DSG
DEFENCE SUPPORT GROUP

ANNUAL REPORT AND ACCOUNTS
2011/2012

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MINISTRY OF DEFENCE

DSG
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INTRODUCTION FROM THE CHAIRMAN

As its new Chairman, I am delighted to have this opportunity of introducing the Annual Report and Accounts 2011/2012 for the Defence Support Group (DSG).

The financial year covered by these Accounts brought its own set of significant challenges for employees in the public sector, including everyone in DSG. Economic restraints are not limited to those of us within the public sector, this is one of the most stringent periods of austerity seen for several decades and there are undoubtedly more testing times ahead for all of us.

ALEX JABLONOWSKI
DSG Chairman

In this fourth year of trading, DSG has again delivered a sound and solid business performance of which the whole organisation can be justifiably proud. The board is grateful to the DSG employees for their continued commitment and effort in delivering a top class service to their Armed Forces customers.

It is my responsibility as Chairman, together with the other Non-Executive Directors, to provide advice, guidance and challenge to the DSG Management Board using the many skills and expertise we have all developed over many years in senior management roles in both public and private sector businesses. This role also extends to supporting DSG's Chief Executive on the Ministerial Owner's Advisory Council chaired by MOD's Minister for Defence Equipment, Support and Technology, Peter Luff, on behalf of the Secretary of State for Defence.

It is well documented and known by everyone across the defence sector that one of the significant elements of the Strategic Defence and Security Review recommends that MOD pursues a course leading to the sale of DSG by 2014. MOD Centre is now refining and further developing the processes aimed at achieving a favourable outcome within this timeframe. Work is now well advanced to determine what, if any, elements of DSG should remain in Government ownership. The outcome of this work will provide the external market with an offering on which interested parties may then wish to progress through established sale channels.

DSG has consolidated its reputation as an outstanding provider of support services to the UK's Armed Forces as well as to others across the wider defence sector in its four years of trading. I am confident with what I have already seen around various parts of the DSG portfolio of businesses that this is due, in no small measure, to the positive attitude and extensive skills-base of its workforce.

On a personal note, I must add my own sincere thanks to DSG's Chief Executive, Archie Hughes, for his help, support and advice during these early days in my role as Chairman. This praise also extends to the Executive Management Board and the many DSG employees who have all shared with me their wealth of experience and knowledge in order that I can successfully fulfil my obligations to both DSG and MOD.

I have every confidence that DSG will continue to deliver its output at the best possible value to the customer, its Owner and, ultimately, the UK taxpayer.

A Jablonowski

Alex Jablonowski
Chairman
Defence Support Group
9 October 2012

STATEMENT BY THE CHIEF EXECUTIVE

The Annual Report and Accounts 2011/2012 of DSG illustrate how quickly and effectively DSG has become a business that is fit for purpose.

Internal Business Measures are the gauge by which HM Treasury and Parliament determine how DSG performs in any one trading year. DSG achieved all four measures used to assess its performance in 2011/12. This underlines the solid business performance during the year.

ARCHIE HUGHES
Chief Executive

In addition to delivering improvements and streamlining operations across all areas of the business, DSG was able to significantly reduce its operating costs. DSG employees achieved these excellent results against a background of change as key elements of DSG's Transformation programme were embedding into the core supporting functions.

This year's performance is a clear indication that the business is now benefiting from the improvements in processes and procedures that are necessary in any successful business trading in the 21st century. With the continuous strain on public finances and customers' budgets stretched, DSG must do all it can to deliver even better value for money and make each pound spent go as far as possible. This will ensure our customers' budgets match our capacity as well as our capabilities.

Matching capacity to customer demand was the underlying reason for the Ministerial announcement in 2010 that DSG must make headcount reductions of up to 600 by 2013. Following extensive consultation with the representative Trade Unions and a campaign to reduce numbers through a Voluntary Early Release scheme, DSG was able to achieve the required reductions without the need for any compulsory redundancies.

The past year saw DSG expand its portfolio of support to the Armed Forces whilst bringing to a close a significant chapter in the history of aircraft maintenance, repair and overhaul. On 1 October 2011 over two hundred staff formerly employed by Logistics Commodities and Services, part of the Defence Equipment and Support organisation, joined DSG. Based on MOD sites at Ashchurch, Catterick, Longmoor and Warminster, the teams are closely involved in vehicle storage activities and their work greatly enhances DSG's capability offering to our customers.

On 31 March 2012, DSG finally closed the door on operations at its Large Aircraft Business Unit (LABU) at St Athan in South Wales following the departure of the final VC10 aircraft. This closure brought to an end several decades of deep maintenance repair and overhaul of a wide variety of aircraft from the Hawk training fleet, through fighter aircraft such as Tornado and Jaguar, to the air-to-air refuelling fleet of VC10s.

The contribution that LABU made to DSG's business performance over the years was a significant one that will be hard to match. It continuously outperformed other DSG businesses and delivered a solid return each year and now those other DSG businesses have to step up to the mark and produce even better results to compensate for the loss of contribution from this important revenue stream.

The clear commitment and focus shown by the LABU employees to deliver their aircraft to the customer was evident right through to the last day and I am proud of their total professionalism and the commitment they demonstrated in doing their job to the very highest standards of quality. If nothing else this will remain their legacy to a long and proud heritage of supporting the UK's Armed Forces.

The year also brought with it many changes in the senior management and Board structure. In 2011, MOD appointed Emma Davies, the Head of Business, Strategy and Governance in MOD's Finance directorate, to the role of Non-Executive Director on the DSG Trading Fund Board. At the end of 2011, DSG said goodbye to its Board Chairman, Jamie Pike, who consistently provided the business with his wise counsel and astute business knowledge.

However, we welcome our new Chairman, Alex Jablonowski, who brings with him many years of expertise gained over this time at the very top of his field in senior management roles at home and overseas.

At senior executive management level, we also said goodbye to one of DSG's greatest ambassadors and supporters with the early retiral of John Reilly, DSG's Chief Operating Officer, on 31 March 2012. His long and distinguished career was recognised in 2006 with the award of the OBE in The Queen's Birthday Honours list for his significant contribution to MOD and defence. A fitting tribute and due recognition for four decades of outstanding commitment and loyalty. DSG's new Chief Operating Officer is Geraint Spearing, a senior management figure who benefited greatly from an MOD apprenticeship in the early part of his career.

