

The Forensic Science Service®



**TRADING FUND
FINAL REPORTS
AND ACCOUNTS
1 APRIL - 4 DECEMBER 2005**

The FSS Mission

To retain and reinforce our leading position as the principal provider of forensic science to the UK criminal justice system (UKCJS) and use this platform to become the leading provider world-wide, thereby enhancing long-term shareholder value.

The FSS Vision

Real-time scientific solutions supporting safer communities.

The FSS Values

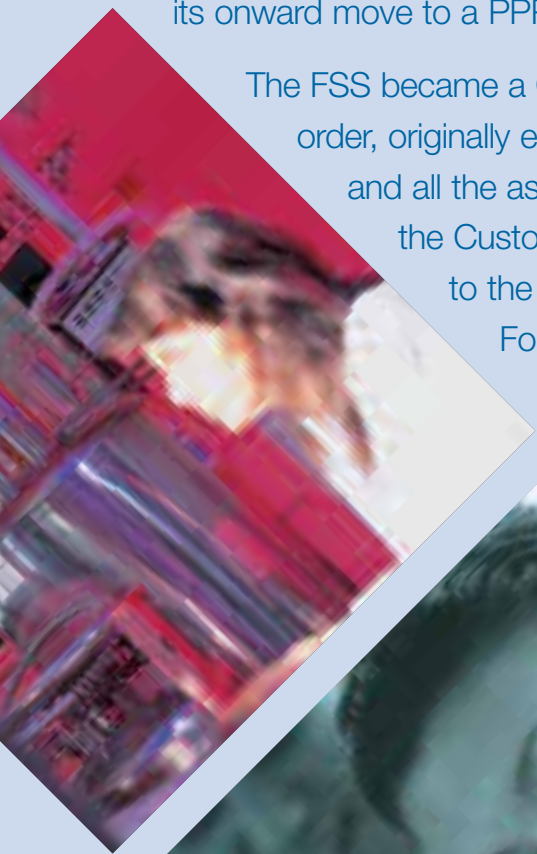
We are: objective, responsive, reliable, innovative and collaborative.

Change of Status

The 2003 McFarland Review recommended The FSS's transition from an Executive Agency to a Public Private Partnership (PPP) via the intermediate step of a Government Owned Company (GovCo). In January 2005, Ministers announced The FSS's move to a GovCo with its onward move to a PPP status being determined by its success as a GovCo.

The FSS became a GovCo on 5 December 2005. On this date the Trading Fund order, originally establishing The FSS as a Trading Fund in 1999, was revoked and all the assets and liabilities of the Trading Fund (except those relating to the Custodianship of The National DNA Database which were transferred to the Home Office at the same time) were transferred to the GovCo, Forensic Science Service Ltd.

This document therefore reflects the performance and final trading accounts of The FSS up until the revocation of the Trading Fund Order.



TRADING FUND FINAL
REPORT AND ACCOUNTS
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amended by the Government Trading Act 1990.

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Chairman's Statement

Welcome to this final statement for The Forensic Science Service Trading Fund, covering the period from 1 April 2005 to 4 December 2005.

Within these pages we can see the strong foundations that were built in preparation for an exciting future as a government-owned limited company. I would like to praise all staff for their efforts in helping the final eight months of the Trading Fund to be so successful, prior to our historic change.

I would also here like to acknowledge the wider team who supported our staff: officials from the Home Office, Shareholder Executive and Treasury who themselves have been supported by other government departments and advisers.

Dave Werrett and his Executive team have done a fantastic job in steering The FSS towards excellence in both the business and financial performances, maintaining the high standards we have come to expect – despite the huge amount of work that has gone into preparing for change.

As the door to this period of The FSS's history closes, another one opens and I – together with my Board colleagues – look forward to the coming year with renewed vigour.



Bill Griffiths

Non-Executive Director and Chairman of the Board



Chief Executive's Statement



This annual report covers the period up until 4 December 2005 when The Forensic Science Service (FSS) moved from a Trading Fund of the Home Office to a wholly-owned government company (GovCo), with the Minister of State as 100% shareholder. This is an historic change and signals the preparation of The FSS to meet new challenging marketplaces, at home and abroad, that I believe will be full of opportunities.

As with the previous five years, The FSS has met or exceeded most of its Agency Targets (13 out of 15 up to 4 December 2005) and has returned a healthy financial performance in the first four months of GovCo (December 2005 to March 2006).

During the year we have achieved much in our progress towards our vision of real-time scientific solutions supporting safer communities. We have done this through scientific innovation, partnerships at home and abroad, and changes to delivery processes and structures that continue to improve timeliness and focus on customer demands.

In the UK, a new marketplace for forensic science is under development – and this will encourage others to enter the market and compete for the services we now provide. We have made fundamental changes that will help us to respond to the new challenges and opportunities that this emerging marketplace will present. Through our people and our technology we will continue to be a compelling supplier of forensic services to our valued customers – the police forces of England and Wales.

To focus our efforts, we now have two delivery divisions – New Business Division (NBD) and UK Criminal Justice System Division (UKCJSD). The expansion of NBD revenues from around £6m last year to around £13m this year signifies the importance we place on investing in our future.

NBD will act as the engine-house for the development of new service offerings that will continue to improve the services we provide in the UK through the UKCJSD. Overseas we have successfully launched new products – CellDEK® and FSS-i³® were launched globally – and won contracts for services from Europe to Abu Dhabi and Trinidad.

UKCJSD will continue to be the main focus for service delivery, absorbing new offerings for NBD as the new services and products are perfected. UKCJSD and NBD together are The FSS's 'team forensic' and, supported by an increasingly efficient and effective Corporate Centre, they will be a winning team.

During the year we started to concentrate the Corporate Centre on policy, strategy, audit and compliance, assigning resources to deliver support services from the central function to the Divisions themselves.

There is every indication that this strategy will be successful in reducing costs and providing better internal services to our people.

The quality of our people has been the foundation on which we continue to build. This year we have introduced new pay and grading systems and management structures and made considerable investments in infrastructure. These investments have been focused on improving staff conditions so that they can develop their careers and better serve our customers.

In some ways, 2006/2007 will be the most challenging year that The FSS has yet faced. I would liken it to the momentous changes that followed the introduction of DNA profiling in 1985 and The National DNA Database in 1995. Those challenges were met in full and, through our resolve and determination, made into the successes they are today.

I am confident that once again, through our people, we will continue to be a vibrant business that holds fast to the values of objectivity, responsiveness, reliability, innovation and collaboration. Our public service ethos will remain intact and will be augmented by a business-like approach to all that we do to delight our customers.

Dr Dave Werrett
Chief Executive

Delivering Excellence: Our Achievements

All areas of our business made real achievements during the last eight months of our Trading Fund status. At home, we continued to develop and deliver new solutions and support for our customers in the UK while abroad our expertise and reputation spread across the world.

UK Criminal Justice System Division (UKCJSD)

It has been an exciting time in UKCJSD in 2005. New ways of working have been established, giving an opportunity for those staff that want to pursue excellence in casework science opportunities to do so and to be rewarded without recourse to management.

Equally, new leaders have been selected to focus their teams on excellent customer service and through new recruits and interim appointments, commercial expertise has been added. In addition, new ground has been prepared to get closer to our customers as part of an integrated supply chain.

We welcome these opportunities to demonstrate the value forensic science can bring to the criminal justice system in general and police forces in particular, as casework is the core of our service delivery: providing expertise to support police and other law enforcement agencies.

Statistics for the final Trading Fund year were calculated to the nearest full month. From 1 April to 30 November 2005, The FSS dealt with **86,161** cases.

The figures in the table below show a breakdown of the casework statistics.

Trading Fund: Casework Statistics

	<i>1 April to 30 November 2005</i>
Drugs	13,554
Volume	40,402
Violent	14,608
Traffic	15,257
Total police casework in England and Wales	83,821
Other Law Enforcement Agencies	2,340
Total cases dealt with by The FSS	86,161
Scenes of crime attended	1,158
Appearances at court to give expert evidence	1,520
DNA samples from people arrested	333,000
DNA samples from scenes of crime	53,000

