Plan. These are endorsed by the Board, approved by the Owner, and published to Parliament, and
- Specific major business proposals requiring approval at a level higher than the Executive (for

example for major investment, rationalisation, or new business ventures – see Annex D for more detail). Depending on their magnitude and wider significance, these are either approved by the Board or by the Owner (following endorsement by the Board).

The Dstl Executive initiates preparation of proposals in all these areas, apart from the development and review of top-level objectives, on which DBD leads.

The most influential of the above levers is the Corporate Plan, which sets out:

- The strategy for meeting Dstl's top-level objectives over the next five years, including a full market analysis
- 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 managed
- The key underpinning assumptions, and
- A comprehensive financial analysis and projections across the five-year period.

The Corporate Plan 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 Dstl 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. Owner

The Owner of Dstl is the Minister for State for Defence Procurement, who has delegated day-to-day Ministerial responsibility for Dstl on behalf of the Defence Secretary, who remains ultimately responsible and accountable.

The Owner's main responsibilities are: to set and review Dstl's top-level objectives; to establish a policy and financial framework; and to approve major business decisions, including the long-term business strategy, a five-year Corporate Plan and annual Key Targets. The detailed responsibilities are set out in Annex G.

## 2.4. Dstl Owner's Council

Dstl Owner's Council is a group of senior stakeholders in Dstl, 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. Dstl Board

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

In discharging this role, the Board has delegated authority to approve certain categories of business decisions (set out in Annex E). On issues requiring approval by the Owner personally, the Board works with the wider executive team in the development of recommendations, which it then scrutinises and endorses before formal advice is submitted.

Dstl's Board comprises senior Executives and Non-Executive Directors (NEDs).

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

Dstl's Board has three key sub-committees, each chaired by a Non-Executive Director: the Audit Committee, Nominations Committee and; the Remuneration Committee. The remits of each are set out at Annex C.

## 2.6. Chairman of the Dstl Board

The Chairman is responsible to the Owner for leading the Dstl Board and ensuring that it is effective in discharging its role. He/she has delegated authority (to be exercised via the Board as a whole) to scrutinise Dstl's Business Plans and performance. He/she has a personal role in advising the Owner about the high-level business issues affecting Dstl, both directly and as a member of the Owner's 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 Dstl 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 Corporate Plan.

Consistent with the Next Steps approach, the Chief Executive is formally accountable to the Owner for all aspects of the operation of Dstl. In view of its delegated authority, the Chief Executive is accountable to the 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 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 given in Annex G.

The Chief Executive is also appointed by HM Treasury as the Accounting Officer for Dstl, and thus he/she has personal responsibility and accountability to Parliament for the propriety and regularity of the public finances under his/her 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)

Within MOD, DBD has the day-to-day lead in advising the Owner on his/her responsibilities in relation to Dstl. This involves balancing a range of interests that the department, and Government more broadly, has in the organisation. This includes its interests as:

- The major customer – the main consumer of Dstl is MOD
- Shareholder – MOD owns the public dividend capital (equity) in Dstl and sets its dividend policy
- Finance provider – as well as owning the public dividend capital, MOD is the only source from which Dstl can receive loans, and
- Sponsor of policy and standards – as part of MOD and Government, Dstl is bound by certain policies and standards. The main ones are set out in Chapter 3.

In discharging its role, DBD works closely with the Dstl Executive, the Board (on which it is represented as a Non-Executive Director) and stakeholders in other departments and elsewhere.

DBD reports to MOD's Finance Director, whom it advises on the financial aspects of Dstl's relationship with the centre of the Department, including dividends and loans.

MOD's role as Owner of Dstl is discharged, as far as possible, separately from that of key customer.