I make no apology for repeating what I have said on many occasions that DSG's greatest asset is its people. They are totally committed, highly innovative and immensely professional in all aspects of their roles and responsibilities. The evidence of this is the high regard in which they are held by their customers who consistently praise their work and 'can do' attitude. They take great pride when showing visiting senior military figures the work they are doing in support of operations here and overseas. This showcases, at its very best, DSG's breadth of capability and positive work ethic.

However, it is in the hostile environment of Camp Bastion in Afghanistan that DSG employees demonstrate best their great fortitude and abilities. DSG operates the HQ Joint Forces' Equipment Sustainability System (ESS) Regeneration Capability (RC) at Bastion where over 100 DSG employees work long and hard to ensure vital equipment is made available for Front Line operations in and around Helmand Province. This is not without its dangers and our employees understand fully the inherent risks they take when volunteering to go on either a six or 12 month tour.

Their key role supporting these operations does not go unnoticed by the most senior military and political figures. The UK's Prime Minister, David

Cameron, made time during a visit to Bastion in July 2011 to tour the facility and meet with many of the employees, learning first hand what it is like as a civilian in a dangerous conflict environment.

DSG remains committed to developing its employees and is proud of its apprentice training schemes operating across the various DSG sites. Learning and development are now given greater emphasis and are one of my priorities going forward. They will form an integral part of DSG's requirement to nurture and grow in-house talent for the future.

Work is progressing in MOD Centre to bring about the sale of DSG by 2014 and this will bring its own set of unique challenges as we shape the business for the future. It is still unclear if any elements of the existing DSG business are to remain in MOD ownership but this will emerge over the coming months as work develops to identify the critical requirements of the Armed Forces customers.

In summary, the performance of DSG and its employees in 2011/12 was significantly enhanced by delivering major cost reductions, aligning capacity and capability to the needs of the customers and their budgets and embedding key elements of DSG's ambitious Transformation programme.

A. Hughes

Archie Hughes
Chief Executive
9 October 2012

BOARD OF DIRECTORS

ARCHIE HUGHES
Chief Executive

Archie Hughes is responsible to the Owner and Parliament for delivering the strategic aims and objectives of the business and providing corporate governance leadership.

Archie was DARA's Chief Executive from January 2004 until he assumed responsibility for the merger of ABRO and DARA in July 2007 to form the Defence Support Group when he took on the role of Chief Executive. He has extensive experience in changing business culture; delivering improved business performance; and acquiring, integrating and managing high technology engineering and manufacturing businesses in the Defence and Aerospace industries. An honours graduate from Strathclyde University, he was previously Chief Executive of Vickers Defence Systems, encompassing Specialist Engines and Vickers OMC as well as the Main Battle Tank and Military Bridging businesses.

JOHN REILLY, OBE
Chief Operating Officer (To March 2012)

John Reilly, Chief Operating Officer was responsible for the Air, Electronics, Armoured Vehicles and Land & B Vehicle business streams and determining the Operational Excellence strategy of the Defence Support Group. He was also responsible for a number of other business support functions including Quality, Environment, Health & Safety, Information Services and Facilities.

John was Chief Operating Officer at DARA from 2001 until he assumed the role of Chief Operating Officer following the formation of the Defence Support Group. He joined MOD in 1975 after a successful four-year engineering apprenticeship in industry. He has an MBA from Abertay University and has worked on a number of major programmes within MOD. He was awarded the OBE in the Queen's Birthday Honours list in 2006 for his contribution to the Defence industry. He retired from DSG on 31 March 2012.

GERAINT SPEARING
Deputy Chief Operating Officer September 2011 to February 2012, Chief Operating Officer (From March 2012)

DSG appointed Geraint Spearing as DSG's new Chief Operating Officer (COO) in March 2012 following the retiral of John Reilly.

Geraint began his career as a technician apprentice at St Athan in 1989 on a dual four-year apprenticeship with MOD. His career path followed management roles within the Defence Aviation Repair Agency (DARA) where he became Business Director at DARA Almondbank in Scotland following a period in management roles on the shop floor supporting the Hawk training fleet among others. He then held responsibility for the DSG Sealand business unit before taking on the post as Head of DSG's Support functions where he led the project to merge into DSG the vehicle support activities undertaken within DSDA.

DAVID MORGAN
Commercial Director

David Morgan is responsible for all DSG's customer and supply chain activities across the various business interests.

Prior to joining DSG, David was Commercial Director for the Technology Solutions Sector at QinetiQ with responsibility for building a team supporting the commercial negotiating and management of contracts at both a national and international level.

Starting his career at British Aerospace, he moved into senior commercial roles at both KBR and Logica.

L to R, Geraint Spearing, Steve Hall, Derek Owen, Keith Norris, David Morgan, Archie Hughes.

STEVE HALL
Finance Director

Steve Hall, Finance Director is responsible for financial strategy, propriety and governance and the delivery of high quality management information to the business.

Steve was previously Finance Director at DARA until he assumed the role of Finance Director in the Defence Support Group. He has extensive experience in finance, change management and project management gained from 20 years in a variety of senior roles in MOD and its Agencies. Prior to joining DARA, Steve was Finance Director for Military Survey.

DEREK OWEN
HR Director

Derek Owen, HR Director, is responsible for the full HR function as well as internal communications, parliamentary business and security policy.

Derek was previously HR Director at DARA until he assumed the role of HR Director in the Defence Support Group. He worked in Germany for nearly three years as HR Manager for The Health Alliance, an innovative partnership with Guy's & St Thomas' Hospital Trust and the Soldiers', Sailors' and Airmen's Families Association responsible for delivering health care to British Forces in Germany. He has extensive HR, employee relations and change management experience in a variety of roles throughout the MOD and with all three Services, although notably with the Army. He is a Chartered Fellow of the Chartered Institute of Personnel and Development and a Chartered Fellow of the Chartered Management Institute.

KEITH NORRIS
Strategy Director

Keith Norris was appointed as the Defence Support Group's Strategy Director in January 2008. He previously led the DARA Rotary and Components sales team within MOD Centre having previously conducted a number of strategic reviews of ABRO and DARA. He has worked extensively overseas, including Hong Kong as Assistant Civil Secretary - British Forces; Germany as Secretary to the Tornado Board; Saudi Arabia on the Al Yamamah project and more recently as project Director of the UK/South African Strategic Defence Equipment Programme.