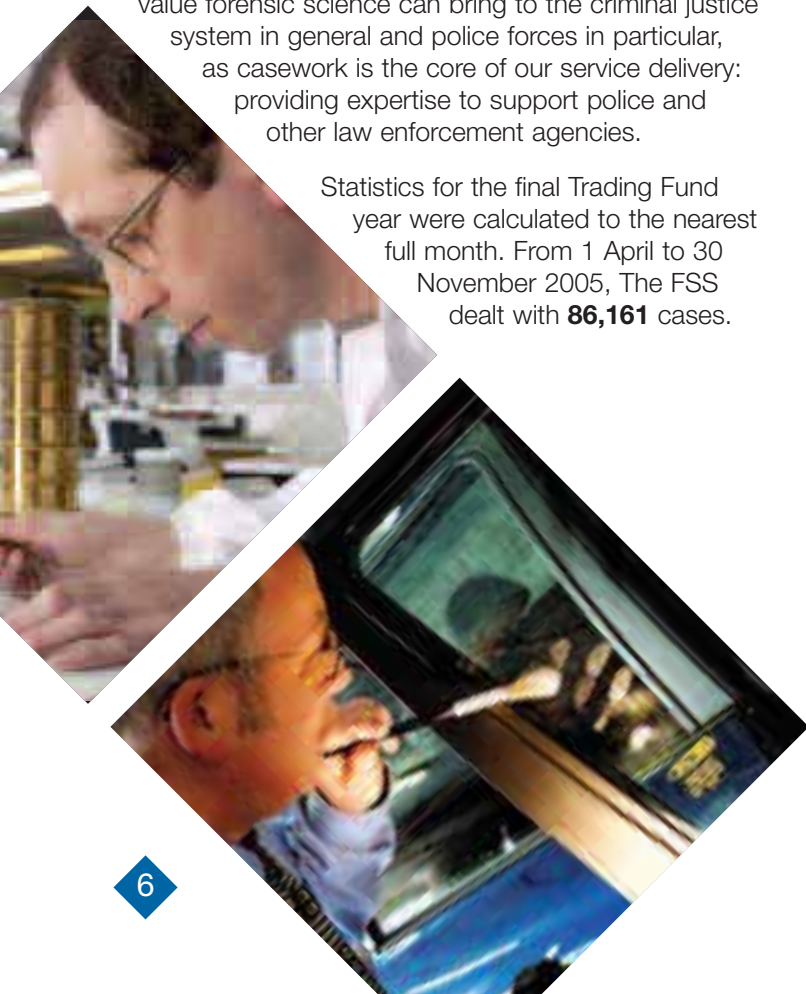
New Business Division (NBD)

As the year progressed, NBD developed a series of business units to take forward a varied and exciting portfolio.

Research and Development (R&D)

The Research and Development Unit had a particularly busy year with a number of new services being launched and developments achieved. These included:

- ◆ **CellIDEK®**, a portable mobile phone interrogation and data extraction kit, was commercially launched in the US. Revenue of £200k was generated in the first quarter of production. In addition, an agreement was made with Logicube to manufacture and distribute CellIDEK®.



- ◆ DNA interpretation expert system **FSS-i³**[®], was implemented into all FSS DNA sites, providing significant cost savings and reductions in turnaround times. It was also commercially launched on the international stage and the first sales were achieved. An agreement with Promega Corporation as distributor for FSS-i³ in the US was secured.
- ◆ A new **mobile phone Cell Site forensic service** was launched in December to UK police forces. It identifies the location of a phone at the time a call is made and works with both 2nd and 3rd generation phones.
- ◆ The **Forensic Response Vehicle (FRV)**[®] – a mobile scene analysis vehicle – was successfully piloted with Lincolnshire Constabulary.
- ◆ **IPR royalties** generated £667k, which was in line with the previous year. In addition, a GovCo transfer notification relating to R&D agreements was completed.

Other NBD business units made significant contributions to the increase in revenues and broadened the customer base of The FSS:

International

- ◆ Contracts were won for training and consultation in Algeria, Trinidad and Tobago and New Zealand.
- ◆ High-profile casework was completed, including the Peter Falconio murder case in Australia, a triple murder case in Brunei and a case in Russia that involved the identification of children's bodies.

eForensics

- ◆ Cell Site and i-Van products introduced to market, in response to customer demand.

Forensic Intelligence Bureau (FIB)

- ◆ The first conviction, for a sexual assault, was made using Pendulum List Search (PLS).
- ◆ Several familial and intelligence-led screen (ILS) successes.
- ◆ Automation of Y-STR and ILS.

Scenesafe[®]

- ◆ Operations were centralised in the West Midlands.
- ◆ An operational warehouse was located and implemented.
- ◆ Exceeded original financial plan for the Unit and delivered revised forecasts.
- ◆ Established a new supply chain.

Rapid Toxicology Unit

- ◆ Established a relationship with Cozart Plc for joint business enterprises.



Corporate Centre

Our people are the lifeblood of The FSS. We are committed to ensuring that they develop and feel supported in the work that they do – and that they are best prepared to support our customers. The Corporate Centre had a busy 2005 and had some notable achievements, particularly in human resources (HR).

In terms of developing and supporting our staff, we have:

- ◆ Delivered a series of major training initiatives to support the introduction of new technologies in DNA and IT, new scientific processes and innovative customer services.
- ◆ Introduced an HR Business Partner structure to bring HR support closer to the business and enable pro-active planning in relation to people issues.
- ◆ Relunched Staff Commitment Surveys with follow-up action groups at senior management and local level to actively address the issues raised.
- ◆ Significantly exceeded our employment target for diversity.
- ◆ Developed a new pay and grading system.
- ◆ Delivered a major programme of management training.
- ◆ Developed a new pension scheme in preparation for GovCo.
- ◆ Implemented a childcare voucher scheme.

Meeting the Challenge: Our Performance

Performance Against Agency Targets

During the last eight months as a Trading Fund we performed well, especially given the impact of internal and external factors upon our resources.

The Trading Fund met 13 out of 15 targets, we exceeded all of our financial objectives and excelled in a number of others.

As a result, we left Trading Fund status and moved to GovCo in a healthy business position, ready to meet the new challenges with confidence.

Of the two targets we missed:

- ◆ We achieved an average turnaround time of six days for DNA crime scene stains against the target of five days. The target was subsequently reached in the first week of GovCo (December 2005).
- ◆ We turned around 86.5% of our work in less than 33 days against a target of 95%, although in some areas – such as volume crime – we exceeded the target. Last year we turned around 83% of work in less than 36 days by the end of a full 12-month period. Violent crime saw a 50% improvement over the previous year's timeliness figures despite the extra challenge of dealing with the London terrorist attacks and delivering the speed of service required for the investigation.



The Targets

Finance

Target: A minimum of 15% return on capital employed (3-year rolling average)

Achieved: 18.2%

Target: A real reduction in charges by limiting price increases to 75% of the Average Earnings Index

Achieved: 27% (figs to Oct 05)

Target: An increase in investment in development to 10% of turnover

Achieved: 13.3%

Target: Generate £500k external funding for research and development

Achieved: £511.3k

Non-Finance

Target: 100% of cases with an assigned FSS case officer

Achieved

Target: To develop and extend current training to police and CPS

Achieved

Target: Percentage of fast-track processing (within 48 hrs) of DNA (subject to demand) 20%

Achieved

Target: Five-day average turnaround time to analyse and inform customers of DNA crime scene stain results

Not achieved

Target: 95% of DNA crime scene stain results to have a turnaround time of less than 10 days

Achieved

Target: Average time to analyse DNA suspect sample results and inform customers of five days

Achieved

Target: 95% of DNA suspect sample results to have a turnaround time of less than eight days

Achieved

Target: 95% of jobs to achieve a turnaround time of less than 33 days

Not achieved

Target: Maintain ISO accreditation

Achieved

Target: Establish processes and behaviours to regain Investors in People in 06/07

Achieved

Target: Maintain the diversity programme

Achieved

Financial Performance

◆ Revenue

The turnover achieved in the period 1 April to 4 December 2005 was £109m. This compares favourably against the year 2004-05. On a like-for-like basis, total revenue has grown by around 7%. Key areas of growth have been from the NBD and the continued use of DNA technology in the investigation and prevention of crime.

◆ Costs and Profitability

Costs remained well controlled and in line with our plans. We continued to invest in new products, services and markets – and in response to the increasingly competitive nature of the marketplace – we have seen a slight reduction in our profit margins from 8.1% to 5.7%.

The surplus for the period ended 4 December 2005, before dividends payable, was £4.4m of which £0.5m was added to reserves.

◆ Capital

The Trading Fund was financed by a combination of Public Dividend Capital – on which The FSS is required to pay a 8% dividend each year – and a long-term loan on which interest is payable at 4.75%, with repayments made over 25 years. The outstanding loan at 4 December 2005 was £16.8m.

During the year The FSS paid dividends to the Home Office totalling £3.8m. This reflected the dividend due for 2005 (on a pro-rata basis) together with the dividend relating to the original two-year dividend holiday granted to The FSS when the Trading Fund was established.

◆ Liquidity

Cash flow during the year, before the payment of dividends and exceptional items, remained positive and contributed £3.9m. The net cash position was affected by the dividend payments and the exceptional costs of the change of status, reducing the reserves by £3.4m. These reserves are invested in interest-bearing deposits, where our cash flow requirements are carefully monitored to ensure a maximum return.

The net cash position was £14.4m at the balance sheet date and was paid over as part of settlement of original long-term loan with the Home Office, on the winding up of the Trading Fund.

During the year expenditure on fixed assets additions totalled £5.2m, reflecting planned capital projects. These included further spending on a major upgrade to IT operating systems and the purchase of a new building.

◆ Post Balance Sheet Events

On 5 December 2005 all of the assets and liabilities, as stated in the accounts, were transferred to the Home Office.

These assets were then transferred from the Home Office to Forensic Science Service Ltd. in return for equity and debt. This is the new wholly government-owned legal entity under which the trading activities of The FSS will continue.

As part of this process there was complete continuity of service provision and the transfer was undertaken on a going concern basis.

Only one aspect of The FSS business, the custodianship of The National DNA Database (NDNAD), was retained by the Home Office. However, The FSS continues to carry out the day-to-day running of The NDNAD under contract to the Home Office.

The NDNAD is independently governed by a tri-partite board, comprising the Home Office, the Association of Chief Police Officers (ACPO) and the Association of Police Authorities (APA) with independent representatives invited from the Human Genetics Commission.