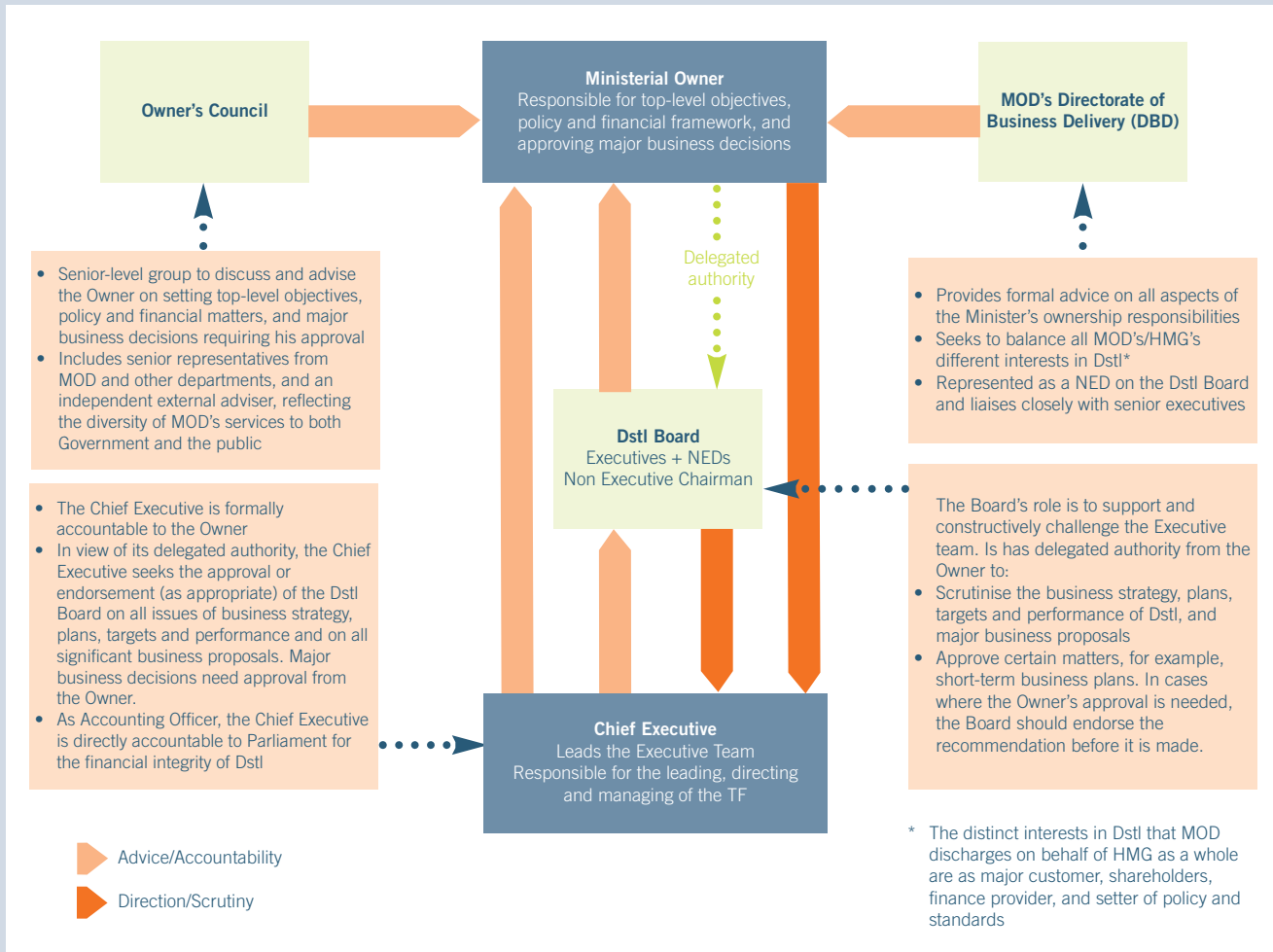


Figure 1: Governance of Dstl

## 3. Policy Framework

Dstl is to conduct its affairs within the approved Corporate Plan, its Trading Fund Order, and such general instructions and guidance as the Owner, Treasury and the Cabinet Office may provide from time to time.

Dstl is also bound by policies and standards that are general across Government, and by some that 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 Dstl are set out in Chapter 4.

### 3.1. Parliamentary Accountability

The Owner will normally deal personally with enquiries from Members of Parliament; Members of the European Parliament; 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 Under-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 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 they are accepted by the Government.

#### 3.1.1. Parliamentary Commissioner for Administration

Dstl 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 Dstl, and for replying in the majority of cases. The Chief Executive is also subject to the jurisdiction of the Information Commissioner in relation to Freedom of Information obligations.

### 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. All delegations are vested in the Chief Executive. He/she may sub-delegate within Dstl. (Annex F separately details the Chief Executive's Appointment by HM Treasury as Accounting Officer – see section 4.5).

The personnel delegations give the Chief Executive full authority for personnel apart from posts at the Senior Civil Service (SCS) grade, where the Chief Executive must secure agreement to any proposals from MOD Personnel Director or his/her staff.

The Chief Executive has delegated authority for certain pay issues within the overall framework policy set by HM Treasury and MOD Personnel Director.

### 3.3. Trades Unions

The Chief Executive is to ensure that staff are consulted about proposed changes to conditions of service. The joint Dstl/Trades Union Forum will be the main channel for consultation on matters of concern between management and the recognised Trades Unions. Dstl will recognise the negotiating rights of the recognised Trades Unions and will negotiate with them on matters related to pay and conditions of service. Dstl will engage openly and constructively with the recognised Trades Unions in discussing proposals for change affecting Dstl staff.

### 3.4. National Accreditation

In order to meet best-practice standards as an employer and supplier, Dstl must maintain accreditation under ISO 9001 and 14001 and Investors in People.

### **3.4.1. Intellectual Property Rights (Excluding Crown Copyright)**

Dstl's intellectual property is vital to the delivery of its objectives. Intellectual property rights (IPR) generated in Dstl as a result of work paid for by MOD remains vested in the Defence Secretary and are administrated in accordance with the IPR Concordat agreed between MOD and Dstl. The IPR (except copyright) in all work done by Dstl shall be held in the name of the Defence Secretary under the administrative and managerial control of Dstl. Dstl is to exploit its intellectual property, in line with MOD and Government policy for technology transfer, in order to generate value for money for the taxpayer – for example through developing equity in Joint Ventures and income through licensing.

## **3.5. Policy in Relation to External Stakeholders**

### **3.5.1. HM Treasury**

Dstl will comply with current HM Treasury guidance to Government departments and Trading Funds.

### **3.5.2. Cabinet Office**

Dstl will follow all relevant Cabinet Office instructions and guidance.

### **3.5.3. Her Majesty's Stationery Office (HMSO)**

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 Dstl data and publications, including the determination of rules and terms under which permission for their reproduction and use is given.