JAMIE PIKE
Chairman, an independent Non-Executive Director

ALEX JABLONOWSKI
Chairman

JANET BAKER
Independent Non-Executive Director

DAVID BARRASS
Independent Non-Executive Director

EMMA DAVIES
Independent Non-Executive Director

JAMIE PIKE MBA and MIMechE

Chairman (April 2011 – December 2011)

Jamie began his career as a management consultant before joining Burmah Castrol in 1991. He rose to Chief Executive of Burmah Castrol Chemicals before leading the buy-out of Foseco, in 2001 and its subsequent flotation in 2005. He was Chief Executive of Foseco plc until it was acquired in April 2008. He has previously been a non-executive director of RMC Group plc, Kelda Group plc and the Army Training and Recruitment Division. He is currently Chairman of the RPC Group plc, a quoted plastic packaging business and Chairman of MBA Polymers Inc., a plastics recycling business, which is a private company incorporated in the USA.

Jamie Pike left his position as DSG's Chairman at the end of December 2011 following the expiry of his contract. Jamie has served DSG and MOD well during his tenure as Chairman. His valuable contributions include steering the business through the merger of DARA and ABRO and overseeing the formative years of DSG.

ALEX JABLONOWSKI

Chairman (From January 2012)

Following the departure of Jamie Pike, Alex Jablonowski became Chairman of the Defence Support Group from 1 January 2012. He is responsible for leading the Board to ensure it operates efficiently and effectively and to oversee and scrutinise the organisation's plans and performance.

Alex had a 30 year career with Barclays retiring as CEO Barclays International. He has considerable experience of managing technology based operational service businesses and of strategic planning having served as Barclays Group Strategy Director. He is co-author of the 'Art of Better Retail Banking' published by Wileys in 2005. For the past 8 years, Alex has had a portfolio of interests across the public and private sector. He currently serves on a number of boards including the boards of the Supreme Court and the House of Commons and chairs its audit committees, the first non MP to do so.

JANET BAKER

Non-Executive Director

Janet Baker worked as a management consultant at Coopers and Lybrand, Ernst and Young and then as a Senior Partner at PA Consulting Group. She is expert in all forms of organisational and commercial structuring and restructuring, including outsourcing and sale processes. Working on the development and delivery of Better Business Models across government, Janet was appointed Crown Commercial Lead in the Cabinet Office in February 2012. She is a member of the Audit Commission Board and a member of its Audit Committee. Janet is also a

Non-Executive Director on the Audit Committee of HM Treasury and a Non-Executive Director on the Board of the Rural Payments Agency as well as a member of its audit committee.

As a Non-Executive Director to the DSG rading Fund Board, Janet's role is to provide expert advice, guidance and challenge to the DSG Management Board. She is a member of the Audit Committee and Chair's the Remuneration Committee.

DAVID BARRASS BSC (Mech Eng), FCMA, FRSA
Non-Executive Director

David Barrass's experience covers a broad range of industries both in the UK and internationally. He is currently Chairman of CastleCare Group Ltd, Gabbro Precision Ltd and SGX Sensortech Ltd. He also sits on Defra's Strategic Advisory Board for FERA.

As a Non-Executive Director to the DSG Trading Fund Board, David's role is to provide expert advice, guidance and challenge to the DSG Management Board. He chairs the Audit Committee and is a member of the Remuneration Committee.

EMMA DAVIES
Non-Executive Director (June 2011 – April 2012)

Emma Davies joined the civil service as a solicitor in 1992 working for the Crown Prosecution Service. Since then, Emma worked in the Home Office, linking up the computer systems across the Criminal Justice System, the Social Exclusion Unit, the Government Office for London and in Her Majesty's Courts Service. In 2009, Emma joined the MOD to represent its ownership interest in the MOD Trading Funds as well as sitting as a Non-Executive Director on the board of UKHO, DSTL and the Oil and Pipelines Agency.

As a Non-Executive Director to the DSG Trading Fund Board, Emma's role was to provide expert advice, guidance and challenge to the DSG Management Board.

Moving elsewhere within the MOD, Emma has been replaced on the Board by Peter Shortt from May 2012. He has also assumed her role of Programme Director for the Asset Management Programme, responsible for reviewing the ownership models for businesses across the range of MOD activity and implementing the recommended outcomes.

BUSINESS, MISSION, VISION AND STRATEGY

MISSION

To be a trusted partner in the delivery of assembly, maintenance, repair, overhaul, upgrade and support services for the UK Armed Forces

VISION

Excel in Supporting Defence

STRATEGY

DSG enables MOD secure access to assured onshore capacity and capability for through life MRO, upgrade and procurement services for Defence equipment in line with the Defence White Paper ''National Security through Technology: Technology Equipment and Support for UK Defence and Security' Feb 12. DSG's core mission is to be a trusted partner supporting the UK Armed Forces and to support and deliver wider Defence objectives including current and future MOD equipment acquisition and support strategies.

DSG pursues a strategic goal of achieving 'best value for Defence' through focusing on and delivering, where appropriate, cost reduction, efficiency and productivity improvements as well as improved delivery to the customer across all areas of the business. The strategic aims of DSG are that it will:

- Go forward as a Trading Fund until the point of sale, which is currently planned to be by the end of FY14/15 at the latest;
- Continue to contribute to the LSCP including the development of customer initiatives such as the IESP, ASP and the WFC;
- Work closely with the Air customer to explore new development opportunities (seedcorn) and sustain extant capabilities as necessary to support legacy fleets;
- Continue to develop its Capability Gap Programme (CGP) with the Land customer in order to provide a fleet managed support solution;
- Be agile, flexible and provide its services directly to MOD or indirectly through industrial primes Original Equipment Manufacturers (OEMs) where it will position itself to be the partner of choice on major Land equipment acquisition and support programmes;
- Maximise its utility and where necessary sustain core capabilities to support the UK Armed Forces.
- Work closely with MOD customers to ensure that it is appropriately funded to enable it to retain the required capacity and capability to support planned future acquisition and support strategies;
- Continue to provide a flexible response to meet evolving operational requirements particularly in terms of surge and UORs, support to deployed operations, training for operations and develop its capabilities to provide support to customers at their preferred locations;
- Provide physical AIT capabilities as required by the customer/industry;
- Actively explore opportunities for supporting MOD, either on its own or in partnership with industry, in the management of current and future land vehicle fleets;
- Build upon and grow its capability and knowledge base in support of Defence assets, including its ability to utilise MOD free user rights of third party Intellectual Property Rights;

- Focus on developing the necessary capabilities to enable it to be deployed in a flexible manner as part of planned future procurement and support strategies;
- Be a modern, lean organisation, structured as a series of Business Streams, as well as the LSBU, supported by a slim line Head Office; and
- Take forward any DSG specific recommendations of the SDSR and Defence Transformation.