A dedicated NDNAD Custodian Unit in the Home Office is responsible for getting the expected Standards of Performance for forensic science laboratories that wish to provide DNA profiles to The NDNAD and ensuring that these are achieved and maintained. This unit is also responsible for overseeing delivery of The NDNAD operations contract by The FSS.

The FSS is responsible for loading DNA profiles to search for matches and reporting these back to police forces and is also the largest supplier of DNA profiles to The NDNAD.

Maintaining Excellence: Corporate Governance

As Accounting Officer for Trading Fund, the Chief Executive was accountable to the Minister for the work of the Agency. However in the last eight months as a Trading Fund, The FSS's Main Board and Executive Committee worked together to accommodate a governance structure suitable for Limited Company status.

Main Board

The FSS's Main Board was supported by the Executive Committee and four board sub-committees: Finance and Performance; Audit; Nominations, and Development and Remuneration. It led the strategic direction of The FSS, met on a monthly basis and was responsible for:

- ◆ Developing and delivering the corporate strategy.
- ◆ The overall performance of the organisation.
- ◆ Audit assurance and compliance.
- ◆ Risk management policy.

The FSS adopted best practice in managing risk of all kinds across the business and this was an integral part of how The FSS operated. The comprehensive risk and control framework is detailed in the Statement on Internal Control (pages 20-21).

The FSS's 'risk appetite' relating to threats took into account the level of exposure considered justifiable, should it occur. In relation to opportunities, it looked at how much the organisation was prepared to put at risk to obtain the benefits of the opportunity.

The risk appetite varied across The FSS. For example it might have been greater within the New Business Division than within UKCJSD, and the corporate risk may have been different to those of individual projects.

The Main Board was responsible for determining the appropriate mix to allow the business objectives to be met.

The Main Board comprised the Non-Executive Chairman of The FSS together with the four Non-Executive Directors, the Chief Executive, the Deputy Chief Executive, the Finance Director and the Director of HR and Support Services. Members of the Main Board, from 1 April to 4 December 2005, were:

Dr D J Werrett Chief Executive

Mr W R Griffiths Non-Executive Chairman

Mr R J Anthony Finance Director

Mr T H Howitt Deputy CEO and UKCJS
Business Director

Mr M R Loveland HR and Support Services Director

Mr P Hobbs Non-Executive Director

Mr P Riley Non-Executive Director

Mr N Baldwin Non-Executive Director

Mr D Clarke Non-Executive Director

The Non-Executive Directors acted in an advisory capacity.

Executive Committee

The Executive Committee met weekly to oversee the running of the business, its plans and performance. It was accountable for the achievement of its objectives to the Main Board at its monthly meetings. The key functions of the Executive Committee were:

- ◆ To plan business direction and performance in accordance with the strategy.
- ◆ To promote business health and customer satisfaction.
- ◆ To ensure all key risks were identified, evaluated and adequately managed.
- ◆ Day-to-day management of The FSS.

The primary focus was on performance, risk assessment and progress against The FSS's plans. It took a specific interest in the review of performance against targets, actions for improvement and the impact of corporate change on the business's objectives.

The Committee also played a key role in monitoring the development of the corporate risk management process, in particular the process of consolidation of identified risks. The development of the management of risk was monitored at each meeting and the Committee reported to the Board on the risk management process and the corporate risk register. The Executive Committee was made up of the Executive members of the Main Board plus:

Mr A Matthews Communications Director

Ms R L Sparkes Change and New Business Director

Mr P Jones Business Quality Director

Board & Committee Membership

Advisory Board

Responsibility for advising the Secretary of State on the business plans and performance of The Forensic Science Service lay with the Home Office's Director of Policing Policy. The Advisory Board assisted him by providing relevant information.

Membership of the Board comprised representatives from the Home Office, police, and Crown Prosecution Service, plus Non-Executive Directors from The FSS. The FSS's Chief Executive attended meetings, held three times during the year.

Members of the Board in the period to 4 December 2005 were:

Mr S Rimmer	Director of Policing Policy, Home Office
Miss M O'Mara	Director, Organised Crime, Home Office
Mr D Coleman	Chief Constable, Derbyshire Constabulary
Mr N Jani	Crown Prosecution Service
Mr W Nye	Director of Performance and Finance, Home Office
Mr P Hobbs	Non-Executive Director
Mr W R Griffiths	Non-Executive Director

Dr D J Werrett, Chief Executive, The FSS, attended meetings.

Finance and Performance Committee

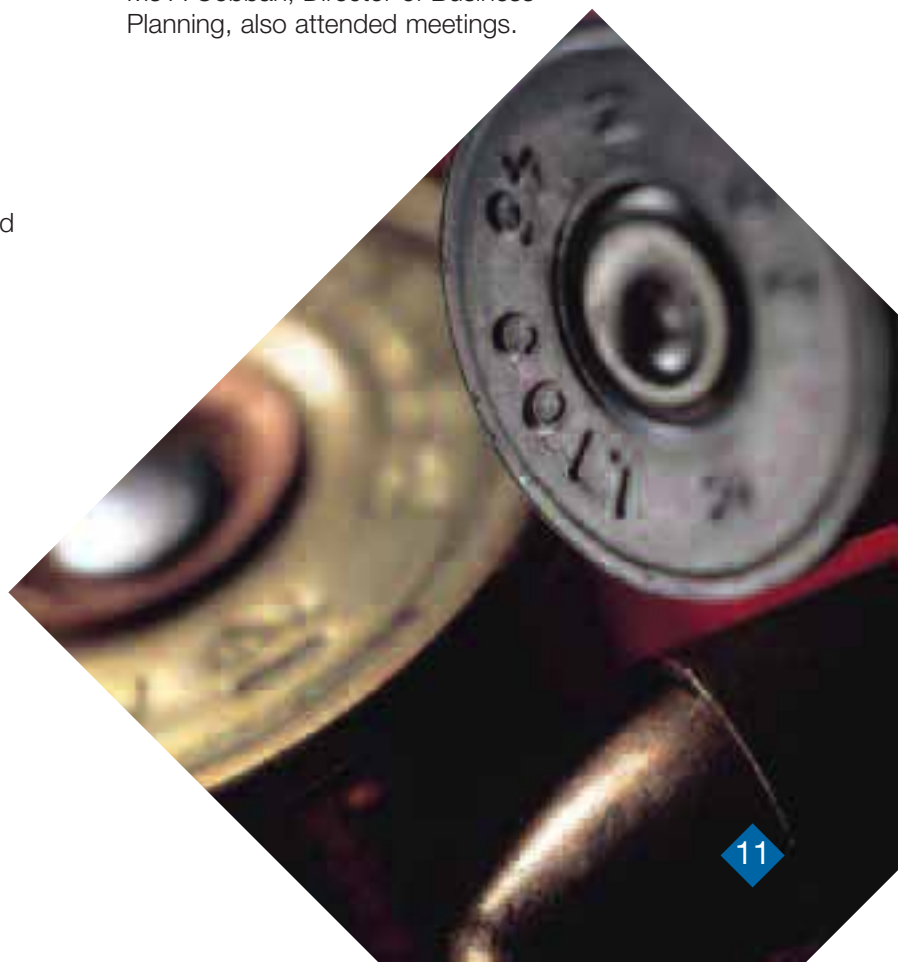
The Finance and Performance Committee was established during the year and was chaired by a Non-Executive Director. Other members were The FSS's Chairman, Chief Executive and Finance Director.

The Committee played a particular role in monitoring the financial performance of the Trading Fund and the management of identified financial risks. In this regard, the Committee regularly reviewed cash flow, management of costs, pricing issues, customer contract matters and the overall financial strength of the business during the transition to GovCo.

Members of the Committee were:

Mr D Clarke	Chairman
Mr W R Griffiths	
Dr D J Werrett	
Mr R J Anthony	

Ms A Cobban, Director of Business Planning, also attended meetings.



Audit Committee

The Audit Committee, which reported to the Trading Fund Main Board, was chaired by a Non-Executive member of The Forensic Science Service's Main Board and included internal and independent external representatives.

During this year of change, it played a key role in monitoring the investments in the business management and control systems and, through audit, the assurance process was met. The Committee reported to the Main Board on the effectiveness of the FSS's governance.

