



DEFENCE INTELLIGENCE & SECURITY CENTRE

Annual Report and Accounts

for the year ended 31 March 2005



DEFENCE INTELLIGENCE AND SECURITY CENTRE

**ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2005**

PRESENTED TO PARLIAMENT IN PURSUANCE OF SECTION 7 (2) OF THE GOVERNMENT
RESOURCES AND ACCOUNTS ACT 2000

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED ON
21 JULY 2005

HC 319

London: The Stationery Office

£13.50

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Summary by Chief Executive

The DISC continues to mature as an intelligence centre of excellence delivering operational capability and training. It provides support to operations in the Middle East and is still contributing to other operations involving UK forces abroad.

Demands for intelligence training from all three services are rising and interest in courses is also growing amongst other UK Government departments. In response, development of training continues to evolve to meet changing customer requirements and new technologies. In particular, signals intelligence training has benefited from extensive digitisation. The year has also seen growth in training for the Intelligence Corps, the doubling of the throughput of imagery analysts and preparations for a significant increase in demand for HUMINT qualified personnel. Additionally, training has been developed and delivered, at short notice for the Joint Terrorism Analysis Centre, while the Centre for Analyst Training has been created as a facility for introducing personnel to the methodologies and systems associated with strategic intelligence in the international arena. Short-term training teams have been deployed to several countries across the globe. While on-site foreign training continues; in particular the Joint School of Photographic Interpretation attracts students from around the world. Our flagship course for overseas students, the International Intelligence Directors Course, continues to attract high-level interest from all continents and provides a significant opportunity for intelligence diplomacy at the highest levels.

Further extensive change is expected as a result of internal programmes and several external initiatives, including the Defence Training Review Rationalisation Programme (DTR RP). All will have a profound effect on the future shape and location of the organisation and its component parts.

The DISC is now entering its 7th year of activity and continuing to develop, combining change and progress to set the conditions for future success.



About DISC and its Outputs

What We Do

The DISC is a joint service capability delivery organisation specialising in Security, Language, Intelligence and Photography.

The outputs of the DISC cover a range of operational and training activities that can be summarised as:-

- Operational capability through the development of the Defence HUMINT Unit (DHU)
- Operational capability in the form of the Defence De-briefing Team (DDT) and other support as required
- Delivery of training to MOD service and civilian personnel in specified security, language intelligence and photographic tasks ready for the front line
- Training for Other Government Departments (OGDs), NATO, European partners and other foreign governments
- The provision of advice on the formulation of concepts, policy and doctrine across the spectrum of Intelligence and Security.
- The provision of support to lodger units including Psychological Operations, and the Directorate of the Intelligence Corps

Who receives our Product

In terms of delivery of operational capability across Defence DISC provides an effective capability to PJHQ-commanded operations, including, for example Op TELIC in Iraq. The DISC also provides advice to the front line commands on operational capabilities. In addition, DISC capability contributes to the UK's Defence Diplomacy Programme through the deployment of Training Teams.

The demand from an expanding range of customers continues to increase and training has been developed to meet changing needs and new technologies. The Customer Executive Boards (CEBs), set up last year have seen a significant and beneficial improvement for Defence in the delivery of training for each of the four disciplines (Security, Languages, Intelligence and Photography). The application of the Defence Systems Approach to Training (DSAT) Quality Standard ensures that customer requirements are fully articulated and matched to available resources. There has also been a positive response to requests for short notice requirements, both operational and for the delivery of training solutions.

As the UK's centre for military intelligence training for all three services, DISC offers a unique capability which we continue to develop and aim to exploit our position with both other Government Departments in the UK context and with other countries which could benefit from our expertise.

Where we want to be

Vision

"To be recognised as a centre of excellence delivering highly skilled personnel able to provide coherent and integrated intelligence across Defence."



Structure of the business

The Chief Executive is responsible for all matters related to command and control of the Agency and the delivery of the outputs agreed by the Owner. The organisation is managed through the Agency Management Board (AMB) that is led by the Chief Executive and consists of the Chief of Staff, the Director of Training and the Head of the Business Unit.

The Audit Committee, chaired by the Non-Executive Director and attended by a representative from the National Audit Office meets quarterly. The committee oversees all aspects of Corporate Governance and uses the Risk Register as a tool to monitor the delivery of business objectives.

The organisation operates at Chicksands, Bedfordshire an historic site formerly occupied by the RAF's 'Y' Service and subsequently the United States Air Force (USAF). It lies on the river Flit to the west of Shefford and is the location of a 12th Century Gilbertine Priory now used as the Officers' Mess. The Chicksands Conservation Group actively monitors the wildlife and flora to maintain the 200 hectares of parkland.



Summary of Achievements

Operational Tasking

Operational capability at the DISC comprises the DHU, Defence Debriefing Team (DDT), and specialist intelligence Reserve elements (7630 Sqn RAF and HMS Ferret).

Training

In the training sphere DISC delivers training for Phase 2 and Phase 3 to both military and civilian students in the Security, Language, Intelligence and Photographic specialisations. Language and Photography training take place at Beaconsfield and RAF Cosford respectively.

Support

DISC provides a full range of support functions to all Units and Lodger Units including Directorate of the Intelligence Corps, 15 Psychological Operations Group and the Army Information Security Unit.

Other achievements

- Significant achievement in bringing forward by 4 months the completion of the Annual Report and Accounts 2003-04.
- Re-focus upon Multi Activity Contract (MAC) with introduction of dedicated telephone Helpdesk and set-up of site-wide network for reporting - resulting in improvement in the perception from DISC staff of the quality of service, strengthening our relationship with the contractor and improvement in quality of service
- Appointment of Safety, Health, Environment and Fire (SHEF) officer, focused on assessment of risk, instructions now in place, training being delivered to staff, resulting in safer working environment and ensuring the integration, application and compliance with SHEF-related legislation and MoD Policy.
- Change Project - analysis of vision resulting in new Balanced Scorecard perspectives articulated in the Management Plan focused on measures and targets to achieve the vision. Briefs to senior and middle managers to encourage ownership of objectives.



Estate development

Prime Contract

The Prime Contract continues to go from strength to strength, with C Site Single Living Accommodation (SLA) blocks (72 units) being completed in May and the remaining 228 units on B Site being handed over during the remainder of the year. In addition, there were a number of capital projects including: a vehicle maintenance workshop (Bldg 138) was converted into a classroom complex in the first quarter of the year and handed over in May, the Priory Greenhouse and Orangery were both subjected to refurbishment and work commenced on an additional SLA block (30 units) on Site A as part of the work expanding facilities for a lodger unit. Work remains ongoing and should be completed by Jul 05. In addition work commenced on the provision of a Coffee Shop facility, converting the foyer area of the Theatre (Bldg 330). Work remains ongoing and should be completed in May 05.

Elementary School Sale

In April, the former US Elementary School Site was sold to Mid Beds District Council (MBDC), to enable the Biggleswade and Ampthill Council Offices to merge and form a new HQ. The proceeds from the sale provided sufficient funds for a further SLA block (30 units), bringing the number of new-build SLA rooms at Chicksands to 360.