The Controller of HMSO regulates management of Crown Copyright by the HMSO Information Fair Trade Scheme. Dstl is committed to the principles of fair, open and transparent information trading embodied in the Scheme.

Dstl practices in respect of the Fair Trader Scheme are subject to regular verification by HMSO.

### **3.5.4. Shareholder Executive**

The role of the Shareholder Executive (located in the DTI 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 Shareholder Executive is represented on Dstl Owner's Council, and also provides advice, as requested, to the organisation itself and to officials in MOD.

## 4. Financial Framework

This Chapter sets out the broad financial basis on which Dstl operates, and related policies and standards.

### 4.1. Business Model

Dstl creates value by providing impartial advice to MOD, UK Armed Forces and Government in those areas inappropriate for the private sector. Its business model is to undertake only that work which must be done within Government, and not to compete directly with Industry unless specifically requested by MOD or Other Government Departments (OGDs).

All work for Government customers is to be charged in line with the “Cost of Capital” rate. Commercial work (where requested by MOD or OGDs) should be charged at a rate that maximises the financial return to the taxpayer.

### 4.2. Capabilities and Services

A list of current capabilities and services can be found on the Dstl website at [www.dstl.gov.uk](http://www.dstl.gov.uk)

### 4.3. Accounting Officer’s Responsibilities

Dstl operates as a Trading Fund in accordance with the Government Trading Funds Act 1973 as amended, and the Dstl Trading Fund Order 2001.

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

### 4.4. Major Decision Making

The policy governing key financial decisions in Dstl 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 Dstl Board or the Owner, before a decision is taken.

## 4.5. Annual Report and Accounts

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

## 4.6. Capital Structure

The net assets of Dstl Trading Fund at vesting day, 1 June 2001, were financed by a combination of loans and Public Dividend Capital. With the concurrence of MOD and the Chief Secretary to the Treasury, Dstl has established and maintained general capital and other reserves.

Dstl should, with DBD, review its capital structure and funding requirements as part of the annual Corporate Planning process.

### 4.6.1. Loan Funding

The sole provider of loans to Dstl is MOD. 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 Corporate Plan. Like all requests for funding from the Defence Budget, business cases will be subject to scrutiny by MOD Head Office.

#### 4.6.2. Income and Expenditure

Dstl revenue will come from payments made by customers for its services and by other exploitation of its assets, data and intellectual property. All sums received by Dstl 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 Return on Capital Employed target that reflects the prevailing cost of capital to Government.

#### 4.6.4. Dividend Policy

Unless specifically agreed otherwise, Dstl 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 has the right to seek additional dividend payments if he/she judges that the cash position and business circumstances of Dstl so permit.

#### 4.6.5. Retained Earnings

As soon as possible after the end of the trading year, Dstl 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.

Dstl may reinvest retained earnings in the business in line with the Corporate Plan, subject to the delegations set out in Annex E.

#### 4.6.6. Assets

Dstl will retain, maintain and renew only the assets it needs for its business 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 Dstl will be considered during the Corporate Planning process and endorsed by the Dstl Board and Owner's Council. Appraisals for all major investments will be undertaken in accordance with HM Treasury guidance.

The assets appointed to the Trading Fund are shown in the Dstl Trading Fund Order; changes in these assets or their valuations are indicated in the Annual Report and Accounts, and in the Dstl Corporate Plan. Ownership of the assets apportioned to Dstl remains vested in the Defence Secretary.

Dstl follows the maintenance standards laid down by Defence Estates Rules and Procedures. Any disposal of land and/or buildings should be undertaken only after consultation with Defence Estates to ensure there can be no alternative use for them.

#### 4.6.7. Liabilities

Dstl is responsible for all site liabilities occurring after vesting day. MOD is responsible for the settlement of third-party claims in respect of incidents which occurred prior to vesting.

#### 4.6.8. Capital Investment

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

#### 4.7. 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 Dstl's affairs. The Chief Executive is required to discharge his/her responsibilities as Accounting Officer, in a manner that best demonstrates value-for-money and in accordance with the standards of the Government Internal Audit Manual.

The Defence Internal Audit (DIA) has remit from the Permanent Under-Secretary of State (PUS) and the Defence Audit Committee (DAC) to carry out audits on all MOD departments. They are to have continuous unrestricted access to all records, personnel, property and operations of MOD (including Trading Funds), with strict responsibility for confidentiality and safe keeping 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 Trading Fund Agency audit arrangements are both adequate and compliant with Government Internal Audit Standards, PUS requires a DIA representative to have the right to attend Trading Fund Audit Committee meetings, particularly where they choose not to employ the services of DIA to carry out their annual audit.

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. To remain consistent with the requirements of Government Internal Audit Standards, the Agency's internal audit arrangements will be subject to periodic independent review.

#### **4.8. Risk Management**

Dstl 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 Dstl Board must satisfy itself as to the rigour and overall effectiveness of the governance arrangements for any companies administered by Dstl on behalf of the Defence Secretary, and any Joint Ventures or other enterprises in which Dstl has a formal financial interest. To that end, approval to initiate any new business enterprise will require approval from the Owner, following endorsement from the Board.