Members of the Audit Committee during the period were:

Mr P Riley Chairman

Mr P Hobbs

Mr N Baldwin

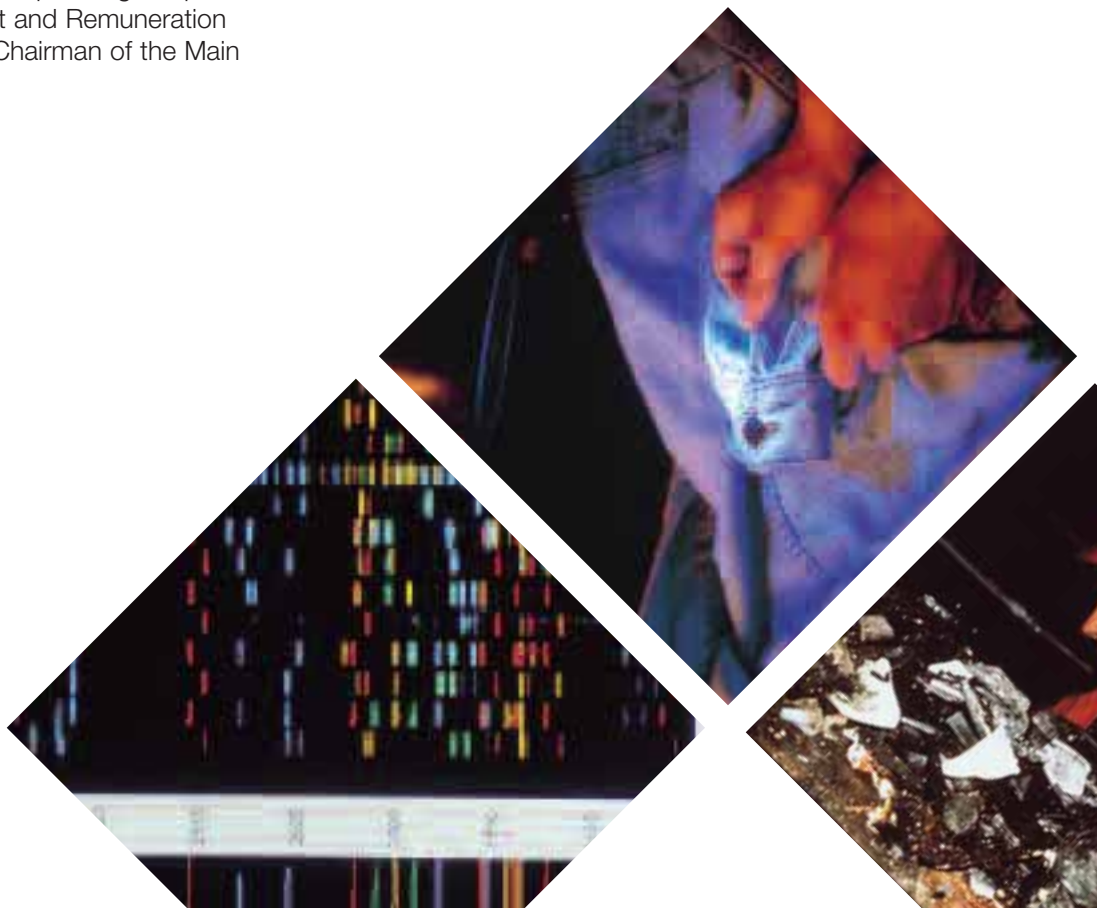
Dr D J Werrett, Chief Executive; Mr R J Anthony, Finance Director; Mr P Jones, Business Quality Director and Mr M R Loveland, HR and Support Services Director, attended meetings.

Development and Remuneration Committee

(see Remuneration Report, p13)

Nominations Committee

A Nominations Committee was established in 2004/2005, to review and make recommendations on Board appointments. Its membership during the period was identical to the Development and Remuneration Committee. The Non-Executive Chairman of the Main Board was invited to attend.



Remuneration Report

Unaudited Section

The Development and Remuneration Committee was chaired by a Non-Executive member of The Forensic Science Service's Main Board and included two other Non-Executive Directors.

The Chief Executive, along with the Human Resources and Support Services Director, were invited to attend. The Home Office was represented by the Director of Policing Policy, and there were two external and independent ex-officio members with personnel expertise.

The Committee reviewed and made recommendations on Non-Executive Directors' fees and expenses and the terms and conditions of the Chief Executive.

The Executive Committee advised on The FSS organisation and staff reward and recognition strategy and also advised on management and succession planning.

The Executive Directors were all members of the senior civil service and therefore policy on remuneration was subject to the recommendations of the Civil Service Senior Salaries Review Body. Further information about the Review Body can be found at www.ome.uk.com.

Performance was assessed on a set of objectives balancing corporate, team and individual achievements. Individuals' performances were measured through a personal development and performance review (PDPR) process that saw staff performance regularly reviewed and formally evaluated annually by their line managers against their role description and a set of agreed objectives.

All Executive Directors were subject to normal senior civil service terms and conditions, including membership of the Principal Civil Service Pension Scheme and subject to the Civil Service Compensation Scheme. See note 28 on page 35 for further details.

Members of the Development and Remuneration Committee during the period were:

Mr P Hobbs	(Chairman) Non-Executive Director
Mr S Rimmer	Director of Policing Policy, Home Office, and Advisory Board Chair
Mr P Riley	Non-Executive Director
Mr D Clarke	Non-Executive Director
Mr D Battle	Ex-officio
Mr P Williams	Ex-officio

Details of remuneration for The FSS's Executive Directors, from 1 April to 4 December 2005, are shown in the following table. As the personnel remained the same as for the previous year, there were no payments or compensation of any kind made in respect of termination of employment, loss of office or resignation.

The FSS has a register of Directors' interests and this is available from our Corporate Office at Trident Court, Birmingham. (*Contact details at the back of this document*).



Audited Section

Executive Directors: Remuneration

	Salary, including performance pay	Benefit in kind to nearest £100	Real increase in pension & related lump sum at age 60	Total accrued pension & related lump sum at age 60	CETV* at 31 March 2005	CETV* at 4 Dec 2005	Real increase in CETV*
	£'000s		£'000s	£'000s	£'000s	£'000s	£'000s
Dr D J Werrett Chief Executive	90-95 (110-115)**	4,400 (6,100)**	10.0-12.5	180-182.5	719	795	63
Mr R J Anthony Finance Director	60-65 (90-95)**	3,300 (4,600)**	2.5-5.0	75.0-77.5	145	163	15
Mr T H Howitt Deputy Chief Executive and UKCJS Business Director	70-75 (85-90)**	4,700 (6,600)**	7.5-10.0	160.0-162.5	662	727	53
Mr P Jones Business Quality Director	45-50 (65-70)**	–	0-2.5	125.0-127.5	537	568	21
Mr M R Loveland HR and Support Services Director	65-70 (70-75)**	2,800 (4,900)**	15-17.5	167.5-170.0	686	765	67
Mr A Matthews Communications Director	45-50 (55-60)**	2,300 (3,100)**	0-2.5	0-2.5	12	23	10
Ms R L Sparkes New Business Division Director	55-60 (65-70)**	4,800 (6,900)**	2.5-5.0	52.5-55.0	121	141	17

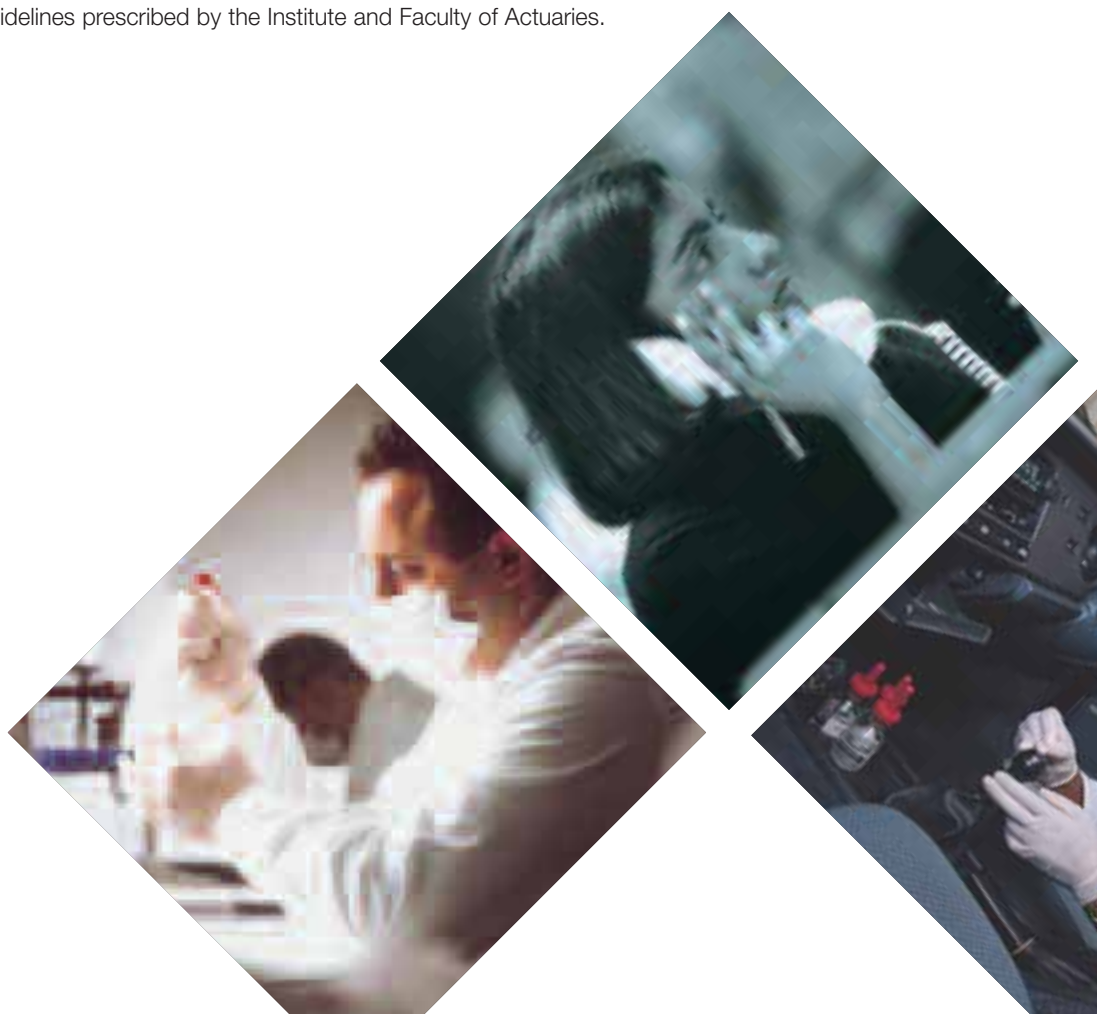
The benefits in kind relate to motor vehicles. During the period there have been five non-executive directors whose fees are shown in note 27.