Since its formation the DSG strategy has been dominated by the need to shape its capacity and capability against customer requirements, this work quite rightly focussed initially on addressing capacity and has resulted in a smaller leaner DSG shaped around reducing customer demand. However, during this period DSG has also expanded its capabilities to include Land Supply, Deployed Operational Support and vehicle receipt, inspection, maintenance and storage.

DSG now has a breadth of capabilities which provide the necessary building blocks for an end to end support offering to the customer.

THE CAPABILITY GROWTH PROGRAMME (CGP)

The next stage of the DSG strategy will be to develop and grow these DSG capabilities, to identify synergies and provide coherency across them in order to provide a fleet managed solution for our customers, the CGP is the platform for this strategy.

The MOD not only wants to maintain DSG's capabilities it supports the growth of them to ensure it has enduring access to those critical assured onshore capabilities during peacetime and most critically supporting deployed operations and Urgent Operational Requirements. The CGP forms part of the Land Support Change Programme Blueprint and has been endorsed by the DSG Trading Fund Board. DSG's fleet management aspiration aligns with the Army's future vision for DSG.

The CGP seeks to build on DSG's traditional capabilities of Maintenance, Repair and Overhaul (MRO)/upgrade and Land District Load (LDL) and ultimately aims to grow and deliver a fleet management solution for A and B vehicles and associated mission systems, the 'green fleet'. The incremental journey will leverage the benefits that DSG has already delivered to Defence and will focus on an evidence based approach to delivering the aims of CGP.

PERFORMANCE AGAINST INTERNAL BUSINESS MEASURES

Agency Key Targets previously agreed with Min (DES) and published in Parliament have been replaced by Internal Business Measures agreed with the owners and the MOD customer. FY11/12 Internal Business Measures and performance against them were as follows:

PERFORMANCE AGAINST BUSINESS MEASURES

Business Measure 1: **Quality** Deliver an improved quality performance by: • Air - achieving fewer than 3 attributable Major Customer Concerns; and • Land – achieving fewer than 10 attributable Major Customer Concerns.	**Achieved**
Business Measure 2: **Delivery** Meet delivery standards as agreed with the Customer as follows: • Air Business – achieve 95% delivery of Customer Programmes; and • Land Business – achieve: 94% (Sep 11 and Dec 11) and 97% (Mar 12) delivery on Critical Programme Lines; and 90% of all LAND Load Tasks.	**Achieved**
Business Measure 3: **Efficiency** Implement the phased DSG Capacity and Capability Optimisation Plan and identify the post-SDSR future of DSG.	**Achieved**
Business Measure 4: **Financial Performance** Achieve at least a 3.5% Return on Capital Employed.	**Achieved**

FY12/13 business measures development reflects continuous improvement in those areas identified as being critical to DSG performance for inclusion within the DSG FY12/13 Corporate Strategic Plan. DSG developed these business measures in consultation with the MOD Owner and Customer to ensure they continue to be relevant and aligned with MOD's strategic priorities and Planning Round 12/13 in order to maintain Trading Fund efficiency.

Business Measure 1: **Quality**

Deliver an improved quality performance by:
- Air - achieving no more than 1 attributable Major Customer Concerns; and
- Land – achieving no more than 7 attributable Major Customer Concerns.

Business Measure 2: **Delivery**

Meet delivery standards as agreed with the Customer as follows:
- Air Business – achieve 96% delivery of Customer Programmes; and
- Land Business – achieve: 94% (Sep 12 and Dec 12) and 97% (Mar 13) delivery on Critical Programme Lines; and 92% of all LAND Load Tasks.

Business Measure 3: **Efficiency**

To develop the DSG Capability Growth Programme in support of the Land Change Programme and grow DSG shareholder and Sale value.

Business Measure 4: **Financial Performance**

Achieve at least a 5% Return on Capital Employed.

BUSINESS PERFORMANCE REVIEW

By driving through improvements and managing costs, DSG's businesses in the Land and Air environment produced creditable operational performances during the 2011/12 trading year, although it is clear that some of the Land businesses still have some work to do to raise their levels of contribution, despite improved housekeeping and astute financial management.

There are, of course, a number of factors that combined to make this year a particularly difficult one for some of these businesses. Not least was the drop in work volumes, which can disappear almost overnight, making it very difficult to reduce costs and overheads within the same timeframe to counter this loss of revenue. The ability to manage down personnel costs by introducing a Voluntary Early Retirement (VER) scheme helped improve the performance of many key Land businesses.

In DSG's Air businesses, the Large Aircraft Business Unit at St Athan once again delivered a better than planned profit. With the closure of this facility in March 2012, pressure is now on the remaining DSG businesses to take up the shortfall in revenue and profit.

DSG's Electronics and Components Business Unit produced another profit, albeit against a declining workload. Electrical and Electronic calibration has long been a major part of this business. During this year, we enhanced the facility at Sealand with the addition of a mechanical calibration capability. This has established Sealand as a Calibration Centre of Excellence, supporting all three services. The benefits of this initiative include a significant cost saving to the MOD customer, resulting in Sealand securing a five-year contract.

DSG Stafford is managed as part of the wider Electronics and Components Business Unit, enabling us to provide great benefits to customers from increased efficiencies. Throughout the year there was a focus on developing relationships with customers to improve the planning and flow of work into Stafford, with the aim of increasing delivery performance. A significant contract with the Deployable Support and Test Equipment PT for the conversion of ISO Containers into Deployable Armouries was won and delivered during the year. Much of the work delivered by Stafford was for UORs supporting operations in Theatre.

DSG's largest site is Donnington, home to various military platforms from Warrior to a range of combat vehicles as well as Light Weapons. The breadth of skills and years of expertise on the site help support the demands placed when handling equipment required under the aegis of Urgent Operational Requirements (UOR).

The employees at Donnington are now hearing back from end users at the Front Line that the work they are doing on upgrade work to the Warrior is now helping save the lives of serving troops in Afghanistan.

Donnington managed significant programme changes during the year. After successfully completing the Warrior Theatre Entry Standard (TES) upgrades it moved into a complex overhaul and upgrade of the CVR (T) platform. This UOR request saw over 60% of the vehicle enhanced to meet operational demands. The requirement to keep as many Warrior platforms operational was challenging due to increases in volume and complexity of repair schemes now being embodied to restore ballistic integrity. Donnington continues to strive to meet its customer's diverse requirements where operational demands require quick turn round times across products such as Weapon systems, Electronic Counter Measures equipment and items such as Personal Beacons where over 5,000 were returned to the customer within a week.