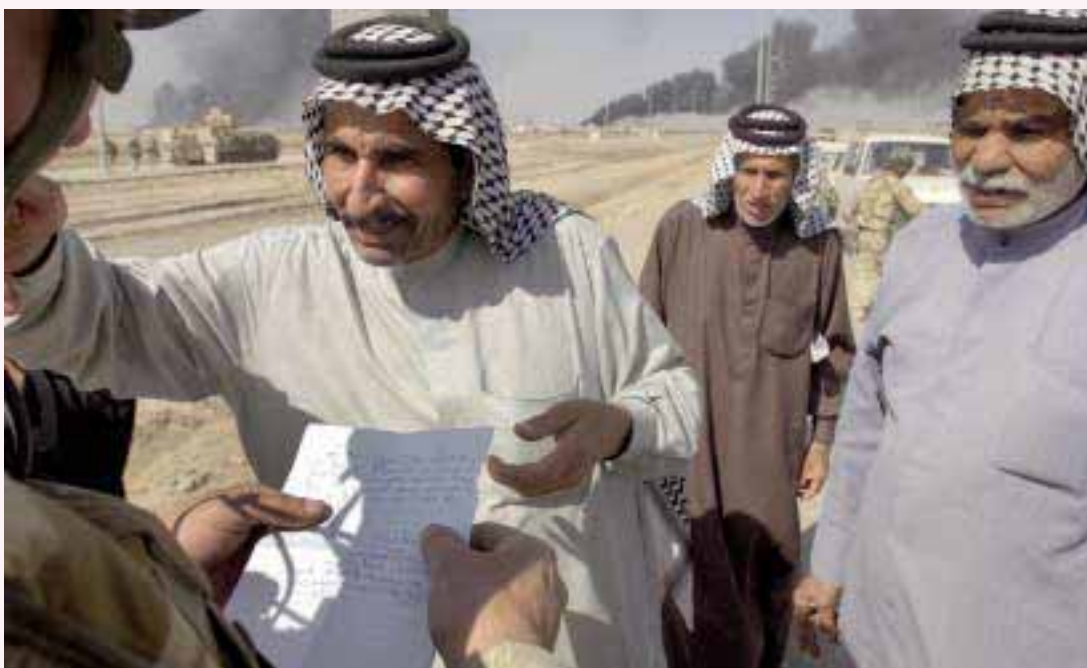
Future Development of Site

As part of the Chief of Defence Intelligence (CDI) Estate Rationalisation Programme, DISC (along with all other contingent parts of the CDI Estate) submitted a User Requirement Document through Defence Estates to CDI, proposing a number of options regarding the future of Chicksands. Concurrently, DTR are inviting Industry to bid for the running of the site in the future.

Operations

The Defence Debriefing Team

The Defence Debriefing Team continues to respond productively to tasking from other parts of Defence Intelligence.



Commitments

DISC personnel continue to support a wide range of operations. During the past 12 months a total of 53 personnel have served in Afghanistan, the Middle East and sub-Saharan Africa as well as the Balkans.

Defence Training Review Rationalisation Programme

Approval to release the Invitation to Negotiate (ITN) to short listed bidders was given in November and it was formally announced by means of a written Parliamentary Statement on 18 November. The Under Secretary of State (USofS) also wrote to those MPs whose constituencies may be affected by the Rationalisation Programme, and Defence Estates (DE) have written in similar terms to Local Authorities.

A Bidder's Conference took place on 18 November in Main Building and provided a valuable opportunity to discuss the ITN documentation in more detail with bidders. Keynote speeches were given by USofS, Deputy Chief of Defence Staff (Personnel) (DCDS (Pers)) and the Finance Director, who was able to provide valuable confirmation of the arrangements set in train to confirm affordability. The 2nd Sea Lord (2SL), the Agency Chief Executives and representatives from the Federated Defence Colleges were also involved.

A workshop was held on 29 November providing much useful material to enable bidders to reflect the ethos requirement in the development of their proposals.

DISC hosted a Road Show on 10 January 2005 during which the Integrated Project Team (IPT) outlined the key messages, and the future work, needed to support the negotiations process. In accordance with the ITN strategy, bilateral discussions are already taking place with bidders on key issues such as Estates, Payment Mechanism and clarification of the requirement documentation, supported by stakeholders as appropriate.

We are now working on the detailed Evaluation Strategy and Plan which is to be agreed prior to considering bidders proposals towards the end of the 2005.

Performance Review

Key Targets 2004/05

Key Target 1 - Training Quantity

To produce trained personnel in accordance with Defence requirements, whilst reducing wastage by 1% in FY 2004/5

This Key Target was achieved

Key Target 2 - Training Quality

To ensure that training complies with Defence training quality standards and customer requirements

All new training is developed in accordance with the DSAT Quality Standard. Work is ongoing to update all such documentation for existing training.

Key Target 3 - Defence Capability

To satisfy all operational tasking.

This Key Target was met

Key Target 4 - Efficiency

To deliver process improvement milestones in accordance with the Owner's Directive.

Phase 1 of this Key Target has been met.

Training

In all, during Training Year (TY) 2004-05, DISC schools trained nearly 5,500 students amounting to over 152,000 Training-Days (TDs). Courses vary in length from 1.5 days to 70 weeks, and in range from basic and Phase 2 trade training to fully trained linguists. Students vary in rank from private soldier to 2 Star Officer.

The Defence College of Intelligence (DCI), the Security, Languages, Intelligence and Photography (SLIP) Federated Defence Training Establishment (FDTE) will be established on 1 April 2005. This has necessitated a degree of internal reorganisation, moving from the previous 4 delivery Schools to 2 Training Delivery Departments each including a number of Training Delivery Wings (TDWs), the establishment of a central Student Management Department, and a Training Policy and Management Department. It is intended to name each of the TDWs in an appropriate fashion, eg the SIGINT becomes the "Bletchley" Training Delivery Wing. Chicksands will continue to be the principal location for training delivery, with Beaconsfield and Cosford delivering language and photography training respectively.



HUMINT Training at the Joint Services Intelligence Organisation (JSIO)

Human Intelligence (HUMINT) training has experienced some dramatic changes in the last twelve months. The need for highly qualified people on worldwide operations continues to have a direct effect on the training conducted at the Joint Service Intelligence Organisation. We have increased our overall throughput by renovating older real estate to provide state of the art teaching facilities. Most recently, work has been carried out to streamline two of our main HUMINT courses into a larger modular course which will allow students to train to a basic level of operational competence and, on return from deployment on HUMINT duties, continue training to further advance their skills. Another encouraging statistic is the increase in Navy and RAF personnel coming forward for specialised HUMINT training; we hope this trend continues to grow, particularly in the light of the MOD's move away from Full Time Reserve Service (FTRS) engaged personnel who have provided experienced and stable support to the unit for many years.



Intelligence and Counter Intelligence in Defence Decision Support

The Defence Intelligence & Security School (DISS) continues to deliver a diverse range of training across the Service and Defence community.

Initial specialist training for the Intelligence Corps has remained a focus. The Intelligence Corps Junior Officer Course is being developed to meet the demands of an ever changing environment and 1 (Templer) Training Coy has been preparing for an imminent increase in Intelligence Corps soldier training to meet the demands of Future Army Structures (FAS).