The Chief Executive's salary was £92k of which £10k was performance related.

*Cash equivalent transfer value (CETV) after adjustment for inflation and changes in market investment factors.

These are calculated according to guidelines prescribed by the Institute and Faculty of Actuaries.

**These relate to full year 2004-05.



Business Review

Activities of The Forensic Science Service

The FSS provides a full range of forensic science services to customers, across all crime types and utilising all traditional analytical services and has access to a network of niche providers to supplement this broad-range service provision where necessary. It supports this with a wide-ranging Research and Development programme that ensures the techniques available and applied to casework are amongst the most up-to-date and advanced of any in the world.

As a consequence, The FSS is well placed to exploit these technologies and services in new markets, outside the traditional UK criminal justice system as well as into new geographical territories. The protection of intellectual property, combined with its exploitation, is key to this success. The FSS has a range of patents and licences that support the achievements of its objectives and these, alongside the quality of The FSS 'brand', form the basis of future opportunities.

Business Strategy

Having operated very successfully since its formation as a Government Agency in 1991 and having been through a period of sustained growth, The FSS now faces significant challenges in the developing marketplace.

The FSS will meet these challenges through:

◆ Building management and leadership capability

The UK criminal justice system business will be protected and developed while new business ventures are pursued with equal vigour.

◆ Driving the cost base down

As a response to market reform, The FSS must be able to offer customers value-for-money solutions that will compete effectively in the marketplace. The FSS plans to achieve further cost savings that will reinforce its position as the provider of the most price-competitive, yet quality-driven, solutions to the marketplace.

◆ Ensuring a more commercial approach

Our goal is to demonstrate the connections between the inputs and outputs that The FSS achieves with the need our customers have to improve operational performance and derive best value.

◆ Implementing new delivery channels

Challenging the current service provision model through the application of new and exciting technologies offers The FSS the opportunity to provide enhanced services and at the same time deliver significant savings to police forces.

◆ Broadening the base of the business

The New Business Division has already demonstrated strong revenue growth through the successful delivery of research and development projects. It is well positioned to continue this growth and drive future corporate profitability.



Other Matters

◆ Market value of land and buildings

Land and buildings were professionally valued in July 2005, in accordance with the Royal Institution of Chartered Surveyors' guidance, and were re-valued by the use of relevant indices to their replacement cost as at 4 December 2005. The FSS considers that there was no significant difference between book value, so obtained, and the current market value of the properties.

◆ Fixed assets

The movements in tangible fixed assets are shown in Note 8 on page 30.

Apart from the acquisition of the freehold of the new Sunderland facility for £1.2m, there were no other material asset purchases.

The book values of certain categories of high-value scientific equipment were reviewed during the year to determine the appropriateness of the current depreciation policy. As a result of this review, a total of £1.2m additional depreciation was provided during the year.

◆ Supplier payment policy

The Forensic Science Service followed government guidelines on the payment of supplier invoices and adopted the better payment procedure code. Individuals and small company suppliers were paid within 30 days.

Larger suppliers were paid, wherever possible, within their terms of sale (normally at the end of the month following the supply of goods and services).

The FSS payment performance, calculated in accordance with Treasury Guidelines, was 97.3% against a target of 100% (95.6% in 2004-05).

◆ Recruitment

The FSS was committed to policies that fully recognised the benefits of a diverse workforce and recruited staff on the basis of fair and open competition in accordance with the recruitment code laid down by the Civil Service Commissioners. This gave full and fair consideration to applications for employment regardless of candidates' ethnic origin, religious belief, gender, age, sexual orientation, disability or any other irrelevant factors.

A total of 94 staff were recruited during the period 1 April to 4 December 2005. Of these, 11 were from ethnic minorities, 47 declined to give their origin and no new member of staff declared a disability. There were no occasions when the permitted exceptions to the principles of fair and open competition were used.

The FSS currently employs 38 people – roughly 1% of the workforce – who are registered as disabled. That figure relates only to staff who have declared a disability to us.

Breakdown of new staff

	<i>Female</i>	<i>Male</i>
Scientific staff	15	14
Administrative /support staff	35	30
Total	50	44



◆ Health and Safety

The Forensic Science Service was committed to assuring the health and safety of its staff, visitors, premises and equipment and had in place the appropriate organisational resource, processes, policies and audit mechanisms.

◆ Communication

The FSS had a number of measures in place to ensure that it communicated efficiently, regularly and professionally with staff, customers and stakeholders. Corporate information to staff, and processes for feedback from staff, were constantly reviewed. A monthly staff newsletter was produced as well as regular weekly staff notices for communication of new information. This communication process was supported by team briefings and the expanded use of the intranet system.

◆ Environmental issues

The FSS has written Environmental Policy and Procedures documents and an Environmental Steering Group is being set up with representatives from across The FSS. Each site is preparing its own local environmental arrangements documents, detailing site responsibilities and procedures.

◆ Charitable Donations

The FSS does not make any charitable donations.

◆ Accounting Officer's Statement

So far as the Accounting Officer is concerned, there is no relevant audit information of which The FSS's auditors are unaware. The Accounting Officer has taken all the steps he ought to have taken to make himself aware of any relevant audit information and to establish that The FSS's auditors are aware of that information.

Dr Dave Werrett

Chief Executive
7 July 2006





TRADING FUND
FINAL REPORT
AND ACCOUNTS

1 APRIL - 4 DECEMBER 2005



Statement on Internal Control

1. Scope and responsibility

As Accounting Officer, I had responsibility for maintaining a sound system of internal control that supported the achievement of the Trading Fund and Home Office policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and departmental assets for which I was personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

In exercising this accountability I reported performance monthly to Ministers and through this and direct meetings kept Ministers and senior officials apprised of all key issues within the Trading Fund. The Advisory Board (which was chaired by a senior Home Office official) met three times a year to consider the performance of the Trading Fund together with its Corporate and Business Plans, and advised Ministers accordingly. I met Ministers at least annually. The Non-Executive Directors of The Forensic Science Service met Home Office officials regularly to discuss matters affecting The Forensic Science Service and corporate governance in particular. This was independent of the Executive Directors. This, therefore, provided a framework by which risk could be effectively managed through supportive inter-relationships between the Trading Fund and the Department.

2. The purpose of the system of internal control

The system of internal control was designed to manage rather than eliminate risk of failure to achieve policies aims and objectives. It would only provide reasonable and not absolute assurance against misstatement or loss. The system of internal control had been in place for the financial period and accorded with Treasury guidance.

3. Capacity to handle risk

The Forensic Science Service always aspired to adopt and maintain best practice in corporate governance. The Executive Board and Main Board recognised that the risk management process was an area where their support for continuous initiatives was very important. The divisional structure, UKCJS Division and New Business Division, were able to focus more closely on the specific risks they faced. Each had a Senior Management Team which regularly discussed objectives, targets and risks with responsible managers.

4. The risk and control framework

In the Trading Fund the main processes which I had in place for identifying, evaluating, and managing risk were:

- ◆ regular board meetings where the agenda contained items on governance, including consideration of points regarding risk and control. Emphasis was on obtaining the relevant degree of assurance and not merely reporting by exception;
- ◆ an organisational structure which clearly defined lines of responsibility and delegation of authority. Authorisation procedures were in line with Treasury guidance;
- ◆ during the period we established the Risk Management Sub-committee and a revised risk management process was devised;
- ◆ a monthly risk reporting process including senior managers' risk reports which were used to update the corporate report and were underpinned by corporate and departmental/divisional registers;
- ◆ workshops and seminars to help those involved in the risk reporting process develop their understanding and expertise, and
- ◆ a whistleblowing procedure that allowed all staff to raise concerns anonymously with independent directors as well as executive directors.

The ways in which risk management was embedded within The Forensic Science Service include:

- ◆ a Quality Management System that specified technical processes and enabled us to maintain British Standard institute registration and UK Accreditation Service accreditation for key activities;
- ◆ an enterprise wide (SAP) system that had improved control and reporting throughout The Forensic Science Service;
- ◆ a change management process that monitored and controlled projects and programmes;
- ◆ adoption and dissemination of best practice in corporate governance, through continual appraisal and evolution of our corporate governance strategy, and
- ◆ a comprehensive business planning process which focused on both the effective management of risks and continuous improvement in all we did.