Donnington is also the base for DSG's Land Supply Business Unit (LSBU) where procurement and provisioning activities are undertaken, ensuring vital spares are available when required through the introduction of improved forecasting tools. During 2011/12, LSBU achieved savings to the customer in excess of £11.7m. In addition, LSBU negotiated a price reduction for a particular product, resulting in total anticipated savings of £6m over the next three years.

MOD regards DSG as providing best practice across the department, setting benchmark standards for Provisioning and Procurement forecasting techniques, which MOD will incorporate into their future Base Inventory Management Systems. With over 220,000 product lines, LSBU is a critical element to DSG's comprehensive support to the Armed Forces. This was reinforced in 2011 when LSBU hosted an industry day where a diverse range of industry suppliers and contractors gathered at Donnington to hear from DSG management, customer representatives and end users with the key aim of working better together to deliver better value for defence.

Another site where DSG has a significant footprint is at Bovington, which has had to adapt to changing priorities as various platforms were either cancelled or delayed but the employees rose to the challenge and successfully delivered an overhaul and upgrade programme on a fleet of military Fire Tenders.

DSG, under contract to Force Protection Europe, forms part of a group of companies that will deliver the new Foxhound vehicle, the Army's next generation of Light Protected Patrol Vehicles. It is at Bovington where DSG is now undertaking tranche 1 of the pod assembly and integration for this new platform.

The site faces many challenges in the coming months not least the need to return to profitability and deliver a performance that will help support the overall DSG operational output across the Land businesses.

DSG's base at Warminster traditionally focuses on supporting the Army's Land Training Fleet and this year has seen two rotations of the fleet to Brigades undergoing pre-deployment training prior to their departure on operations in Afghanistan. This year's programme saw the highest ever number of vehicles issued with over 350 used on the final training exercises. The small teams based at Brawdy, Chivenor, Sennybridge and St Athan made ready 215 Royal Marine vehicles for controlled humidity storage after their return from Front Line operations in various states of battle damage.

The DSG site at Colchester traditionally serves various Army units around the Medway and South East region and this service was further enhanced with the introduction of staff transferring into DSG from Logistics Commodities and Services (LCS) base at Longmoor in October 2011. But it is in supporting operations at Camp Bastion in Afghanistan that employees at Colchester have shown great commitment with, at any one time, around 10% of the workforce deployed on 12 month tours of duty. The Local Authority again recognised Colchester's green credentials in 2011 for its sustainable travel policies by again winning a business award.

During the past 12 months DSG Catterick became increasing involved supporting the Army's Protected Mobility Vehicle fleet at the Defence School of Transport in Leconfield. There are several vehicle platforms that Catterick employees worked on during the year such as Husky, Jackal, Mastiffs and Ridgebacks. As with Colchester, Catterick offers support to Army units throughout the area, travelling around the region to carry out essential minor repairs, which proves popular with the customers and DSG since it allows for better planning, saving the military customer additional manpower and transportation costs of delivering vehicles to the DSG workshop. As part of the wider LCS transfer of vehicle activity, a small number of employees based at Catterick joined DSG in October 2011.

DSG's only presence in Scotland is at its Forthside site near Stirling from where it is supporting the Army's Vehicle Reinforcing Fleet programme, described by DSG's customer as a great example of best practice. Management at Stirling continues to drive through the necessary changes to reduce injuries and accidents in the work place through data analysis, action plans and adopting best team practice.

The small DSG team operating out of Kinnegar in Northern Ireland is seen as an integral part of the local 19 and 38 Brigades. DSG achieves this by offering mobile support teams to help maintain the fleets of vehicles, which would be difficult to transport to the DSG workshop due to falling manpower numbers within the Brigades.

Besides the more traditional vehicle maintenance and repairs, DSG employs a number of experienced mobile technicians based throughout the UK who carry out essential work on the Armed Forces' medical and dental equipment. The range of equipment the team services and repairs varies from a simple x-ray viewer through to vital signs monitors that detect things like heart trace, blood pressure, body temperature and percentage of oxygen in the blood. The teams are based on eight sites; Aldershot, Catterick, Colchester, Portsmouth, Sealand, Stirling, Warminster and Woolwich. However, as a mobile support team, they constantly travel to military establishments around the UK. The latest additions to DSG's widening portfolio of support activities came in October 2011 with the transfer of various vehicle activities from DE&S's LCS organisation. Around 200 personnel based at Ashchurch, Catterick, Longmoor and Warminster are now an important and valued part of DSG.

COMMERCIAL OVERVIEW

This is the first year of DSG's operation under the Revised Pricing Agreement (RPA), which was agreed with Defence Equipment and Support Land Equipment (DLE) at the end of the previous financial year. The RPA is a capacity driven agreement managed by DLE on behalf of the Land Equipment Project Teams and the Front Line Commands which enables them to purchase planned output from DSG along with providing a method of delivering surge capacity to the customer when required.

The implementation and operation of this agreement has encouraged DSG and the customer to work closely together and optimise the available capacity to deliver best value for defence. It also gives DSG a stable baseline in terms of workload over the two year period of the RPA. DLE and DSG commercial teams are now engaged in discussions that will lead to a new five-year commercial agreement to replace the RPA and other commercial agreements from April 2013.

STRATEGIC OVERVIEW

Since its formation, DSG's strategy was dominated by the need to shape its capacity and capability against customer requirements. This work focussed on addressing capacity, which resulted in a smaller, leaner DSG shaped around reducing customer demand. However, during this reporting year DSG has expanded its capabilities to include Land Supply, Deployed Operational Support and vehicle receipt, inspection, maintenance and storage.

DSG now has a breadth of capabilities, which provide the necessary building blocks for an end to end support offering to the customer. The next stage of DSG's strategy is to develop and grow these capabilities, to identify synergies and provide coherency across them in order to provide a fleet managed solution for our customers. The Capability Growth Programme (CGP) is the platform for this strategy.


DA

MOD not only wants to maintain DSG's capabilities, it supports the growth of them to ensure it has enduring access to those critically assured onshore capabilities during peacetime and importantly supporting deployed operations and Urgent Operational Requirements in times of conflict. The CGP forms part of the Land Support Change Programme Blueprint, which was endorsed by the DSG Trading Fund Board. DSG's fleet management aspirations align with the Army's future vision for DSG.

The CGP seeks to build on DSG's traditional capabilities of MRO, upgrade and Land District Load and ultimately deliver a fleet management solution for A and B vehicles and associated mission systems across the 'green fleet'.The incremental journey will leverage the benefits that DSG has already delivered to defence and will focus on an evidence based approach to delivering this programme.