Ploughshare Innovations Ltd (PIL) is a Government Owned Company, 100 per cent owned by the Secretary of State with the ownership role delegated on a day-to-day basis to the Chief Executive of Dstl. PIL has its own Board. Its accounts are, however, consolidated annually within the Dstl accounts. For operational purposes, the Dstl Board will treat PIL as a subsidiary company.

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## **ANNEXES**

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## Annex A – Trading Fund Order and HM Treasury Minute

### Trading Fund Order 2001 No. 1246

The Defence Science and Technology Laboratory  
Trading Fund Order 2001

Made 26 March 2001  
Coming into force 1 July 2001

Whereas:

- (1) The Defence Research Agency Trading Fund Order 1993<sup>1</sup> (the 1993 Order) established a trading fund to be known as The Defence Research Agency Trading Fund under the Government Trading Funds Act 1973<sup>2</sup> ‘the 1973 Act’.
- (2) The 1993 Order was varied by the Defence Evaluation and Research Agency Trading Fund Order 1995<sup>3</sup> (the 1995 Order) as amended by the Defence Evaluation and Research Agency Trading Fund (Amendment) Order 1996<sup>4</sup> (the 1996 Order) and the trading fund as varied and amended is known as the Defence Evaluation and Research Agency Trading Fund (the Fund).
- (3) It appears to the Secretary of State for Defence (the Secretary of State) that:
  - (a) Those operations of the Defence Evaluation and Research Agency (DERA) referred to in Article 3 to this Order (the continuing operations) should continue to be funded by means of the Fund, and
  - (b) Those operations of DERA referred to in Article 4 to this Order should cease to be so funded.
- (4) The continuing operations are to be known from the date of commencement of this Order as the Defence Science and Technology Laboratory

<sup>1</sup> ST 1993/380.

<sup>2</sup> 1973 c. 63 as amended by the Government Trading Act 1990 (c.30). The 1973 Act, as 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 1991 (c. 34).

<sup>3</sup> ST 1995/1650.

<sup>4</sup> ST 1996/1447.

(5) The Secretary of State has, in accordance with section 4A of the 1973 Act, and with the concurrence of the Treasury, determined that:

- (a) Those assets and liabilities set out in Schedule 1 to this Order shall continue to be attributable to the continuing operations and shall continue to be part of the Fund, and
  - (b) Those assets and liabilities set out in Schedule 2 to this Order shall cease to be attributable to the continuing operations and shall cease to be part of the Fund.
- (6) In accordance with section 6(2) of the 1973 Act, a draft of this Order varying the funded operations has been laid before the House of Commons and has been approved by a resolution of that House.

Now, therefore, the Secretary of State in exercise of the powers conferred upon him by section 4A of the 1973 Act, and of all other powers enabling him in that behalf, with the concurrence of the Treasury, hereby makes the following order:

#### Citation and commencement

1. This Order may be cited as The Defence Science and Technology Laboratory Trading Fund Order 2001 and shall come into force on 1 July 2001.

#### Variation of Existing Orders

2. The 1993, 1995 and 1996 Orders shall be varied in accordance with the Articles listed overleaf.

#### Continuing operations

3. The following operations shall from 1 July 2001 continue to be funded operations – the Security Division, which comprises:
  - The Centre for Defence Analysis
  - The Chemical and Biological Defence Sector
  - The Chemical and Electronic Systems Sector
  - The Defence Research Information Centre
  - The Defence Radiological Protection Service
  - The Integrated Systems Sector.

### **Operations ceasing to be funded**

4. All other operations not included in Article 3 of this Order shall from 1 July 2001 cease to be funded operations. Those operations are:

The Business Services Division  
The Defence Programmes Division  
The Defence Diversification Agency  
The Future Systems Technology Division  
The Knowledge and Information Systems Division  
The Sensors and Electronic Division  
The Through Life Support Division.

### **Assets and liabilities of the fund**

5. The Crown assets and liabilities set out in Schedule 1 to this Order shall remain as assets and liabilities of the Fund.

### **Public dividend capital**

6. Fifty per cent of the amount by which the aggregate of the values of the assets set out in Schedule 1 to this Order exceed the aggregate of the amounts of the liabilities so set out, shall be treated as public dividend capital of the Fund.

### **Limitation of indebtedness**

7. The maximum amount that may be issued to the Fund by way of loan shall be £100,000,000.

### **Assets and Liabilities removed from the fund**

8. The Crown assets and liabilities set out in Schedule 2 to this Order shall cease to be assets and liabilities of the Fund.

### **Amended Name of the Fund**

9. The Fund, as amended by the terms of this Order, shall be known as the Defence Science and Technology Laboratory Trading Fund.

We concur:  
Geoffrey Hoon  
27 March 2001  
Secretary of State for Defence

Greg Pope  
Jim Dowd  
28 March 2001  
Two of the Lords Commissioners of Her Majesty's Treasury

## **SCHEDULE 1 (Article 5) ASSETS AND LIABILITIES OF THE CONTINUING OPERATIONS**

### **Assets**

Freehold and other interests in land and buildings as at 1 July 2001, used or allocated for use in the continuing operations.

Plant, facilities, machinery, fixtures, fittings, equipment and computer hardware and software, as at that date, used or allocated for use in the continuing operations.

Intangible assets arising from the continuing operations as carried on up to that date.

Net current assets as at that date relating to the use or allocation for use in, or arising from, the continuing operations.