5. Review of effectiveness

As Accounting Officer, I also had responsibility for reviewing the effectiveness of the system of internal control. This was informed by the work of the internal auditors and the executive managers within The Forensic Science Service together with comments made by the external auditors in their management letter and other reports. I had been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to ensure continuous improvement of the system was in place. In particular I received:

- ◆ assurance from the Executive Board and Main Board considering the risk reports;
- ◆ assurance that the Audit Committee and its Risk Management Sub-committee reviewed the processes that produce the risk reports;
- ◆ assurance that the Audit Committee and its Sub-committees endeavoured to ensure that the risk report was soundly based with a view to reports from internal and external audit and of the other review bodies;
- ◆ periodic reports from the Chairman of the Audit Committee concerning internal control;
- ◆ regular reports by internal audit, to standards defined in the Government Internal Audit standards, which included the Head of Internal Audit's independent opinion on adequacy and effectiveness of The Forensic Science Service's system of internal control together with recommendations for improvement;
- ◆ a report from the external auditors following the annual statutory audit of our annual report and accounts;
- ◆ regular reports from the Business Quality Director on the adequacy and effectiveness of our scientific procedures and controls, identified through casework audit and quality assurance trials, and of our assurance processes more generally, and
- ◆ other external reports relating to health and safety, and physical security.

The Home Office received reports:

- ◆ to the Departmental Accounting Officer on the performance and the internal control activity of The Forensic Science Service, and
- ◆ on compliance with the principal recommendations in The Cabinet Office report *Successful IT: Modernising Government in Action*.

During 2005 The Forensic Science Service was heavily focused on the on-going transition to a Government Owned Company. The Main Board and Executive Board considered the risk this significant project had on the achievement of our aims and objectives and as a result the senior management structure was re-organised so that specific responsibilities and risks could be better managed during this challenging period.

The performance of the Trading Fund in achieving 13 of its 15 targets during 2005 is, however, testimony to the energy and effort of the management team in managing The Forensic Science Service during this challenging time.

The distraction of managerial time to the change of status had an impact on the overall level of control in The Forensic Science Service. Whilst this represented only a minor risk to the business, the Chairman of the Audit Committee and the Head of Internal Audit both noted a perceptible lowering of the level of assurance from the various audits. Renewed effort by management to reverse this trend during 2005 was successful.

During the period we had strengthened our Quality Framework and had raised the profile of Quality throughout the organisation. This included the introduction of new quality assurance initiatives. As a result the senior management of The Forensic Science Service were made aware of an increased number of Quality issues. In accordance with our corrective and improvement action process, these issues were addressed by action plans that were monitored by senior management.

6. Significant internal control problems

During 2005 there were no material internal audit control problems that needed separate disclosure.

Dr Dave Werrett
Chief Executive
7 July 2006

Statement of Trading Fund's and Accounting Officer's Responsibilities

Under Section 4(6) of the Government Trading Funds Act 1973, as amended, the Treasury has directed the Trading Fund to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction and the Financial Reporting Manual. The accounts are prepared on an accruals basis and must give a true and fair view of the Trading Fund's state of affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Trading Fund is required to:

- ◆ observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ◆ make judgements and estimates on a reasonable basis;
- ◆ state whether applicable Accounting Standards have been followed and disclose and explain any material departures in the accounts, and
- ◆ prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Trading Fund will continue in operation.

The Treasury has appointed the Chief Executive of The Forensic Science Service as the Accounting Officer of the Trading Fund. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, as set out in the Framework Document, and the Accounting Officers' Memorandum, issued by the Treasury and published in *Government Accounting*.

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of The Forensic Science Service for the period ended 4 December 2005 under the Government Trading Funds Act 1973. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of The Forensic Science Service, The Chief Executive and Auditor

The Forensic Science Service and Chief Executive are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Trading Fund's and Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if The Forensic Science Service has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on page 20-21 reflects The Forensic Science Service's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of The Forensic Science Service's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Trading Fund Final Report which includes the unaudited part of the Remuneration Report and the Business Review and consider whether it is consistent with the audited period statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of Audit Opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by The Forensic Science Service and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to The Forensic Science Service's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In my opinion:

- ◆ the financial statements give a true and fair view, in accordance with the Government Trading Fund Act 1973 and directions made thereunder by HM Treasury, of the state of The Forensic Science Service's affairs as at 4 December 2005 and of its surplus for the period then ended;
- ◆ the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Fund Act 1973 and HM Treasury directions made thereunder; and
- ◆ in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
18 July 2006

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

Income and Expenditure Account

for the period 1 April 2005 to 4 December 2005

	Notes	Period 1 April 2005 to 4 December 2005		Year to 31 March 2005
		£'000s	£'000s	£'000s
Income				
Income from activities	2		109,211	150,386
Expenditure				
Staff costs	3	60,142		84,106
Depreciation	8	6,457		8,589
Other operating charges	4	<u>36,335</u>		<u>45,501</u>
			<u>102,934</u>	<u>138,196</u>
Operating surplus before exceptional items			6,277	12,190
Exceptional items	5		(2,017)	(919)
Operating surplus after exceptional items			<u>4,260</u>	<u>11,271</u>
Interest receivable	6		646	716
Interest payable	7		(538)	(874)
Surplus before dividends			<u>4,368</u>	<u>11,113</u>
Dividend payable	15		(3,834)	(1,438)
Retained surplus for the financial period/year	16		<u><u>534</u></u>	<u><u>9,675</u></u>

The Forensic Science Service ceased to trade on 4 December 2005 following The Forensic Science Service Trading Fund Revocation Order 2005.

All income and expenditure shown above is a discontinued activity of The Forensic Science Service.

Statement of Total Recognised Gains and Losses

for the period 1 April 2005 to 4 December 2005

		Period 1 April 2005 to 4 December 2005	Year to 31 March 2005
		£'000s	£'000s
Surplus for the financial period/year		534	9,675
Unrealised surplus on revaluation of tangible fixed assets	17	95	423
Total gains and losses recognised since last annual report		<u><u>629</u></u>	<u><u>10,098</u></u>

The notes on pages 27 to 35 form part of these accounts.

Balance Sheet

as at 4 December 2005

		4 December 2005		31 March 2005
	Notes	£'000s	£'000s	£'000s
Fixed assets				
Tangible assets	8		44,302	46,876
Current assets				
Stock and work in progress	9	4,420		5,422
Debtors	10	27,937		28,551
Cash on short term deposit	21	20,674		18,789
Cash at bank and in hand	21	<u>9</u>		<u>9</u>
		53,040		52,771
Creditors – amounts falling due within one year	11	<u>(43,613)</u>		<u>(27,142)</u>
Net current assets			<u>9,427</u>	<u>25,629</u>
Total assets less current liabilities			<u>53,729</u>	<u>72,505</u>
Financed by				
Creditors – amounts falling due after more than one year	12		–	2,295
Provisions	13		1,654	3,191
Long-term loans	14		–	15,573
			<u>52,075</u>	<u>51,446</u>
Taxpayers' equity				
Public dividend capital	15		17,971	17,971
Income and expenditure account	16		31,025	30,491
Revaluation reserve	17		3,079	2,984
Total taxpayers' equity			<u>52,075</u>	<u>51,446</u>

Dr Dave Werrett
Chief Executive
7 July 2006

The notes on pages 27 to 35 form part of these accounts.

Cash Flow Statement

for the period 1 April 2005 to 4 December 2005

	Notes	Period 1 April 2005 to 4 December 2005		Year to 31 March 2005	
		£'000s	£'000s	£'000s	£'000s
Net cash inflow from operating activities	19		6,982		16,021
Returns on investment and servicing of finance					
Interest received		646		716	
Interest paid		<u>(538)</u>	108	<u>(874)</u>	(158)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(5,209)		(8,628)	
Receipts from sale of tangible fixed assets		<u>11</u>		<u>2</u>	
			(5,198)		(8,626)
Equity dividends paid			(5,272)		(1,438)
Net cash (outflow)/inflow before financing			<u>(3,380)</u>		<u>5,799</u>
Financing					
Repayment of loans	20		–		(1,742)
(Decrease)/increase in cash	21		<u><u>(3,380)</u></u>		<u><u>4,057</u></u>

The notes on pages 27 to 35 form part of these accounts.

Notes to the accounts

1. Accounting policies

Accounting conventions

The accounts are prepared under the historic cost convention modified to include the revaluation of certain assets in a form approved by the Treasury in accordance with Section 4 (6) of the Government Trading Funds Act 1973. Without limiting the information given, the accounts meet the requirements of the Companies Act 1985, and the accounting standards issued or adopted by the Accounting Standards Board.

Revaluation and depreciation of fixed assets

Valuation of fixed assets are revised annually using appropriate indices published by Office for National Statistics. Indices are first applied in the year of acquisition. Fixed assets are stated at valuation less accumulated depreciation. The minimum value for capitalisation is £2,500 for an asset or group of assets. Depreciation is provided on all tangible fixed assets other than freehold land, at rates estimated to write off the valuation of each asset evenly over its expected useful economic life, as follows:

Freehold buildings	over 12 to 25 years as advised by Professional Valuers
Leasehold buildings	over the period of the lease term – Birmingham Laboratory 21 years remaining, London Laboratory 9 years remaining, Oldbury storage facility 12 years remaining, Doranda Way archive store 8 years remaining and Trident Court 10 years remaining
Refurbishment of buildings	over 5 years or the remaining life of the lease if shorter
Laboratory equipment	over 10 years except microscopes which are over 20 years
DNA equipment - robotics	over 5 years
Office equipment	over 5 years
Computer equipment	over 3 years
Motor vehicles	over 5 years.