BUSINESS SUPPORT REVIEW

DSG's IT capabilities are constantly evolving and improving to meet the changing demands of the business. Key to delivering a service that is fully fit for purpose is the requirement to achieve full MOD IT security accreditation, which DSG received during the year. Decommissioning the IT infrastructure at St Athan and installing a full IT system at Stafford on time and to budget were important achievements during the reporting period. As well as implementing virtual technologies across the business to improve contingencies in business continuity and disaster recovery planning.

Working with the HR department, DSG's IT capabilities improved the way in which employees may access and deliver their annual Assessment of Performance and Development. A number of other improvements were also made to business reporting and processing aimed at delivering better services and improved data analysis.

SUSTAINABILITY

This is the first year that there is a requirement to report on Sustainability. Information provided below has been sourced from internal financial and non-financial systems with a comparator for FY2010/11 when DSG was operating two sets of ERP systems which were structured without a view to providing this information now required. Details of the DSG Sustainability data collection plan can be found at www.dsg.mod.uk.

DSG continues to benefit from the buying power of the MOD in order to deliver best value to the taxpayer. Consequently there is a risk that some of the information provided below could be duplicated and therefore should be viewed in isolation but not discounted from the MOD global position. Costs where shown are either paid direct to the MOD or a commercial service provider. Some details of spend can be found on the following web site: www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/FinancialReports/MinistryOfDefenceAndModFamilySpendOver25k.

Green House Gas (GHG) Emissions

Where DSG operates on sites with other parts of MOD it has not always been possible to isolate elements specific to DSG energy consumption. Therefore gas and electricity financial values in the table below contain some element of an estimate but have been agreed with the primary site owner as being a fair value of consumption.

GHG	FY2011/12 £'000	FY2010/11 £'000
Scope 1 Direct GHG Emissions		
Fleet Vehicles Fuel	429	308
Aviation Fuel	219	379
Scope 2 Energy Indirect Emissions		
Fuel Oil	232	188
Gas	1,299	621
Electricity	1,837	1,883
Scope 3 Official Business Travel Emissions		
Domestic Air Travel	177	103
Fuels	286	Not recorded separately
Rail Travel	42	24


ROYAL AIR FORCE

Waste
The waste figures below only covers DSG activities outside of the MOD customer programme activity. Any waste resulting from that activity is required to be processed through the Disposal Sales Agency and will form part of the MODs own sustainability report.

GHG	FY2011/12 Tonnes	FY2010/11 Tonnes
Hazardous waste sent to landfill	97.9	158.2
Hazardous waste re-used/recycled	436.9	364.6
Total hazardous waste sent to High Temperature Incineration with energy recovery	0	0
Total hazardous waste sent to High Temperature Incineration with no energy recovery	31.9	9.8
Non Hazardous waste sent to landfill	467.0	437.5
Total non hazardous waste sent to Incineration with energy recovery	0	0
Total non hazardous waste sent to Incineration with no energy recovery	0	0
Recycled and reused waste	1,200.0	930.0
Composted waste	0	0

Use of Finite Resources
Water is provided by Aquatrine which being an MOD wide water and wastewater PFI project is reported by the MOD.

Biodiversity & Adaption Action Plans
DSG follows the MOD Defence Sustainable Development1 (SD) Strategy.

Sustainable Procurement
DSG complies with The Secretary of State's Policy statement on Safety, Health, Environmental Protection and Sustainable Development which mandates defence acquisition staff to identify SD risks and opportunities by carrying out appropriate levels of sustainability appraisals and environmental assessments.

PEOPLE

In October 2010 the Minister for Defence Equipment Support and Technology announced the need for DSG to align its capabilities and capacity with projected future customer demand in line with reducing defence budgets, resulting in the need to reduce staffing levels by up to 600 employees by 2013. Through prudent management and the introduction of a Voluntary Early Release scheme, DSG was able to achieve the required reductions without the need to introduce a programme of compulsory redundancies. Working closely with the various representative Trades Unions, DSG aimed to meet the requirements of the individuals and as well as the needs of the business going forward.

Following a disappointing return in 2010 from DSG employees to the Cabinet Office sponsored Civil Service People Survey, the business set about raising employee awareness to the survey and reported a doubling of the number of staff completing the survey in 2011 compared to 2010. A small team is now working to draw together action plans that will act upon the issues and concerns raised from the survey results with the aim of improving negative perceptions and delivering the necessary improvement actions required to both increase participation rates with the objective of improving the general morale in the business.

During the year DSG has brought about significant improvements in other areas of people management such as DSG's Appraisal system, payroll services and transferring key personnel activities from within the business into the DSG Personnel Service Centre.

The success of DSG's involvement in the ESS RC programme at Camp Bastion in Afghanistan is due in no small measure to the commitment and positive attitude of the DSG employees who volunteer for these deployment duties. In a hostile and potentially dangerous environment, the work done by the staff is directly benefiting the troops fighting in combat operations. No one underestimates the major contribution they are making to the success of the mission and this is a fact recognised by the Armed Forces and the UK Government at every level.

The importance of the contribution the DSG employees make is recognised with the presentation of campaign medals, which are given on their return to the UK. Senior politicians, Army Chiefs and the most senior MOD Civil Servant all make time in their busy diaries to attend medal presentation events, which is greatly appreciated by the recipients, their families and DSG management.

The total number of working days lost due to sickness was 26,980 which equates to 9.2 days per employee.

FINANCIAL PERFORMANCE REVIEW

DSG successfully completed its 4th year in business as a Trading Fund within the UK MOD and reported excellent financial performance in the year to 31st March 2012 with good profits and ended the year with a healthy financial position.

Overall, DSG's financial performance exceeded its plan with a Profit before Interest and Dividend of £14.0m.

TRADING RESULTS

DSG achieved a better than plan profit, chiefly due to below plan operating costs. This was after giving the MOD customer a price rebate of greater than £5m and achieving the closure of the Large Aircraft Business Unit.

The Return on Capital Employed achieved was 8.84 %

CASH FLOW AND FUNDING

The capital structure of DSG on formation was defined in the DSG Establishment as a Trading Fund Entry Terms document.

At 31st March 2012 DSG had Public Dividend Capital (PDC) of £23.3m and Government Loans of £26.6m.

Liquidity was strong throughout the year with a closing net cash position at 31st March 2012 of £64.8m.

CAPITAL INVESTMENT

Expenditure on capital projects amounted to £0.8 m during the year.