### **Liabilities**

Long-term liabilities and provisions as at 1 July 2001 in relation to the continuing operations.

## **SCHEDULE 2 (Article 8) ASSETS AND LIABILITIES OF THE OPERATIONS CEASING TO BE FUNDED**

### **Assets**

Freehold and other interests in land and buildings as at 1 July 2001, used or allocated for use in the operations ceasing to be funded.

Plant, facilities, machinery, fixtures, fittings, equipment and computer hardware and software, as at that date, used or allocated for use in the operations ceasing to be funded. Intangible assets arising from the operations ceasing to be funded as carried on up to that date.

Net current assets as at that date relating to the use or allocation for use in, or arising from, the operations ceasing to be funded.

### **Liabilities**

Long-term liabilities and provisions as at 1 July 2001 in relation to the operations ceasing to be funded.

## **EXPLANATORY NOTE**

**(This note is not part of the Order)**

This order removes certain operations from the Defence Evaluation and Research Agency Trading Fund in connection with the implementation of the Public Private Partnership plan for the Defence Evaluation and Research Agency. The operations that continue to be funded will be known as the Defence Science and Technology Laboratory.

The assets described in Schedule 2 to the Order (estimated at £394.5 million) and the liabilities described under that schedule (estimated at £10 million) will be removed from the Fund. Fifty per cent of the difference in value between the assets remaining in the Fund as described in Schedule 1 to the Order (estimated at £179.7 million) and the liabilities described under that schedule (estimated at £11.9 million) is to be treated as public dividend capital of the Fund. The maximum amount that may be issued to the Fund by way of loan is reduced from £400 million to £100 million.

### **HM Treasury Minute**

Dated June 2001

1. Section 4(1) of the Government Trading Funds Act 1973 provides that a Trading Fund established under that Act shall be under the control and management of the responsible Minister and in discharge of his/her function in relation to the fund it shall be his/her duty:
  - (a) To manage the funded operations so that the revenue of the fund:
    - (i) Consists principally of receipts in respect of goods or services provided in the course of the funded operations, and
    - (ii) Is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to revenue account.
  - (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 Defence Science and Technology Laboratory Trading Fund Order (SI 2001 No. 1246) provides that, from 1 July 2001, various operations conducted by the Defence Evaluation Research Agency Trading Fund should continue to be funded by means of the Fund, and that these continuing operations should be known as the Defence Science and Technology Laboratory.
3. The Secretary of State for Defence, being the responsible Minister, has determined (with Treasury concurrence) that, for the financial year ending 31 March 2002, a further financial objective desirable of achievement by the Defence Science and Technology Laboratory Trading Fund in respect of the operations conducted by the Defence Evaluation Research Agency prior to 1 July 2001 and by the Defence Science and Technology Laboratory thereafter shall be to achieve a return of at least 6.5 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 equate to the total assets from which shall be deducted the total of the current liabilities.
4. Let a copy of this Minute be laid before the House of Commons pursuant to section 4(1)(b) of the Government Trading Funds Act 1973.

## Annex B - Dstl Top-Level Objectives

### Objective 1: Delivery of High Quality Programmes of Work to Customers

The core role and priority of Dstl is to provide independent and objective, high quality scientific, analytical, technological and engineering research output, expert support and services to MOD and the UK Armed Forces.

In each capability area, Dstl could be tasked and funded to deliver solutions in one or more of the following areas:

- i. Integrated advice and solutions at systems level.
- ii. High quality, coherent analysis in support of policy and operations.
- iii. World class research.
- iv. High quality independent advice to the Equipment Acquisition Community.
- v. Representation of MOD and the UK Government in Government research and technology collaboration programmes relating to defence and national security in line with MOD's IRC policy and strategy.

Dstl may also deliver solutions for other Governmental defence and national security customers so long as the ability to deliver work to MOD's requirements is not compromised. In the event of a conflict of interest, MOD requirements will take priority. The solutions could be in any of the areas identified for MOD above, but must be funded by other Governmental defence and national security customers. Capabilities must not be cross-subsidised between departments unless this has been specifically agreed by all departments concerned.

Subject to the work not being in conflict with MOD and wider governmental policy, Dstl may, with the Owner's approval, also deliver solutions for:

- Other Governmental customers
- Overseas governments, and
- Commercial customers.

### Objective 2: Sustaining S&T Capabilities

Since Dstl exists to undertake work that it would be inappropriate to do in the private sector it must continue to build or retain the technical capabilities that its MOD and other Government customers will require from it in the future. In developing its workforce and human capital, Dstl should also plan to provide S&T specialist staff to other areas of MOD and Government in line with their needs. The quality and quantity of the different technical capabilities that Dstl should sustain should be agreed with the Owner following review by the Dstl Board.

As well as sustaining in-house capabilities, Dstl must develop its network of contacts with leading universities, laboratories and industry to bring in external experts to augment its own when required.

### Objective 3: Exploiting Intellectual Property

Based on the solutions delivered above, Dstl is to exploit its intellectual property (IP), in line with MOD and Government policy for technology transfer, in order to generate value for money for the taxpayer. This should be done, for example, by generating a financial return for the taxpayer through developing equity by Joint Ventures and income through licensing.