The five laboratories at Chepstow, Chorley, Huntingdon, Sunderland and Wetherby are held on the Home Office Departmental Estate and have been treated as freehold property in the accounts as The Forensic Science Service has all risks and rewards of ownership. In accordance with Treasury guidance professional valuations have been undertaken on these sites by Donaldsons, members of the Royal Institution of Chartered Surveyors (RICS) as at 1 July 2005. The Birmingham, Trident Court and London Laboratories together with storage facilities are held on third party leases in respect of which tenant's additions are included as a leasehold asset.

Stock and work in progress

Consumable stocks are valued at the lower of cost and net realisable value.

Work in progress is valued at the lower of cost of professional time plus attributable laboratory overheads and net realisable value.

Operating leases

Rentals under operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

Research and development

Research and development expenditure including all expenditure on generating Intellectual Property Rights is written off to the income and expenditure account in the year in which it is incurred.

Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme.

Contributions in respect of accruing superannuation liabilities, calculated at rates determined from time to time by the Treasury, are charged to the Income and Expenditure account in the year in which they fall due.

Some staff may be retired early at the discretion of the Trading Fund. Relevant costs are provided for in the year in which the early retirement is agreed.

Value added tax

As a Trading Fund, The Forensic Science Service is separately accountable for VAT, and transactions are duly recorded in line with Statement of Standard Accounting Practice No.5.

Foreign Currencies

Assets and liabilities denominated in foreign currency are translated at the rate of exchange ruling at the balance sheet date.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income and expenditure account.

Going Concern

The accounts have been prepared on a going concern basis as the existing trade of The Forensic Science Service will continue in the newly formed company, Forensic Science Service Ltd.

2. Income

Income represents the invoiced amount of goods and services provided (net of value added tax) from the ordinary activities of the business. Total income is analysed between the main customer groups as follows:

	Period 1 April 2005 to 4 December 2005	Year to 31 March 2005
	£'000s	£'000s
Police Authorities	99,237	135,442
Other Customers	8,191	9,948
Home Office other	1,783	4,996
	<u>109,211</u>	<u>150,386</u>

3. Staff costs

	Period 1 April 2005 to 4 December 2005	Year to 31 March 2005
	£'000s	£'000s
Wages and salaries	46,249	67,171
Social security costs	3,855	5,458
Other pension costs	8,800	9,177
	<u>58,904</u>	<u>81,806</u>
Agency staff	1,238	2,300
	<u>60,142</u>	<u>84,106</u>

Included in the above are costs amounting to £1,861k (£3,173k 2004-2005) relating to employees on short term contracts.

The average number of staff during the year was made up as follows:

Caseworkers and specialists	1,785	1,770
Management and support staff	767	761
	<u>2,552</u>	<u>2,531</u>
Agency staff	97	111
	<u>2,649</u>	<u>2,642</u>

The above includes 7 senior management and 2,545 civil service staff.

Average number of staff on short term contracts were for caseworkers 15, (26 in 2004-2005), management and support staff 38, (47 in 2004-2005).

4. Other operating charges

This is stated after charging/(crediting) the following:

	Period 1 April 2005 to 4 December 2005	Year to 31 March 2005
	£'000s	£'000s
Depreciation of tangible fixed assets	6,457	8,589
Deficit on disposal of tangible fixed assets	30	643
Revaluation surplus on land and buildings	(78)	(135)
Revaluation deficit on other tangible fixed assets	706	616
Staff travel and subsistence	1,409	1,673
Charges for hire of plant and machinery	285	515
Charges for other operating leases	2,677	3,685
Research and development expenditure	3,064	3,952
External audit fee	63	59
Internal audit fee	51	115
Payroll services	189	285
Insurance	424	713
	<u> </u>	<u> </u>

5. Exceptional items

Reorganisation costs:

	Period 1 April 2005 to 4 December 2005	Year to 31 March 2005
	£'000s	£'000s
Early retirement	(54)	91
Costs re change of status	(1,963)	(1,010)
	<u> </u>	<u> </u>
	(2,017)	(919)

Included within other operating charges:

Provision for doubtful debts	1,506	1,709
Casework provision	850	–
	<u> </u>	<u> </u>

6. Interest receivable

Bank interest receivable

	Period 1 April 2005 to 4 December 2005	Year to 31 March 2005
	£'000s	£'000s
Bank interest receivable	<u>646</u>	<u>716</u>

7. Interest payable

On long term loans

	Period 1 April 2005 to 4 December 2005	Year to 31 March 2005
	£'000s	£'000s
On long term loans	<u>538</u>	<u>874</u>

The interest payable on long term loans is based on:

- 1) 25-year fixed term rate of 4.75% on the initial Trading Fund Long Term Loan (1999) of £17,972k.
- 2) 4-year fixed term rate of 4.375% on Business Development Loan (2002) of £3,000k.

8. Tangible fixed assets

Cost or Valuation:

	Land & Buildings	Plant & Laboratory Equipment	Office Equipment	Motor Vehicles	Information Technology	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
At 1 April 2005	33,763	26,500	394	477	25,195	86,329
Additions	2,416	1,424	(54)	12	1,411	5,209
Surplus / (deficit) on revaluation	(654)	(21)	(4)	3	(3,621)	(4,297)
Disposals	(4)	(389)	–	(62)	(4,304)	(4,759)
At 4 December 2005	35,521	27,514	336	430	18,681	82,482

Depreciation:

At 1 April 2005	8,976	14,383	3	346	15,745	39,453
Provided during the period	1,702	2,479	5	38	2,233	6,457
(Surplus) / deficit on revaluation	(832)	102	–	2	(2,284)	(3,012)
Disposals	–	(378)	–	(62)	(4,278)	(4,718)
At 4 December 2005	9,846	16,586	8	324	11,416	38,180

Net Book Value at 4 December 2005 **25,675** **10,928** **328** **106** **7,265** **44,302**

Net Book Value at 1 April 2005 **24,787** **12,117** **391** **131** **9,450** **46,876**

The opening balance of furniture and fixtures included in Office Equipment has been valued at £363k. Purchases of furniture and fittings in the year amounted to £79k. A write off representing depreciation of £143k has been deducted from these figures and charged to the income and expenditure account as an equivalent charge representing depreciation, giving a closing balance of £299k.

Included within depreciation there is an amount of £1,226k relating to impairment of Scientific Equipment.

The net book value of land and buildings comprises:

Freehold
Short Leasehold

11,545
14,130
25,675

In accordance with Treasury guidance freehold land and buildings are professionally revalued at least every five years. Valuations are reflected in the financial statements in accordance with generally accepted accounting principles. Freehold land and buildings were last professionally revalued at 1 July 2005.

9. Stock and work in progress

Consumable stock
Work in progress

4 December 2005	31 March 2005
£'000s	£'000s
2,587	2,781
1,833	2,641
<u>4,420</u>	<u>5,422</u>

10. Debtors

Trade debtors
Provision for bad and doubtful debts
Prepayments and accrued income
Other debtors

4 December 2005	31 March 2005
£'000s	£'000s
26,500	24,929
(3,276)	(1,781)
3,603	1,995
1,110	3,408
<u>27,937</u>	<u>28,551</u>

A table disclosing Intra-Governmental Balances is shown in note 27.

11. Creditors – amounts falling due within one year

Bank overdraft representing unrepresented cheques	
Government loans	
Trade creditors	
Accruals	
Deferred income	
Value added tax	

4 December 2005	31 March 2005
£'000s	£'000s
6,225	960
16,838	1,265
2,996	6,860
10,399	11,650
4,279	2,212
2,876	4,195
<u>43,613</u>	<u>27,142</u>

A table disclosing Intra-Governmental Balances is shown in note 27.

12. Creditors – amounts falling due after more than one year

Deferred income

4 December 2005	31 March 2005
£'000s	£'000s
–	2,295
<u>–</u>	<u>2,295</u>

All creditors have been included as due within one year due to the change in status.

A table disclosing Intra-Governmental Balances is shown in note 27.

13. Provisions

	Reorganisation Costs £'000s	Early Retirement Scheme £'000s	Other £'000s	Total 4 December 2005 £'000s	31 March 2005 £'000s
Balance as at 1 April 2005	2,796	102	293	3,191	6,868
Charged to provisions	(1,870)	(102)	(78)	(2,050)	(3,123)
Unused amounts reversed	(926)	–	(215)	(1,141)	(1,832)
Additional amounts provided	636	–	1,018	1,654	1,278
Balance as at 4 December 2005	<u>636</u>	<u>–</u>	<u>1,018</u>	<u>1,654</u>	<u>3,191</u>

The re organisation costs relate to redundancy and early retirement on compulsory terms.

The future liability for early retirement costs was transferred to the Home Office during the period.

Other provisions relate to employment matters and casework provision.

These provisions are expected to crystallise within the next accounting period.

14. Long-term loans

Unsecured Government loans, repayable by instalments and bearing interest at 4.375% and 4.75% per annum:

Amounts repayable:

Within 12 months (note 11)

Within one to two years

Within two to five years

After five years

4 December 2005	31 March 2005
£'000s	£'000s
16,838	1,265
–	1,289
–	1,776
–	12,508
–	15,573
<u>16,838</u>	<u>16,838</u>

All loans have been included as due within 12 months due to the change in status.

15. Public dividend capital

Issued pursuant to the Government Trading Funds Act 1973

A dividend payable of £3,834k (2004-05 £1,438k) at a rate of 8% has been paid for the period 1 April 2005 to 4 December 2005 and for the dividend holiday in the first two years of operation as a Trading Fund.