DIVIDEND

DSG has provided in the Accounts for a dividend of £4.5m to be paid to the MOD in respect of the year 2011/12.

PAYMENT STATISTICS

DSG aims to pay its suppliers within contracted payment terms or general conditions governing the terms for the type of business undertaken or, in the absence of specifically agreed terms, within 30 days of receipt of a valid invoice. Measured against direction from HM Treasury for 2011/12, 95% of invoices were paid within a 5 day target and 98% were paid within a 10 day target.


XC46AA

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Section 4(6) of the Government Trading Funds Act 1973, HM Treasury has directed the Defence Support Group (DSG) to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of DSG and of its profit, changes in taxpayers equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

– observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

– make judgements and estimates on a reasonable basis;

– state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the; and

– prepare the financial statements on a going concern basis.

The Accounting Officer of the Ministry of Defence has designated the Chief Executive as Accounting Officer of DSG. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding DSG's assets, are set out in Managing Public Money published by the HM Treasury. As far as I am aware there is no relevant audit information of which DSG's auditors are unaware and as Accounting Officer I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information and to establish that DSG's auditors are aware of that information.

Archie Hughes
Chief Executive and Accounting Officer
9 October 2012

GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of DSG'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 Managing Public Money.

As Chief Executive of DSG, I am personally accountable to the Secretary of State for Defence for the performance of DSG in accordance with the Framework Document and DSG's Corporate Strategic Plan.

In the preparation of this statement I have sought the views and support of the Executive Board, Non-Executive directors and the senior management of DSG.

GOVERNANCE FRAMEWORK

From the reviews I have undertaken I believe the Governance Structure and systems of Internal Control within DSG to the extent that it is deemed relevant and practical, have followed requirements of the Corporate Governance code of good practice. The Governance policy and process are subject to regular review and Internal Audit on a frequent basis. The governance structure is defined as follows: -

- **The DSG Owners Advisory Council (OAC),** chaired by the Min DEST as representative of our owners, is scheduled to meet quarterly to review DSG's performance against its key performance measures and Business Plan objectives.

- **Trading Fund Board (TFB)**, which is chaired by an independent Non- Executive director and whose members comprise the Executive directors and four Non-Executive directors, one of whom is the representative of the shareholder and meets 5 times a year. The main responsibilities are to review and manage the performance of DSG, review the risk management policy and process, primarily the Corporate Risk Register, and to review the Information Asset Management process.

- **Executive Management Board (XMB)**, which meets every month and comprises the Executive directors of DSG and whose main responsibilities are to manage the performance of DSG against its targets and review the Corporate Risk Register.

- **Audit Committee**, which is chaired by an independent Non-Executive director and has two other Non-Executive directors as members and DIA, NAO, Finance Director DSG and HIA DSG are attendees and meets at least four times a year. The DSG Audit Committee is a sub-committee of the DSG Executive Management Board. The role of the committee is to support the Board and to advise the Accounting Officer (AO) on the adequacy and effectiveness of governance, risk and control arrangements within DSG.

- **Executive Governance Group** chaired by the AO and includes all executive board members and Head of Internal Audit (HIA). The main responsibilities are to review the Governance policy and processes of DSG and manage the Internal Audit and Risk Management policies and processes.

Schedule of meetings and attendance

Meeting	Members	No. of Members	Scheduled frequency	Meetings held	Attend-ance
Owners Advisory Council	Min (DEST), CDM, DGF, DES Dir LE, BSG, DSG Exec Directors	9	2-3 annually	1	Full
Trading Fund Board	Independent NEDs, MOD NED, DSG Exec Directors	10	5	5	Full
Executive Management Board	Exec Directors	6	Monthly	12	Full
Remuneration Committee	Independent NEDs, DSG Executives	4	2	2	Full
Audit Committee	Independent NEDs, MOD NED, (NAO, DIA, DSG FD & DSG HIA in attendance)	3	4	4	Full
Executive Governance Group	DSG Executive Directors & DSG HIA	7	4	4	Full

There are subsidiary committees that handle Compliance, Health & Safety, Environmental Control, Information Asset management, Remuneration, Internal Audit and Risk Management, (the latter two being covered in detail in the following paragraphs).

All of the above meetings are minuted and have a requirement to report to the AO any significant issues/risks should they arise and demonstrate how they are being managed and assign owners and enter on the appropriate risk register.

DSG's Non Executive Directors continue to make a valuable contribution to the board meetings and governance of DSG.

There is a register of member's interests maintained by the TFB secretariat for the NEDs and this is currently being updated to include the Executive board members and the board have a duty to assess and evaluate its performance on an annual basis.

BOARD PERFORMANCE

The OAC, TFB, XMB and Audit Committee have met 1, 5, 12 and 4 times respectively during the last year. The Executive Management Board and Audit Committee have received regular reports from Compliance, Internal Audit, Security, Business Continuity, Risk Management and Finance. Specifically Compliance, Internal Audit and Risk management provide reviews of Corporate Governance issues that may have arisen. All meetings were quorate and there is a board secretariat that records minutes and actions. There have been no significant issues of Governance that required board intervention during the year.

The Trading Fund Board has reviewed and assessed its own performance and has determined that it has performed satisfactorily. The TFB reviewed the Corporate governance Code of good practice and believe there were no departures from this code. During this assessment the TFB also reviewed the effectiveness of the Audit Committee and Remuneration Committee and found that they had also performed satisfactorily.

HIGHLIGHTS OF BOARD COMMITTEE REPORTS

The Audit Committee, Remuneration Committee, Risk Management and Compliance meeting minutes are circulated to the Executive Board along with any relevant reports. Significant items from these meetings are: -

Audit Committee

- The Audit Committee has been proactive in reviewing the Internal Audit activities and attending to process improvements for both Internal Audit and Risk Management and approving the annual internal audit plan and monitoring its progress during the year.

- The Annual Report and Accounts were approved with no significant issues raised.

- The Audit Committee reviewed and amended its ToRs, prepared a report on its own effectiveness to the AO.

- The AC has approved the Service Level Agreement (SLA) between DIA and DSG which will bring a more integrated approach to internal audit.

Remuneration Committee
- The Committee has met as required during the year and its core activity has been to approve the policy in relation to the remuneration of DSG employees.

Risk Management
Both the TFB and XMB have carried out in depth reviews of the Corporate Risk Register and identified new risks relating to the proposed sale of DSG.

Compliance Meeting
This has met 4 times and issues a report to the XMB detailing quality, Health &Safety and compliance issues. There were 7 major quality non-conformances and three major Health & Safety issues (RIDDORS - which involved fractures), during the year.