### Objective 4: Creating Organisational Excellence

Dstl should develop its infrastructure, business processes and systems to enable it to continue to improve the quality of its organisational performance, both financial and non-financial. It will adopt a performance management and reporting regime that demonstrates delivery against its goals and key targets in key areas of its business.

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In particular, Dstl will demonstrate organisational excellence by:

- Ensuring all obligations, contractual or otherwise, to its customers and suppliers are met in line with MOD and Government policy
- Operating its business to the highest standards, continually seeking to improve its performance
- Providing a working environment that fosters diversity, creativity, responsiveness and excellence, and
- Delivering all its outputs as efficiently and effectively as possible, and ensuring that all expenditure and investments represent the best value for money.

## Annex C – Terms of Reference for the Dstl Audit, Remuneration and Nomination Committees

### Audit Committee

The Audit Committee, comprised of four of the Non-Executive Directors plus, by invitation, the Chairman of the Dstl Board, CE, Finance Director, and Auditors, will meet at least three times a year (at present March, June and November). DIA will attend Audit Committee meetings as observers. The duties of the Audit Committee will include:

- Ensure Financial Reporting is correct and compliant with all relevant standards
- Review and ensure the effectiveness of internal controls and risk management systems
- Ensure that employees have an effective system for raising their concerns about possible wrongdoing in financial reporting or other matters
- Monitor and review internal audit processes
- Ensure that external audit processes are supported and effective
- Report formally to the Board, making recommendations where appropriate
- Review the Statement of Internal Control for the Annual Report and Accounts
- Coordinate between internal and external Auditors
- Ensure that all risks that Dstl may face are properly recorded in the Risk Register and that each has a nominated individual responsible for its amelioration
- Ensure that the risk register is kept up to date and reported to the Board as appropriate, recommending where action is required or improvement needed
- Provide advice on the coordination of risk management strategies.

### Remuneration Committee

The Remuneration Committee, comprised of the Chairman of the Dstl Board, three of the Non-Executive Directors plus, by invitation, the CE, HR Director and relevant Executive Directors and senior managers, will meet twice a year. The duties of the Remuneration Committee will include:

- Determine and agree with the Dstl Board the framework and broad policy for the remuneration packages of Executive Directors and of the senior staff reporting to them
- Consider and recommend to the Dstl Board appropriate bonus schemes with appropriate hurdle rates for Executive Directors and senior staff
- Prepare recommendations for Dstl's Chairman to give to Dstl's Owner regarding the remuneration package of Dstl's Chief Executive
- Consider and recommend to the Dstl Board appropriate bonus schemes for all staff other than those covered by any Executive or senior staff bonus schemes
- Consider and recommend to the Board the Dstl annual Pay Remit
- Prepare recommendations for Dstl's Chairman to give to MOD regarding the remuneration of Non-Executive Directors
- Agree the policy for authorising any claims for expenses from the Chairman of the Board and the Chief Executive
- Consider and advise on any other remuneration and conditions of employment issues as directed by the Dstl Board or requested by the Dstl Chairman or the Dstl Chief Executive.

### Nomination Committee

The Nomination Committee, comprised of the Chairman of the Dstl Board, three of the Non-Executive Directors plus, as appropriate, the relevant Executive Directors and senior managers, will meet on an ad hoc basis as required. The duties of the Nomination Committee will include:

- Review the composition, size, expertise and experience of the Board
- Oversee succession planning for senior executives
- Prepare, at the request of the Board or on its own volition, a description of the role and capabilities required for a particular appointment
- Identify and recommend to the Board candidates for appointment as Non-Executive and Executive Directors, noting that the formal MOD process must be followed.

## Annex D – Delegations

### Financial

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

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

This financial authority, which may be sub-delegated to suitably qualified members of staff, must be exercised in accordance with HM Treasury guidance, reinforced and amplified by Dstl internal guidance on the efficient conduct of business. All novel or contentious items, or issues raising questions of financial principle, must be referred to HM Treasury for approval regardless of the sums involved. The Chief Executive should consult with MOD finance staff before approaching HM 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 Government or could generate interest in Parliament.

### Audit

The Chief Executive is to ensure that Dstl systems and procedures are subject to regular audit to the standards required in the Government Internal Audit Manual. While 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. In exceptional circumstances, an independent review of the Agency's internal audit arrangements may be required.

### Contractual

The Chief Executive is authorised to enter contractual commitments on behalf of the Minister, provided financial approval has been obtained where necessary. Contracts will conform to HM Treasury 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 is not vested in the same individual.

### Personnel Management Authority

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 Agency and for ensuring the quality and consistency of Agency 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 Dstl personnel policy or practice that might have wider implications for the rest of the Department, the Chief Executive should discuss these with MOD's personnel staff. A detailed list of delegations is at Annex F.

### Health and Safety and Environmental Management

The Defence Secretary signed a revised Policy Statement on Safety, Health and Environmental Protection dated May 2005.

The Chief Executive is responsible for ensuring that the strategic principles set out in the Secretary of State's Policy Statement on Safety, Health and Environmental Protection are achieved and for putting in place an organisation and arrangements to ensure this in accordance with the General Duties set out in Section 4 of the Policy Statement. The Chief Executive should 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.