Security training has featured significantly and is an integral part of the work undertaken within DISS. Covering a full range of subjects including IT, physical and personal security, DISS has delivered a total of 72 security related courses over the last training year.

The Tactical Intelligence Branch has contributed extensively to the preparation of Battalion and Brigade Intelligence Cell staff prior to deployment. This team training involves an intense package delivered to a diverse rank range from Private soldier to Junior Officer level. With current and envisaged demands for this type of training the Tactical Intelligence Branch will assume an even greater role in the preparation of Intelligence staff in the future. Similarly the Army Combat Intelligence Branch has seen a busy period instructing Intelligence at the Unit and Formation level. A greater demand for training at this level will inevitably mean an even busier period in the near future for the branch.

The Air Intelligence Branch has successfully completed a review of its Joint Air Intelligence Course and will deliver its first enhanced course in March 2005. This will have RAF and RN officers in attendance.



At the strategic level DISS delivered various courses for the Defence Intelligence Staff (DIS) and Permanent Joint Headquarters (PJHQ). International training has also featured in the form of the International Intelligence Directors' Course. DISS hosted 27 attendees from various nations around the world during this high level event enabling the School to make a real contribution to Defence Diplomacy.

SIGINT Training at the Defence Special Signals School (DSSS)

The Defence Special Signal School continues to provide high quality technical training to ensure that specialist linguists and non-voice tradesmen, across the three services, are fully prepared for their operational roles within their future field units. As technology develops the School is continuously fine tuning courses to ensure maximum usage of new methods and techniques. Developments have included the upgrade of our existing computer suites with additional software packages to enhance IT skills and increasing use of extensive e-learning language training modules to use as supplemental training to add to their classroom work. Our aim is for students to be able to access this material using their own laptops/PC at home, giving them the opportunity to conduct their own revision prior to final assessments. This approach, in keeping with the Defence Systems Approach to Training, ensures that all courses meet the ever-changing requirements of our customers.

Over the coming year refinements to the overall SIGINT manpower requirement will lead to a reduction in the overall training burden over the next 2 years. However the quality of the training given is now all the more important. As numbers reduce within field units it is vital that all students are fully conversant with the range of technical equipment and are competent to carry out the complex tasks that they will be required to do. One significant change will see the foundation level language training conducted at DSSS move to become the responsibility of Defence School of Languages (DSL), Beaconsfield. This will allow DISC to both meet the increase in language proficiency required by customers and rationalise the delivery across the whole organisation.



Imagery training at the Joint School of Photographic Interpretation (JSPI)

A year of changes and challenges for the school. With the new classroom facilities available and on line the school has been able to accommodate a rapidly changing training requirement, despite a 50% change over in instructional and support staff. Over 200 Students were trained during 2004, including 93 imagery analysts and 39 RAF Trade Group (TG)14 airmen. The year additionally saw the first Royal Artillery (RA) Gunner graduate from the United Kingdom Imagery Analyst Course (UKIAC) as part of the emergent WATCHKEEPER training programme.

To meet changing training requirements a review of the primary courses has been completed alongside support to emergent requirements. The review has revalidated the currency of content and ensured that structure of the courses are compliant with current guidelines. As a result the courses have been given a level of future proofing and further reviews will be much easier to handle. Alongside the review of existing deliverables, JSPI staff, have developed the background material necessary to allow specialist training of WATCHKEEPER Operators to begin in the latter part of 2005.

With the advent of the Defence College of Intelligence (DCI), JSPI is now ready to complete the transition from an independent teaching unit to an integral part of a cohesive college.



Human Resources

The DISC Personnel Management (DPM) continues to provide a customer-focused service to both military/civilian staff and students. All major personal training requests have been met and considerable savings have been realised by the provision of on-site training and block bookings. Training towards professional and vocational qualifications continues to be well supported, with personnel successfully attaining qualifications as diverse as NVQs in Mechanical Engineering and fork lift truck licencing. Furthermore, we were able to offer 8 pupils from local schools the opportunity to undertake work experience at Chicksands in a range of disciplines.

In support of the MOD-wide Human Resources (HR) Transformation Project, and as part of the Chief Executive's (CE) regular briefings, presentations have been given to raise awareness across the site. Also, a DISC-wide survey of line managers has identified the training requirements necessary to support this fundamental change in business practice.

We remain committed to the full implementation of the Special Bonus Award Scheme for civilian staff and the CE's interest has raised the profile of the Scheme across the Agency, with take-up rising accordingly.

Equal Opportunities And Diversity

We employ 5 staff who are registered disabled and, including both industrial and non-industrial staff, 58% of civilian staff are female. Three staff work part of their time from home.

Welfare and Community Support

The Welfare and Community Support Team is small but dedicated, with a positive attitude towards building a dynamic and successful community environment, and constantly strives to be recognised as a Centre of Excellence. The Welfare and Community Staff continue to work extremely hard to provide ongoing support, with the aim of providing a "one stop shop" for all advice, no matter how big or small the problem may appear.

The Community Centre, as the information hub for the site, encompassing pastoral care and a café serving both permanent staff and those attending courses, continues to be a great asset and will shortly be enhanced with a cyber café outlet available to all and for longer hours.

The isolation of the site continues to bring a multitude of difficulties, particularly when organising children's activities; however, this has been overcome by being proactive, resulting in various successful events and Summer schemes. A great deal of liaison has also been achieved with the local authorities in the areas of education, information and integration.

Safety, Health, Environment and Fire (SHEF)

During 2004, we appointed a full-time Safety, Health, Environment and Fire (SHEF) Advisor to ensure the integration, application and compliance with SHEF-related legislation and MOD policy, and to cultivate a SHEF culture across the site. As part of this integration, committee structures have been reorganised and orders and procedures revised so that all SHEF disciplines are encompassed into one comprehensive system. In support, a programme of audits was introduced in January 2005 covering all areas, with the aim of base-lining the level of compliance with MOD requirements and to provide a basis for continual improvement. In addition the accident and incident reporting procedures were also modified to create an improved system for communicating lessons learned.

As a result of the appointment of the full-time SHEF Advisor, instead of outsourcing to external providers, we have been able to implement an in-house SHEF training programme.

**ACCOUNTS AND FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 MARCH 2005**

FOREWORD TO THE ACCOUNTS

Principal Activities, Mission and History

The Agency's principal activities, its mission and a brief history of the organisation are described in Part 1 of the Report.

Statutory Background

The Defence Intelligence and Security Centre (DISC) was established as a Defence Agency on 1 October 1996 following recommendations made in Defence Cost Study (DCS) 18 and subsequent studies. The formation of the Agency was completed in April 1998. Agency status on 1 October 1996 places upon DISC the requirement to publish accounts.

The financial statements contained within this annual report have been prepared in accordance with a Direction given by the Treasury in pursuance of Section 7 (2) of the Government Resources and Accounts Act 2000. The statements also comply with the HM Treasury Resource Accounting Manual and the Ministry of Defence Resource Accounting Policy Manual.