4 December 2005 £'000s	31 March 2005 £'000s
<u>17,971</u>	<u>17,971</u>

16. Income and expenditure account

At 1 April 2005

Retained surplus for the period/year

At 4 December 2005

4 December 2005 £'000s	31 March 2005 £'000s
30,491	20,816
534	9,675
<u>31,025</u>	<u>30,491</u>

17. Revaluation reserve

At 1 April 2005

Surplus on revaluation of tangible fixed assets

At 4 December 2005

4 December 2005 £'000s	31 March 2005 £'000s
2,984	2,561
95	423
<u>3,079</u>	<u>2,984</u>

18. Reconciliation of movement in taxpayers' equity

Retained surplus for the period/year

Revaluation of fixed assets

Taxpayers' equity brought forward as at 1 April 2005

Taxpayers' equity carried forward as at 4 December 2005

4 December 2005 £'000s	31 March 2005 £'000s
534	9,675
95	423
<u>629</u>	<u>10,098</u>
<u>51,446</u>	<u>41,348</u>
<u>52,075</u>	<u>51,446</u>

19. Reconciliation of operating surplus to net cash inflow from operating activities

Operating surplus

Depreciation

Loss on disposal of fixed assets

Revaluation adjustment

Exceptional items

Decrease in stock and work in progress

Decrease/(increase) in debtors

Decrease in creditors

Decrease in provisions

Net cash inflow from continuing operating activities

Period 1 April 2005 to 4 December 2005 £'000s	Year to 31 March 2005 £'000s
6,277	12,190
6,457	8,589
30	643
1,380	484
(2,017)	(919)
1,002	672
614	(538)
(5,224)	(1,423)
(1,537)	(3,677)
<u>6,982</u>	<u>16,021</u>

Exceptional costs are the reorganisation costs which are shown in note 5.

20. Reconciliation of net cash flow to movement in net debt

	Period 1 April 2005 to 4 December 2005 £'000s	Year to 31 March 2005 £'000s
(Decrease)/increase in cash in the period	(3,380)	4,057
Repayment of loans	–	492
– Long-term Loan	–	1,250
– Business Development Loan	–	–
	<u>(3,380)</u>	<u>5,799</u>
Net funds/(debt) as at 1 April 2005	<u>1,000</u>	<u>(4,799)</u>
Net (debt)/funds as at 4 December 2005	<u><u>(2,380)</u></u>	<u><u>1,000</u></u>

21. Analysis of changes in net debt

	At 1 April 2005 £'000s	Cashflows £'000s	Other non-cash movements £'000s	At 4 December 2005 £'000s
Cash on short term deposit	18,789	1,885	–	20,674
Cash in hand, at bank	9	–	–	9
Bank overdraft	(960)	(5,265)	–	(6,225)
	<u>17,838</u>	<u>(3,380)</u>	<u>–</u>	<u>14,458</u>
Debt due within one year	(1,265)	–	(15,573)	(16,838)
Debt due after one year	(15,573)	–	15,573	–
	<u><u>1,000</u></u>	<u><u>(3,380)</u></u>	<u><u>–</u></u>	<u><u>(2,380)</u></u>

22. Capital commitments

	4 December 2005 £'000s	31 March 2005 £'000s
Contracted but not provided in the accounts	<u>–</u>	<u>1,300</u>

An amount of £1,801k relating to orders placed by 4 December 2005 was carried forward to Forensic Science Service Ltd.

23. Operating leases

Annual commitments under operating leases are as follows:

	4 December 2005		31 March 2005	
	Land and Buildings £'000s	Other £'000s	Land and Buildings £'000s	Other £'000s
Leases expiring:				
In the second to fifth years	–	–	7	–
After the fifth year	<u>–</u>	<u>–</u>	<u>3,784</u>	<u>–</u>
	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>3,791</u></u>	<u><u>–</u></u>

All operating leases have been assigned to Forensic Science Service Ltd.

24. Contingent liabilities

There are no significant contingent liabilities requiring disclosure.

25. Financial instruments

	4 December 2005 Book value £'000s	4 December 2005 Fair value £'000s
Financial assets:		
Cash at bank and in hand	<u>20,683</u>	<u>20,683</u>
Financial liabilities:		
Long-term loan from the Secretary of State	<u>–</u>	<u>–</u>

26. Financial risks

Liquidity risk:

The Forensic Science Service liquidity risk is low – as a Trading Fund it was underwritten by the Home Office. The levels of capital expenditure are managed from internally generated funds together with loans from the stakeholder as agreed. The Forensic Science Service has full insurance cover to meet any insurable loss.

Foreign currency rate:

The Forensic Science Service has limited exposure to assets, liabilities, income or expenditure denominated in foreign currency, and is managed in accordance with the foreign exchange accounting policy.

27. Related party transactions

The Forensic Science Service was a Government Trading Fund of the Home Office. The Home Office is regarded as a related party. During the period, The Forensic Science Service has had a number of material transactions with the Department and with other entities with which the Department can influence operating policies, notably the Police Authorities of England and Wales together with the Metropolitan Police Service. In addition, The Forensic Science Service has had material transactions with other Government Departments, the main ones being The Crown Prosecution Service and H.M. Customs and Excise.

During the period The Forensic Science Service entered into related party transactions with its Non-Executive Directors as follows:

	1 April 2005 Amount outstanding £	Period 1 April 2005 to 4 December 2005 Fees, expenses charged £	Period 1 April 2005 to 4 December 2005 Charges paid £	4 December 2005 Amount outstanding £
Mr P Riley – Riley Associates	737	16,862	17,357	242
Mr P Hobbs	552	18,429	17,531	1,450
Mr W R Griffiths – WRG Associates Ltd	1,761	45,451	44,036	3,176
Mr N Baldwin	446	17,150	16,958	638
Mr D Clarke	926	20,261	20,945	242
	<u>4,422</u>	<u>118,153</u>	<u>116,827</u>	<u>5,748</u>

All related party transactions were on a commercial basis.

Intra-Governmental Balances

		Central Government Bodies £'000s	Local Authorities £'000s
Debtors	4 December 2005	1,228	21,896
	31 March 2005	4,392	21,820
Creditors – amounts falling due within one year	4 December 2005	20,117	6,151
	31 March 2005	9,731	5,174
Creditors – amounts falling due after more than one year	4 December 2005	–	–
	31 March 2005	–	2,295

28. Pensions

The employees of The Forensic Science Service are Civil Servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. The Principal Civil Service Pension Scheme is an unfunded multi-employer defined benefit scheme but The Forensic Science Service is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in *The Cabinet Office: Civil Superannuation Resource Accounts* (www.civilservice-pensions.gov.uk). For the period to 4 December 2005 employers' contributions of £8,800k were payable to the PCSPS (2004-05 £9,177k) at one of four rates in the range of 12% to 18.5% of pensionable pay, based on salary bands. Rates increased from 1 April 2005, to 16.2% and 24.6%. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. As part of the transfer to Forensic Science Service Ltd staff have been given the option of leaving accrued benefits within the PCSPS or transferring all benefits to the Forensic Science Service Ltd pension scheme.

29. Early retirement

The Forensic Science Service operates an Early Retirement Scheme. This allows staff to retire early and have their retirement benefits actuarially reduced. The scheme also provides further retirement benefits to certain qualifying employees. These benefits conform to the rules of the Principal Civil Service Pension Scheme. The Forensic Science Service bears any additional costs of these further benefits until normal retiring age of the employees. The total pensions' liability up to normal retiring age in respect of each employee is charged to the Income and Expenditure Account in the year in which the employee takes early retirement and a provision for future pension payments is created. Pensions and related benefit payments to the retired employee until normal retiring age are then charged annually against the provision. Under rules announced by Treasury in November 1992, bodies may advance fund all or part of their outstanding pensions' liability at 31 March each year, by making lump sum payments to the Paymaster General's Office. During the period, The Forensic Science Service transferred the liability for future pension payments relating to existing early retirees to the Home Office.

30. Performance measures

The principal financial performance measure is to achieve an annual return on capital employed (ROCE) on ordinary activities of at least 15% over the three-year period.

The operating surplus is £6,277k (2004-05 £12,190k). The surplus represents a return on capital employed of 13.2% (2004-05 17.6%). (Over the three year period this gives an average return of 18.2%, (2004-05 after restructuring 16.8%).

31. Government Owned Limited Company – status

The accounts and the accompanying notes represent the trading results of the Trading Fund to the close of business on 4 December 2005. Following the revocation of the Trading Fund on 4 December 2005, the Trading Fund was wound up and the activities of the Trading Fund transferred to a Government Owned Limited Company (Forensic Science Service Ltd.) which commenced trading on 5 December 2005. The following transactions were undertaken to enable this transfer:

- ◆ cash remaining in the Trading Fund at the close of business on 4 December was used to partially settle the outstanding Home Office loan; and
- ◆ remaining net assets from the Trading Fund were transferred to the Home Office and used to settle the remaining part of the loan and the settlement of the Public Dividend Capital.

The balance on all assets and liabilities in the Trading Fund as a result of this was zero.

In establishing the new company:

- ◆ the Home Office subscribed to shares and loan stock in the new company to cover financing and working capital; and
- ◆ net assets of the former Trading Fund held by the Home Office were transferred to the new company in exchange for cash.

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FSS Website

www.forensic.gov.uk

The site features a range of information including services and news releases.

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