In order to ensure that Dstl remains a healthy, secure and safe working environment, the Chief Executive will require that appropriate procedures be put in place. These procedures are to be enshrined in systems that are made available to all staff and other interested parties, are fully utilised in the planning and conduct of activities, and are routinely and regularly audited. Regular risk assessment of all Dstl activities (and those of any companies set up and owned by Dstl, including any associated Joint

Ventures and partnerships) will take place to ensure continued improvement in all areas of workplace safety and security.

## **Security**

The Chief Executive is responsible to the Defence Secretary for meeting the security requirements specified by MOD's Security Officer. Dstl will be subject to periodic security audit and report by MOD.

## **Military Personnel**

Service Personnel are, whenever feasible, provided to Dstl on full cost repayment terms where Dstl considers military expertise is necessary to meet MOD requirements or to assist it to meet its aims and objectives.

The Chief Executive has, in regard to military staff, the authority to complement, regrade or discontinue posts up to and including 1 Star level, in accordance with JSP414 and Single Service Instructions.

## Annex E – Framework for Major Business Decisions

### Strategy and Five-Year Corporate Plan

Drafts of these are to be developed by the Executive team, scrutinised and endorsed by Dstl Board, and submitted to the Owner for approval. At his discretion, the Owner may seek advice from the Owner’s Council. The Corporate Plan is to be refreshed annually under the same approval process.

### Business Plan

This should cover the first 12-24 months of the Corporate Plan period. It is developed by the Executive team, and is to be scrutinised and approved by the Dstl Board.

### Annual Key Targets

Drafts of these are to be developed by the Executive team, scrutinised and endorsed by the Dstl 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 Corporate Plan.

### 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 Dstl staff should, in first instance, consult with MOD’s Directorate of Business Delivery. 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. Where projects, programmes or other relevant items comprise discrete sub-elements, it is the overall cost to which the limits apply.

**Table 1 – Approval Thresholds**

Type of expenditure <sup>[1]</sup> or other item	Limit above which the Chief Executive must seek the Board’s approval	Limit above which the Owner’s approval must be sought
Capital Expenditure (excluding property) included in the Corporate Plan	£5,000,000	£10,000,000
Capital Expenditure (excluding property) not included in, or going beyond, the Corporate Plan	£1,000,000	£4,000,000
Non-Capital Investment and Expenditure (excluding property) included in the Corporate Plan	£5,000,000	£10,000,000
Non-Capital Investment and Expenditure (excluding property) not included in, or going beyond, the Corporate Plan	£1,000,000	£4,000,000
Expenditure on Land and Buildings	£1,000,000	£2,000,000

<sup>[1]</sup> All expenditure should be subject to Dstl’s own internal approvals processes

**Table 2 – Other Financial Commitments**

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

**Table 3 – Bids and Sales Contracts <sup>[1]</sup>**

Type of financial commitment	Limit above which the Chief Executive must consult the Board	Limit above which the Chief Executive must consult the Owner
Binding bids and sales contracts included in the Corporate Plan	N/A	N/A
Binding bids and sales contracts not included, or going beyond, the Corporate Plan	N/A	N/A

All expenditure should be subject to Dstl's own internal approvals processes.

<sup>[1]</sup> While relevant to other Trading Funds, Dstl commercial work comes under separate governance arrangements requiring MOD approval and visibility to the Board. Therefore, delegation limits for specific categories are not relevant for Dstl.

\* 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 as Accounting Officer is in accordance with section 4 (6) of the Government Trading Fund Act 1973.

In essence, as an Accounting Officer, the Chief Executive must ensure 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>

Section 4(6)(a) of the Government Trading Funds Act also applies, requiring that the Accounting Officer shall be responsible for the preparation of Dstl Trading Fund Accounts, in accordance with the accounting direction issued by HM 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 Dstl Board, and in consultation as necessary with the Owner’s Council, and other relevant customers and stakeholders across Government, to:

- Set and review, coherent and prioritised top-level objectives that balance the Government’s customer, shareholder, finance provider, and policy interests in Dstl
- Approve the long-term business strategy for achieving the top-level objectives
- Approve the five-year Corporate Plan for delivering the strategy
- Approve annual Key Targets for Dstl that are stretching but achievable, and will drive delivery of the Corporate Plan
- Define the policy and finance framework within which the Chief Executive is to operate
- Satisfy himself/herself that the Dstl Board is working effectively, under delegated authority, on his/her behalf to:
  - Scrutinise the business strategies, plans, targets and performance, to ensure the approved Corporate Plan is being effectively implemented
  - Approve major business decisions that do not need his personal involvement
  - Develop, scrutinise and endorse advice to him/her on issues that require his/her personal approval (ie those with significant financial, operational and/or presentational consequences, including major investments, rationalisations, acquisitions and any novel or contentious issues – see Annex D)
  - Provide appropriate support and constructive challenge to the Chief Executive and the senior executive team in delivering the Corporate Plan

- Account to Parliament for all aspects of policy, the operation, performance, achievements, and governance of Dstl. (NB 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 Performance Targets to Parliament.

- Approve the appointment of the Chairman of the Dstl Board, following normal selection procedures
- Endorse the appointment of the Chief Executive, following normal selection procedures
- On appropriate advice, determine the Chief Executive’s performance pay and that of other senior executives.

Accountability:

- To the Defence Secretary
- To Parliament.