Principal Activities

The core business of the DISC is to train authorised personnel in the Intelligence Security and Information Support disciplines whilst maintaining an operational capacity. The Agency provides support to a number of non-DISC units, which share its resources.

Financial Review

The gross operating costs of the Agency during the year ended 31 March 2005 were £24,182K (2003/04 £27,507K) and net operating costs were £23,708K (2003/04 £27,051K) as detailed in the Operating Cost Statement.

The net book value of tangible fixed assets as at 31 March 2005 was £41,469K (2003/04 £33,039K) and total assets less total liabilities as detailed on the Balance Sheet were £40,212K (2003/04 £30,078K). The significant increase in value of tangible fixed assets relates to construction and completion of seven single living accommodation blocks.

Creditor Payment Policy

It is the DISC's policy to comply with current legislation for the settlement of bills including the processing of all approved and undisputed invoices within 30 days. The Agency's creditors are paid either by the Defence Bills Agency or through the local MOD imprest account. From 1999/2000, following the implementation of the Late Payment of Commercial Debt (Interest) Act 1998, the Defence Bills Agency as MOD's central bill payment authority has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. Actual performance against this target was 99.98% (2003/04 99.98%).

The DISC is also cognisant of its responsibilities to the taxpayer under the Late Payment of Commercial Debts (Interest) Act 1998 and can report that there have been no claims against the Agency since the Act came into force on 1 November 1998.

The Agency Management Board

During the year the Board Members were:

CHAIRMAN

Brigadier P F Everson, OBE, INT CORPS	Chief Executive, DISC
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DIRECTORS

Group Captain W J Gimblett, BSC, RAF	Chief of Staff
Captain J P Ratcliffe BSc	Director of Training
Mrs C E Sturgeon, CPFA, MAAT (To 26 November 2004)	Head of Business Unit
Dr Myszka Guzkowska, TD, AKC, MBA, FRGS, FRSA	Non Executive Director

Appointment of Management Board Members

The Agency Management Board comprises of three serving officers and one civilian. The qualifications for each post are specified within the Unit Establishment document and Terms of Reference. The respective personnel departments select Service personnel, while civilians are recruited by open competition from within the Civil Service or the civilian sector. Military appointments are generally for two to three years. The posts are fixed rank/grade and remuneration is made on this basis; there are no additional allowances, bonuses or superannuation payments. Appointments can be terminated by dismissal on disciplinary grounds or by disestablishment if the post is no longer required within the DISC. In addition, the DISC has one non-executive director who receives no remuneration for this appointment.

Equal Opportunities Policy

The DISC is an equal opportunities employer. Every possible consideration is given to applications for employment regardless of gender, religion, disability or ethnic origin. Policies for training and career development for all employees are based on fairness and equality of opportunity.

Equality and Diversity training is mandatory for all personnel at the DISC. All are encouraged to attend the db-learning courses appropriate to their rank/grade. The DISC equal opportunities statement is included in the DISC induction pack, which is due to be re-written in the first half of 2005.

Staff Involvement

The Agency encourages teamwork and communication between staff at all levels in the organisation. Business and other issues that may be of interest or concern are brought to the attention of staff at various levels in a variety of ways.

There is ongoing dialogue, both formal and informal, with trade union representatives.

The Agency is committed to training and developing staff as an integral part of achieving business success, as exemplified by holding of the Investors in People standard which is due for re-accreditation in March 2006.

Pension Arrangements

These are disclosed in Note 2.

Auditors

The accounts of the Agency are audited by the Comptroller and Auditor General under Section 7 (2) of the Government Resources and Accounts Act 2000, for which a statutory notional audit fee of £30K has been charged within the accounts. No non-audit services have been provided.

De-agencification

The Defence Intelligence and Security Centre ceases to be a government agency from 1 April 2005. The accounts are still being prepared on a going concern basis as the activities of the Agency are expected to continue.

Signed:



Brigadier P F Everson OBE ADC
Commandant, DISC
11 July 2005

STATEMENT OF THE AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under Section 7 (2) Government Resources and Accounts Act 2000 the Treasury has directed the Defence Intelligence and Security Centre to prepare a statement of accounts for each financial year in the form and on the basis set out in an accounts direction dated 16 February 2005. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency 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 financial statements;
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Accounting Officer for the Ministry of Defence has designated the Chief Executive of the Defence Intelligence and Security Centre with responsibilities analogous to those of an Accounting Officer for the Defence Intelligence and Security Centre Agency. In this capacity his relevant responsibilities, including his responsibility for propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.

STATEMENT ON INTERNAL CONTROL

1 Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Defence Intelligence and Security Centre's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am accountable through the Permanent Under Secretary (PUS) to the Secretary of State for Defence and Parliament for the use of resources in carrying out my Agency's business. Where there are matters of financial structure and principle I consult with the Director General of Central Budgets, who is responsible for the coherence of all TLB financial systems.

2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the MOD's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the DISC for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3 Capacity to handle risk

The MOD has issued guidance on managing risk in Joint Service Publication (JSP) 525, 'Corporate Governance and Risk Management'. The risk management process is firmly embedded in the routine functions of the Agency Management Board (AMB).

The purpose of the Agency business risk register is to identify the risk to meeting the Agency's annual objectives. Each objective is recorded on the business risk register and risk matrix. A member of the AMB is assigned as the 'owner' of each objective. The objective owner assesses the risk to achieving each objective, by impact and probability, using the recommended criteria. The risk owner is responsible for deciding how the risk will be managed and producing an action plan. The top risks are reviewed monthly by the AMB, quarterly by the DISC audit committee, and periodically by the Agency's owner.

Specific risks are also identified through the separate Finance, Security and Information Technology risk registers, which are reviewed periodically. Where a risk is considered to have high impact or likelihood, this is included on the business risk register, for monthly review by the AMB.

When undertaking business cases and investment appraisals for investment decisions, a risk assessment is undertaken to identify risks to the delivery of the project, and an action plan developed. Where a risk is considered to have high impact or likelihood, this is included on the business risk register, for monthly review by the AMB.

Business continuity is a major concern for the MOD. A local integrated project team has been established to scope this issue for the Agency, and the team has produced a business continuity plan at the end of 2004/05. This plan is subject to consultation during 2005/06.

4 The risk and control framework

Best practice on risk management is provided on behalf of the Chief of Defence Intelligence (CDI) at his quarterly Assurance Committee Meetings. Risk management is included as a standing agenda item for the AMB, the Training Management Board (TMB) and the Support Management Board (SMB).

The Agency is held accountable to the Owner for ensuring a sound system of internal control, and this is reported through the production of the following annual reports:

- Health of Financial Systems report
- Civilian Stewardship report
- Health of Security Systems report
- Health of Health and Safety Systems report

The Agency ensures there is annual mandatory training for all staff on:

- Safety, Health, Environment and Fire (SHEF)
- Fraud awareness
- Anti-Terrorist awareness

5 Review of effectiveness

As Accounting Officer I have the responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the MOD Directorate of Internal Audit (DIA) and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of effectiveness of the system of internal control by the AMB, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

An Audit Committee, chaired by the Non Executive Director, has been established to provide me with assurance of the effectiveness of risk management and the internal control systems within the Agency. The Audit Committee meets quarterly, and reports their findings to the AMB.