### 2 – ROLE AND COMPOSITION OF Dstl OWNER’S COUNCIL

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

- Setting coherent and prioritised top-level objectives that balance the Government’s customer, shareholder, finance provider, and policy interests in Dstl
- Approving the long-term business strategy for achieving the top level objectives
- Approving the five-year Corporate Plan for delivering the strategy
- Approving annual Key Targets for Dstl that are stretching but achievable, and will drive delivery of the Corporate Plan
- Defining the policy and finance framework within which the Chief Executive is to operate.

Composition:

- Chairman (Minister for Defence Procurement)
- Senior Finance and Policy Representative (MOD Finance Director)
- Senior Scientific Representatives (MOD Chief Scientific Adviser)
- Senior Customer Representatives (DCDL, DCE and DCDS Equipment Capability)
- Director-level representation from the Shareholder Executive
- Chairman of Dstl Board
- Dstl CE
- MOD's Director of Business Delivery (DBD).

DBD will provide the secretariat to the Owner's Council.

### 3 – ROLE AND COMPOSITION OF Dstl BOARD

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

- Developing a long-term business strategy, a five-year Corporate Plan and annual Key Targets. The Board is to endorse these prior to submission to the Owner for approval.
- Developing a Business Plan covering the first 12-24 months of the Corporate Plan, and from which annual Key Targets are derived. The Board has authority to approve this plan on the Owner's behalf.
- Developing other major business strategies, plans or proposals in support of the approved Corporate Plan. The Board must judge case by case (guided by the principles at Annex D) whether it can approve these itself, or endorse them prior to submission to the Owner for approval.
- Delivering the approved Corporate Plan, including performance against the published Key Targets.

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

Composition: The size and broad composition of the Board will be agreed with the Owner by the Chairman. The Chairman is to ensure that there is an appropriate balance of the necessary skills and experience, and between executive and non-executives, and that the Trades Unions are invited to nominate a representative if they wish:

- Chairman
- Chief Executive, Technical Director, Operations Director and Finance Director
- External NEDs – chosen to ensure that the Board has an appropriate mix of skills and experience. The role of the NEDs will be to provide expert advice, guidance and challenge to the executive team
- A representative from the Trades Unions, should they wish to nominate one
- In recognition of its role as principal departmental adviser to the Owner under 2nd PUS and the Finance Director, a senior member of the Directorate of Business Delivery (DBD) in MOD will be appointed to the Board as a NED.

### 4 – RESPONSIBILITIES AND ACCOUNTABILITIES OF THE CHAIRMAN

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

- Ensure that the Board as a whole is effective in its overall role
- Determine and agree with the Owner the composition of the Board, in consultation with the Chief Executive, including seeking approval for the appointment of new NEDs
- Organise and chair Board meetings, including:
  - Determining frequency of meetings and the agenda for each
  - Ensuring all directors receive relevant and timely information in preparation for meetings.

- Facilitate effective support and constructive challenge by the NEDs to the Executive team
- Provide personal advice to the Owner, where appropriate, on issues affecting Dstl, including being a member of the Owner's Council
- Ensure that the Remuneration, Nomination and Audit Committees are properly constituted and operate effectively
- 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 CHIEF EXECUTIVE**

Responsibilities: Working with the Dstl Board and within the policy and financial frameworks set by the Owner, to:

- Discharge the role of Accounting Officer, ie personal and direct accountability to Parliament for all Dstl's expenditure and financial systems
- Lead Dstl's Executive Team
- Develop for endorsement by the Dstl Board, and approval by the Owner, a business strategy and Corporate Plan to deliver the top-level objectives set for Dstl, and annual Key Targets
- Develop for approval by the Board, a detailed Business Plan for the first 12-24 months of the Corporate Plan period
- Implement the approved Corporate Plan, including development of appropriate internal strategies and policies, developing new products and services, leading and motivating Dstl staff, improving business processes, and maintaining effective and efficient management systems

- Report regularly to the Dstl Board performance against the Corporate 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
- Be a member of Dstl Board and the Owner's Council.

Accountabilities:

- To the Owner for the efficient and effective management of Dstl, and for delivering the aims, objectives and targets set for it
- To Parliament as Accounting Officer
- To the Dstl Board in its role of agreeing business strategy and Corporate Plan, and scrutinising performance on behalf of the Owner. In the event that the Chief Executive believes that the position of the Dstl Board is in conflict with his/her responsibilities as Accounting Officer, he/she will seek to remedy this in discussion first with the Board, then through the Owner. Ultimately, however, the Chief Executive is bound by his/her personal responsibilities as Accounting Officer.

## Annex H – People

### Terms and Conditions of Service

Dstl civilian staff are Crown employees working within the Dstl Executive Agency, 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, Dstl operates as a discrete body within MOD.

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 MOD, HM Treasury and the Office of Public Service as appropriate.

There will be full consultation with staff and their representatives, including the recognised Trades Unions, on any changes that affect terms and conditions of appointment.

### Management of People

Dstl'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. Dstl will continue to 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 that enables Dstl to recruit, develop, retain and motivate staff with the appropriate skills and expertise, while 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 Dstl 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. Dstl will recruit its other staff directly, with the recruitment of Senior Civil Service-level staff managed by 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. The Chief Executive 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 a right to appeal to either 2nd PUS or 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

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

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## **Equality and Diversity**

The Chief Executive will 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.

## **Investor in People**

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