Internal control procedures have been established that follow MOD guidance set out in Finance Instructions, Defence Council Instructions or Joint Service Publications.

Key areas are monitored on a routine basis, and quarterly reports are provided to CDI's Assurance Committee, and the Audit Committee. These checks are audited by representatives of the Assurance Committee, to provide assurance that the procedures and controls are in place, and that these are complied with. Formal reports are then completed, and forwarded to the Assurance Committee. During the year, independent audits have been carried out in the following areas:

- the use of the Government Procurement Card
- the use of mobile telephones
- civilian travel and subsistence claims
- delegation letters
- use of external consultants
- minor awards for civilian staff
- special bonus payments to civilians

A contractor carries out property management and works. The contractor's health and safety plan sets out health and safety standards, and details the roles and responsibilities of individuals throughout the company. Health and safety audits are carried out by suitably qualified independent staff. Active safety monitoring is undertaken to check there is compliance with reporting standards. A record of audits carried out is reported to the Integrated Project Team on a monthly basis, and to me quarterly.

Signed:

A handwritten signature in red ink, appearing to read 'P F Everson', with a long horizontal flourish extending to the right.

Brigadier P F Everson OBE ADC
Commandant, DISC
11 July 2005

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

I certify that I have audited the financial statements of the Defence Intelligence and Security Centre on pages 29 to 49 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 33 to 36.

Respective Responsibilities of the Agency, the Chief Executive and Auditor

As described on page 23, the Defence Intelligence and Security Centre and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and for ensuring the regularity of financial transactions. The Defence Intelligence and Security Centre and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury Directions made thereunder, and 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 if, in my opinion, the Foreword is not consistent with the financial statements, if the Defence Intelligence and Security Centre have not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 24 to 26 reflects the Agency's compliance with Treasury guidance 'Corporate Governance: Statement on Internal Control'. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the entity's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

I conducted my audit in accordance with United Kingdom Auditing Standards 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. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency'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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Audit Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the Defence Intelligence and Security Centre at 31 March 2005 and of the net operating cost, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury: 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
National Audit Office
157-197 Buckingham Palace Road
Victoria
London, SW1W 9SP
13 July 2005

OPERATING COST STATEMENT for the year ended 31 March 2005

		2004/05	2004/05	2003/04	2003/04
	Note	£000	£000	£000	£000
OPERATING COSTS					
Staff costs	2		15,740		14,717
Other operating costs:					
Supplies and services consumed	3	761		768	
Accommodation and associated costs	4	2,016		5,775	
Other administration costs	5	4,435		5,247	
Cost of capital charge	6	<u>1,230</u>		<u>1,000</u>	
			8,442		12,790
GROSS OPERATING COSTS			24,182		27,507
OPERATING INCOME					
<u>Less</u> income from repayment customers	7		(474)		(456)
NET OPERATING COST			23,708		27,051

All activities undertaken during the year are continuing.

The notes on pages 33 to 49 form part of these accounts.

**STATEMENT OF RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2005**

	Note	2004/05 £000	2003/04 £000
Net surplus/(deficit) on revaluation of tangible fixed assets	13	2,768	938
RECOGNISED GAINS AND LOSSES FOR THE FINANCIAL YEAR		2,768	938

The notes on pages 33 to 49 form part of these accounts.

BALANCE SHEET as at 31 March 2005

	Note	31 March 2005		31 March 2004	
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	8		41,469		33,039
Current Assets					
Stocks	9	244		201	
Debtors and prepayments	10	<u>185</u>		<u>151</u>	
		429		352	
Current Liabilities					
Creditors due within one year	11	(1,686)		(3,167)	
Net Current Liabilities			<u>(1,257)</u>		<u>(2,815)</u>
Total Assets less Current Liabilities			40,212		30,224
Long Term Liabilities					
Provision for liabilities and charges	12		<u>0</u>		<u>(146)</u>
TOTAL ASSETS LESS TOTAL LIABILITIES			40,212		30,078
Taxpayers' Equity					
General Fund	17		34,838		25,361
Revaluation Reserve	13		5,374		4,717
TOTAL TAXPAYERS' EQUITY			40,212		30,078



Brigadier P F Everson OBE ADC
Commandant, DISC
11 July 2005

The notes on pages 33 to 49 form part of these accounts.

CASH FLOW STATEMENT for the year ended 31 March 2005

	Note	2004/05 £000	2003/04 £000
Net Cash Outflow from Operating Activities	18a	27,225	24,698
Capital expenditure	18b	<u>6,397</u>	<u>6,216</u>
Net Cash Outflow before Financing		<u>33,622</u>	<u>30,914</u>
Financing			
Payment from Defence Resource Accounts		31,778	32,038
Receipts from Defence Resource Accounts		(532)	(1,013)
Other MOD financing		<u>2,376</u>	<u>(111)</u>
Net Cash Inflow from Financing		<u>33,622</u>	<u>30,914</u>
Increase in Cash		0	0

The notes on pages 33 to 49 form part of these accounts.

NOTES TO THE ACCOUNTS for the year ended 31 March 2005

1. STATEMENT OF ACCOUNTING POLICIES

A. Basis of Accounting

These accounts have been prepared in accordance with the Accounts Direction issued by HM Treasury on 16 February 2005 pursuant to Section 7 (2) under Government Resources and Accounts Act 2000 and cover the period 1 April 2004 to 31 March 2005.

The accounts adopt the accruals concept of accounting and follow the historical cost convention, modified to include revaluation of Fixed Assets to reflect their current value to the business. Without limiting the information given in the accounts and subject only to compliance with the requirements set out in the Accounts Direction, the accounts also:

- i. Comply with the Resource Accounting Manual issued by HM Treasury and the Resource Accounting Policy Manual issued by the Ministry of Defence.
- ii. Comply with accounting standards issued by the Accounting Standards Board except to the extent they are advised inapplicable by HM Treasury.
- iii. Comply with the accounting and disclosure requirements of the Companies Act 1985, insofar as they are consistent with the status of the vote-funded Defence Agency of the Ministry of Defence (MOD).

The Agency did not have its own account at the Paymaster General's Office (PGO) but is funded through and pays into, the account maintained at the PGO by the MOD. The Agency does have its own Cash Imprest account for the payment of locally raised invoices.

B. Value Added Tax

The Agency is not separately registered for Value Added Tax (VAT) and VAT collected is accounted for centrally by the MOD. The Agency's accounts do, however, include non-recoverable VAT attributable to its activities.

C. Income

Income comprises of the invoiced value of transactions with the Private Sector, the wider Public Sector including non-UK Governments and Government Departments other than the MOD. No value is attributed in the Accounts to services provided to the MOD. The funding of the Agency by MOD is shown in cash terms in the Cash Flow Statement.

D. Notional Charges

i Intra-Departmental Charges

Notional amounts are included in the Operating Cost Statement for charges in respect of services provided from other areas of the MOD. The amounts so charged are calculated to

reflect the full annual cost of providing these services to the Agency and include centrally provided training and administration costs.

ii Cost of Capital Charge

A notional cost of capital charge is included in the Operating Cost Statement. This is calculated at 3.5% (2003/04 3.5%) of the average of the net book value of total assets less total liabilities at the start and end of the year.

iii Audit Fee

The DISC is not charged an audit fee by the National Audit Office. The audit fee shown represents the notional charge to the Operating Cost Statement based on the advised cost of the services provided.

iv Insurance

The DISC, in common with other Government bodies, self-insures. In accordance with the Treasury Resource Accounting Manual notional insurance premiums are not charged to the Operating Cost Statement. Any losses that arise are borne in the period they are sustained.

E. Tangible Fixed Assets and Depreciation

i Land & Buildings

a. Where the DISC is the principal beneficial user of Departmental Estate it is treated as an asset of the Agency although legal ownership rests with the Secretary of State for Defence. Land and all buildings on the DISC site are capitalised. All land and buildings are freehold.

b. The operational properties occupied by DISC were valued by external valuers, the Valuation Office Agency, as at 1 April 2002. These properties were valued on the basis of existing use value, or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost basis subject to the prospect and viability of the occupation and use.

This valuation has been uplifted to 31 March 2005 following a review performed by suitably qualified staff from Defence Estates.

ii Plant, Machinery and Vehicles and Information Technology Equipment

a. Locally managed plant, machinery and vehicles (PMV) and information technology equipment (IT) are capitalised where their cost or estimated purchase price is equal to or exceeds the Agency capitalisation threshold of £1,000 and where their useful life exceeds one year. It is currently Agency policy not to capitalise computer software.

b. The Valuation Office Agency, whose valuers are members of the Royal Institution of Chartered Surveyors, provided Quinquennial Review valuations as at 1 April 2003 for these assets. The Agency has updated this valuation to 31 March 2005 using the relevant indices advised by the MOD Corporate Financial Controller.

iii Equipment Support (Land) Managed Vehicles and Fighting Equipment

The DISC is a beneficial user of a number of Equipment Support (ES) (Land) managed Fighting Equipment and Plant, Machinery and Vehicle assets. ES (Land) informs the DISC of the gross replacement cost and accumulated depreciation.

iv Depreciation

Freehold land is not depreciated. Depreciation on all locally managed fixed assets is calculated to write off the cost, or valuation, of assets evenly over their useful economic lives which are periodically reviewed. The estimated useful lives of assets are initially assessed at acquisition and are in line with MOD assumptions except where more specific or authoritative data is available.

The lives usually assumed for the main categories of asset are as follows:

Freehold Buildings	25-30 years
Plant and Machinery	7-20 years
Fighting Equipment	5-15 years
Vehicles	4-10 years
IT Equipment	7 years

Depreciation and asset lives for all centrally managed Fighting Equipment and Vehicles is determined by Equipment Support (Land) and communicated from the Equipment Support (Land) Fixed Asset Register.

F. Accrued Income

The accrued income captured in the Agency Accounts represents the recovery of cost of training courses undertaken for entities external to the MOD and for which income is expected.

G. Army Supplied Materials

The majority of materials consumed are supplied via the Army Supply System. Stocks are stated at the lower of cost (or net replacement cost if materially different) and net realisable value. Cost represents direct material process, enhanced by the appropriate MOD store overhead rate calculated on a weighted average basis. Adjustments if material, to reflect changes in process during the year and obsolescence are incorporated into the valuation.

H. Lodger Costs & Parented Costs

Other MOD Units and Formations share part of the facilities at the Agency's premises. These entities make no contribution towards the Agency's activities and as such all costs directly attributable to them are excluded from the Operating Costs. These entities are also attributed with a share of the administrative and general overheads for the services and support they receive (excluding depreciation and the capital charge) from the Agency.

The DISC also has responsibility for two other schools, the Defence School of Languages and the Defence School of Photography, which are not located at the Agency's core site. All directly

attributable costs (including accommodation costs) have been excluded from the Operating Costs and an apportionment of administrative overheads has been charged to these units.

I. Pensions

Employees are covered by the provisions of the Armed Forces Pension Scheme (AFPS), for service staff, Principal Civil Service Pension Scheme (PCSPS) for all civilian staff excluding Burnham Lecturers and The Teachers Pension Scheme (TPS) for Burnham Lecturers. Contributions are paid to the Paymaster General at rates determined from time to time by the Government Actuary.

The Agency recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the AFPS, PCSPS and TPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the AFPS, PCSPS and the TPS.

J. Leases

There are a number of items of office machinery on station, which are hired under operating leases. Rentals payable under operating leases are charged to the Operating Cost Statement over the term of the lease. There are no assets held on finance leases or on hire purchase agreements.

K. Going Concern

These accounts have been prepared on the basis of the organisation being a going concern as, although the Defence Intelligence & Security Centre ceased holding government agency status as at 1 April 2005, it's activities continue.

2. STAFF COSTS AND NUMBERS

a. The average number of whole-time equivalent persons employed during the year was as follows:

	2004/05	2004/05	2003/04	2003/04
Service Officers	57		55	
Service Other Ranks	<u>256</u>		<u>241</u>	
		313		296
Civilian Non-Industrials	85		109	
Civilian Industrials	<u>32</u>		<u>17</u>	
		<u>117</u>		<u>126</u>
Total		430		422

b. The aggregate payroll costs of these persons were as follows:

	Wages, Salaries & Allowances		Social Security		Superannuation		Totals	
	£000		£000		£000		£000	
	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04
Service	8,875	8,223	751	696	1,955	1,833	11,581	10,752
Civilian	2,160	2,138	151	151	263	259	2,574	2,548
Non cash costs:								
Service	886	918	74	70	188	193	1,148	1,181
Civilian	363	196	26	13	48	27	437	236
Totals	12,284	11,475	1002	930	2,454	2,312	15,740	14,717

c. In line with other MOD Establishments, the DISC operates a civilian special bonus scheme. Bonus awards of £12K (2003/04 £19K) were paid to staff during the year, which amounts to 0.08% (2003/04 0.13%) of total staff costs.

d. The DISC employees are crown servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. Pension costs reflect the provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Teachers' Pension Scheme (TPS) for civilian staff and the Armed Forces Pension Scheme (AFPS) for Service staff. Pension contributions were paid to the Paymaster General at rates determined by the Government Actuary and advised by HM Treasury.

e. The Principal Civil Service Pension Scheme (PCSPS), the Armed Forces Pension Scheme (AFPS) and the Teachers Pension Scheme (TPS) are unfunded multi-employer defined benefit schemes but the DISC is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 for the PCSPS, at 31 March 2001 for the AFPS and the TPS. Details can be found in the resource accounts of these

schemes, which are published and laid before the House of Commons. The PCSPS is also on the web at www.civilservice-pensions.gov.uk.

For 2004/05, employer's contributions of **£2,143K** were payable to AFPS (2003/04 £2,026k), **£253K** to PCSPS (2003/04 £231K) and **£58K** to TPS (2003/04 £55K) at the applicable rates.

f. The rates for each class of member of each scheme were as follows:

Scheme	Class of Member	2004/05 %	2003/04 %
Armed Forces Pension Scheme	Officers	33.8	33.8
	Enlisted ranks	18.2	18.2
Principal Civil Service Pension Scheme	Senior management	16.5	16.5
	Executive staff	13.5	13.5
	Admin support staff	12.0	12.0
	Industrials	12.0	12.0
Teachers Pension Scheme	Burnham Lecturers	13.5	13.5

Pension costs for former employees are covered by their new employers and are paid out of central funds upon retirement.

From 1 October 2002, civil servants may be in one of three statutory bases 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). New entrants after 1 October 2002 may choose between memberships of Premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

Classic Scheme

Benefits accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice-pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhancement as for widow(er) pensions.

Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable salary for each year of service. Unlike the Classic Scheme, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings

for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure, the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths of the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without an actuarial reduction. Where the member's ill health is such that it permanently prevents them from undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

Classic Plus Scheme

This is essentially a variation of Premium, but with the benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

Pensions payable under Classic, Premium and Classic Plus are increased in line with the Retail Price Index.

Partnership Pension account

This is a stakeholder-type arrangement, where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but, where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up to 25% of the fund as a lump sum.

g. The salary and pension entitlements of the Management Board were as follows:

	Salary including performance pay		Benefits in kind		Real increase in pension and related lump sum at the normal retirement age	Total accrued pension at the normal retirement age at 31/3/04 and related lump sum	CETV at 31/03/04	CETV at 31/03/05	Real increase in CETV after adjustment for inflation and charges in market investment factors	Employer contribution to partnership pension account including risk benefit cover
	2004/05	2003/04	2004/05	2003/04						
	£000		(rounded to nearest £100)		£000	£000	£000	£000	£000	(rounded to nearest £100)
Brigadier P F Everson Chief Executive	Consent for disclosure withheld									
Group Captain W J Gimblett Chief of Staff	Consent for disclosure withheld									
Captain J P Ratcliffe Director of Training	Consent for disclosure withheld									
Mrs C E Sturgeon Head of Business Unit To 26 November 2004	Consent for disclosure withheld									
Dr Myszka Guzkowska Non Executive Director	See note									

Note

Members of the Agency Management Board are paid employees of the Agency with the exception of the non-executive directors, who do not receive any remuneration.

Pensionable age for service personnel is 55. Pensionable age for civil servants is 60.

ANNUAL REPORT AND ACCOUNTS

3. SUPPLIES AND SERVICES CONSUMED

	Note	2004/05 £000	2003/04 £000
Army supplied materials		173	155
Depreciation of plant, machinery and vehicles	8	456	551
Loss on the disposal of plant, machinery and vehicles	8	78	1
Depreciation of fighting equipment	8	<u>54</u>	<u>61</u>
Total		761	768

4. ACCOMMODATION AND ASSOCIATED COSTS

	Note	2004/05 £000	2003/04 £000
Depreciation of buildings	8	1,522	1,334
Reversal of impairment in the value of land & buildings	8	(3,586)	(28)
Building maintenance		2,297	2,813
Rent and rates		386	452
Utilities		780	626
Accommodation stores and services		763	432
Provision for decontamination of land	12	<u>(146)</u>	<u>146</u>
Total		2,016	5,775

5. OTHER ADMINISTRATION COSTS

	Note	2004/05 £000	2003/04 £000
Depreciation of IT & communications equipment	8	788	701
Loss on disposal of IT & communications equipment	8	9	20
Impairment in the value of IT & communications equipment	8	271	115
Ministry of Defence central overheads		741	1,001
Audit fee		30	35
Travel and transportation		623	534
Telecommunications		216	180
Stationery, and office equipment		278	391
Training		79	90
Contracted services		1,170	1,294
IT costs		169	831
Leases		55	40
Hospitality and entertainment		<u>6</u>	<u>15</u>
Total		4,435	5,247

6. COST OF CAPITAL CHARGE

The cost of capital charge is calculated as 3.5% (2003/04 3.5%) of the average total assets less total liabilities during the period.

	2004/05 £000	2003/04 £000
Interest Charge on Capital	1,230	1,000

7. INCOME FROM REPAYMENT CUSTOMERS

	2004/05 £000	2003/04 £000
Services to external non MOD customers	470	449
Letting and miscellaneous income	4	7
Total	474	456

8. TANGIBLE FIXED ASSETS

Movement on assets

	Land & Buildings Non Dwelling Dwelling		Plant & Machinery	Transport- Other	Fighting Equipment	IT & Comms Equipment	Assets Under Construction	Total
COST or VALUATION	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2004	19,102	6,228	705	1,468	737	3,497	5,478	37,215
Additions	4	5,397	39	0	0	363	339	6,142
Transfers In	0	0	10	3	693	128	0	834
Revaluation	5,598	1,842	14	19	0	(330)	0	7,143
Disposals	0	0	(17)	(170)	0	(36)	0	(223)
Transfers Out	(2,135)	0	(4)	0	0	0	0	(2,139)
Reclassification	90	5,388	163	221	(384)	0	(5,478)	0
At 31 March 2005	22,659	18,855	910	1,541	1,046	3,622	339	48,972
DEPRECIATION								
At 1 April 2004	1,544	950	151	406	431	694	0	4,176
Charge for Year	1,236	286	163	293	54	788	0	2,820
Transfers In	0	0	0	(3)	(37)	0	0	(40)
Revaluation	813	299	2	5	0	(59)	0	1,060
Disposals	0	0	(12)	(97)	0	(27)	0	(136)
Transfers Out	(367)	0	(10)	0	0	0	0	(377)
Reclassification	0	0	75	180	(255)	0	0	0
At 31 March 2005	3,226	1,535	369	784	193	1,396	0	7,503
NET BOOK VALUE								
At 31 March 2005	19,433	17,320	541	757	853	2,226	339	41,469
At 1 April 2004	17,558	5,278	554	1,062	306	2,803	5,478	33,039

Land is valued at **£1,224K** as at 31 March 2005 (2003/04 £1,198K) and is entirely freehold.

Land and buildings were valued at 1 April 2002 as part of the Quinquennial Review (QQR). The valuation was carried out by the Valuation Office Agency on the basis of existing use value, or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost basis subject to the prospect and viability of the occupation and use. The value of these assets has been further subjected to a full review by Defence Estates in 2004/05, which included a reversal of impairments to the value of **£3,586K**.

The additions to land and Buildings comprise primarily of the construction and completion of seven new single living accommodation blocks at a cost of **£10,784K**.

Project Aquatrine, valued at **£1,651K** (2003/04 £1,631K), is a department-wide Public Private Partnership (PPP) initiative whose aim is to mobilise private sector capital and expertise to allow the Ministry of Defence to exit, to the maximum extent possible, from the non-core activity of water and waste-water service provision in Great Britain. These assets were transferred to Defence Estates in 2004/05.

There are no assets subject to finance leases.

9. STOCKS

	31 March 2005 £000	31 March 2004 £000
Armaments	18	25
Clothing and textiles	77	56
Oil, fuel and lubricants	131	103
General	9	10
Engineering and technical stores	<u>9</u>	<u>7</u>
Total	244	201

10. DEBTORS & PREPAYMENTS

	31 March 2005 £000	31 March 2004 £000
Amounts falling due within one year		
Amounts owed by non-MOD customers	62	99
Prepayments	13	54
Accrued income	<u>129</u>	<u>13</u>
	204	166
<u>Less</u> provision for bad debts	<u>(19)</u>	<u>(15)</u>
Total	185	151

11. CREDITORS - DUE WITHIN ONE YEAR

	31 March 2005 £000	31 March 2004 £000
Trade creditors	340	814
Accruals and Deferred Income	<u>1346</u>	<u>2,353</u>
Total	1,686	3,167

There are no amounts falling due after one year.

£542K (2003/04 £797K) included in accruals relates to fixed asset expenditure.

12. PROVISIONS FOR LIABILITIES AND CHARGES

	Note	2004/05 £000	2003/04 £000
Opening balance as at 1 April		146	0
Released to OCS	4	(146)	0
Provided in year	4	<u>0</u>	<u>146</u>
Closing balance as at 31 March		<u>0</u>	<u>146</u>

This provision was transferred within the MOD; no residual liability remains with the DISC.

13. REVALUATION RESERVE

	2004/05 £000	2004/05 £000	2003/04 £000	2003/04 £000
Opening balance as at 1 April		4,717		3,932
Arising on revaluation during the year	3,887		991	
Revaluation reserve on fixed asset transfers	(1,999)		(83)	
Revaluation of depreciation	<u>(1,119)</u>		<u>(53)</u>	
Net surplus/(deficit) on revaluation of tangible fixed assets		<u>769</u>		855
		5486		4,787
Transfer of realised element of revaluation reserve to the General Fund		<u>(112)</u>		<u>(70)</u>
Closing balance as at 31 March		<u>5,374</u>		<u>4,717</u>

14. CAPITAL COMMITMENTS

There are capital commitments amounting to **£79K** for IT and communications equipment (2003/04 £4,984K for land and buildings).

15. FINANCIAL COMMITMENTS

At 31 March 2005 the Agency leases a number of items of office machinery under operating leases.

	2004/05	2003/04
	£000	£000
Annual commitments under non-cancellable operating leases as at 31 March:		
Expiring within:		
one year	3	16
two and five years	28	20
More than five years	0	0
Total Commitments	31	36

16. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 March 2005 (2003/04 £Nil).

17. GENERAL FUND

Reconciliation of Net Operating Cost to Changes in the General Fund

	Note	2004/05	2004/05	2003/04	2003/04
		£000	£000	£000	£000
Opening balance as 1 April			25,361		23,153
Net operating cost for the year		(23,708)		(27,051)	
Net funding from					
Defence Resource account		31,246		31,025	
Transfer of realised element of revaluation reserve	13	112		70	
Non cash charges	19	(1,660)		(1,849)	
Non cash transactions with other MOD Management Groups		<u>3,487</u>		<u>13</u>	
Net increase in General Fund			<u>9,477</u>		<u>2,208</u>
Closing balance as at 31 March			<u>34,838</u>		<u>25,361</u>

18. NOTES TO THE CASH FLOW STATEMENT

a. Reconciliation of Operating Cost to Net Cash Outflow from Operating Activities

	Note	2004/05 £000	2003/04 £000
Net operating cost		23,708	27,051
Adjustments for items not involving the movement of funds			
Non-cash/notional items	19	2,214	(1,052)
Movements in net current assets			
Increase/(decrease) in stock	9	43	(1)
Increase/(decrease) in debtors	10	34	(834)
(Increase)/decrease in creditors	11	<u>1,226</u>	(466)
Total movement in net current assets		1,303	(1,301)
Net cash outflow from operating activities		27,225	24,698

b. Capital Expenditure

	Note	2004/05 £000	2004/05 £000	2003/04 £000	2003/04 £000
<u>Total Capital Expenditure</u>					
Additions	8	6,142		6,907	
Net Transfers In	8	874		1,027	
Net Transfers Out	8	(1,762)		(986)	
Revaluation reserve on fixed asset transfers	13	<u>1,999</u>		<u>83</u>	
			7,253		7,031
Less Net Transfers to and from MOD units	8/13		<u>(1,111)</u>		<u>(124)</u>
Vote Funded Fixed assets			6,142		6,907
(Increase)/decrease in Capital Creditors	11		<u>255</u>		<u>(691)</u>
Payments to Acquire Fixed Assets			6,397		6,216

19. NON-CASH AND NOTIONAL ITEMS

	Note	2004/05 £000	2004/05 £000	2003/04 £000	2003/04 £000
Non-Cash Costs					
Depreciation	8	2,820		2,647	
Impairment / reversal of impairment in the value of fixed assets	8	(3,315)		87	
Loss on disposal of fixed assets	8	87		21	
Provision for decontamination	4	<u>(146)</u>		<u>146</u>	
			(554)		2,901
Notional Items					
Agency non-cash personnel costs	2c	1,585		1,417	
Cost of non-agency fuel usage		(65)		(20)	
MOD central overheads		741		1,001	
Audit fee	5	30		35	
Cost of capital charge	6	1,230		1,000	
Non agency costs		(2,454)		(2,192)	
Costs incurred by the agency communicated out to lodger units		(2,581)		(2,901)	
Outstanding transfers for incorrect charges made to the agency		<u>(146)</u>		<u>(189)</u>	
	17		<u>(1,660)</u>		<u>(1,849)</u>
Total Non-cash and Notional items			(2,214)		1,052

20. RELATED PARTY TRANSACTIONS

The DISC is an on-vote executive agency of the Ministry of Defence.

The Ministry of Defence is regarded as a related party. During the year, the DISC had various material transactions with other parts of the Ministry of Defence.

During the year, none of the Board members, key management staff or other related parties has undertaken any material transactions with the Agency.

21. POST BALANCE SHEET EVENTS

The Defence Intelligence and Security Centre ceases to hold Agency status from 1 April 2005. As all activities are continuing this is considered to be a non-adjusting post balance sheet event.

22. FINANCIAL INSTRUMENTS

FRS13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Because of the largely non-trading nature of its activities and the way in which government agencies are financed, the Agency is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies.

Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities, or for trading. The fair values of all the Agency's financial assets and liabilities approximate to their book values. In line with FRS13, short-term debtors and creditors (those which mature or become payable within 12 months from the balance sheet date) have been excluded from these disclosures.

Interest rate risk

The agency has no financial assets and liabilities on which interest is earned or paid, and is therefore not exposed to significant interest rate risk.

Currency risk

The Agency does not hold assets or liabilities denominated in a foreign currency, and income and expenditure denominated in a foreign currency is negligible. The Agency is therefore not exposed to significant currency risk.

The Ministry of Defence, through whose Resource Account the agency is financed, enters into forward purchase contracts annually with the Bank of England to cover the majority of its foreign exchange requirements for the following year. The details of the outstanding foreign currency contracts are given in its Departmental Resource Account.

Liquidity risk

The Agency is not exposed to significant liquidity risk, as liquidity requirements are met by financing from the MOD Resource Account, and it has no borrowing facilities. The Department's resource requirements are voted annually by Parliament.

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