CORPORATE GOVERNANCE

The structure of Corporate Governance within DSG, highlighted at section 1 above, has worked well in practice and is regularly reviewed both internally and periodically externally. In the board's opinion DSG to the extent that it is deemed relevant and practical, DSG has followed the Code's requirements. All meetings have been held as scheduled with no significant issues arising.

INFORMATION REPORTING

Integrated Business Reporting (IBR) has been consolidated and strengthened during the year through the IBR department which aims to handle all data requirements supplied to the board to assist in decision making. This has been enhanced by the consolidation of DSG onto one Enterprise Resource Planning (ERP) system. Reports are generated and reviewed by both the TFB and XMB and senior management on a regular basis.

RISK MANAGEMENT

Risk Management within DSG has had detailed reviews especially during the last twelve months as a result of the limited assurance assessment from a recent Internal Audit which has resulted in improvements to the policy and the process for embedding risk into the culture. The DSG XMB accepts that some degree of business risk is inevitable, being a normal part of the operation of an organisation. Within the in-depth reviews of the Corporate Risk Register the XMB has demonstrated its tolerance with the different categories of risk and through its directors has given guidance to the functional heads for the functional and site risk registers. Similar decisions will be made in respect of new business, key projects and business plans. Decisions on risk levels will be communicated to those responsible for managing those risks or risk areas.

The Risk Management within DSG is structured in principle as follows: -
- Corporate Risk Register – owned and reviewed by the TFB and reviewed regularly by the XMB. Risks included are those identified as affecting DSG as a whole and requiring board members to manage them. The key risks identified within this register are: -
  - Business restructuring - as a result of changing customer requirements
  - Sale of DSG – adverse affect on core functions and the delivery of the business plan
  - Compliance failure – failure to adhere to compliance measures could result in loss of accreditation
  - Loss of personal or key data
  - Loss of control of the business – failure to recognise targets are not being met or over achieved
  - Inaccurate data – data not available or inaccurate
  - Future business strategy – failure to secure future development opportunities for DSG.
  - Adverse customer perception – could lead to loss of business

- Functional Risk Registers – owned by Board members or Heads of Site and cover all the functions within DSG and risks are identified as those not affecting DSG as a whole and include risks that have been downgraded due to mitigation actions.

- Site Risk Registers – these are owned and managed by heads of sites and are reviewed regularly at Senior Management Team meetings.

- Project Risk Registers – are required for all major projects and proposals.

- Information Asset Management Risk – is managed by HR and reviewed regularly.

The Risk Management Process is structured as follows: -

- TFB – owns the Corporate Risk Register and is responsible for ensuring mitigation is in place and reviewing the actions of the XMB.

- XMB – carry out more frequent reviews in depth of the corporate risks and recommend downgrading or approving and accepting upgrades of risks.

- Audit Committee – has approved the Risk Policy and Process and through HIA receives regular updates to incorporate central government advice and recommendations and implement recommendations from Internal Audit activity.

- Risk Management Committee – manages the policy and process for the Audit Committee and has recently reviewed its ToRs which have been approved by the Audit Committee. The chair is the Finance Director or his delegated deputy and members are board directors or their deputies and functional heads. Proposals for upgrading or downgrading of risks will normally be handled through this committee who will make the recommendations.

- Risk Coordinators Committee – handle the management of the site registers and manage the software package (Active Risk Manager).

- Active Risk Manager – is the software tool used to manage all risks throughout DSG and provides regular reports on risk activity for management.

FRAUD AND INFORMATION ASSURANCE

DSG has ensured that all its Information Asset Owners (IAO) have undertaken the annual assessments to the required levels. DSG is pleased to report that it has now achieved level 3 from the Information Assurance Maturity Model (IAMM). The Risk Register is maintained within the HR function and is subject to continual review and there is an audit conducted from MOD Information Assets Management centre on a regular basis as we strive to achieve the next level of maturity. There have been no breaches of the Information Management Asset process; however, although DSG suffered the loss of a laptop stolen from a car, there was no major loss of personal or corporate data.

There have been no reported incidents of Fraud during the year and additional awareness communicated to DSG staff of the impact of fraud and the need for vigilance and the availability of the whistle blower facility.

HEALTH & SAFETY

There has been a 36% reduction in work related incidents reported (RIDDORS) and currently averages less than 10 per 1000 employees, although 3 reports were major involving fractures. The most common injuries being muscle strain/sprain.

SUMMARY

The HIA has issued his annual statement which includes the assessment of the overall level of Assurance and with respect to the internal audits performed during the year this is assessed as Limited. However when reviewing the overall control and governance framework of DSG, this has been assessed as satisfactory.

The control weakness identified within the procurement area has been rigorously reviewed and all identified actions implemented. Once fully embedded these actions will address all the concerns raised. In addition there will be a full independent review of the controls and their effectiveness that are in place within procurement during 2012/13.

From internal reviews we have determined that that the Transformation Project to roll out ERP across all business areas has not been as successful as anticipated and an optimisation project has been initiated to address all the issues identified and will be completed by 31 December 2012. In addition there was an action outstanding from the internal audit of Government Furnished Assets from 2010/11, which required substantial overhaul of the asset control process which has now been completed and implemented, but the action is with the customer and DSG can do nothing more.

I am satisfied that, the actions that are now in place to rectify the issues raised below should prevent further adverse activity and therefore I do not consider there to be a serious control weakness.

Archie Hughes
Chief Executive
9 October 2012

REMUNERATION REPORT

REMUNERATION COMMITTEE

The purpose of the Remuneration Committee is to agree the strategic policy in relation to the remuneration of DSG employees, consistent with the Personnel Delegations held by the Chief Executive of DSG.

The remuneration of all DSG employees except Senior Civil Servants (SCS) is set by the Remuneration Committee in agreement with HM Treasury.

The Remuneration Committee consists of the independent Non-Executives of DSG's Board and MOD's representative, with a representative from Human Resources to act as secretary. One of the Non-Executive Directors is appointed to act as Chairman and other Executive Directors are invited to attend meetings to assist the committee in their deliberations as appropriate. The committee met as required during the financial year and all recommendations arising from the committee have been implemented.

The committee continues to make a positive input to the strategic direction of DSG pay settlements prior to ratification by the DSG Board. The terms of the DSG Corporate Bonus Scheme are agreed by the DSG Remuneration Committee and endorsed by the Trading Fund Board who then, having taken due consideration of the performance of the business, approve any bonus to be paid, the amount of which is presented to and endorsed by the DSG OAC.

REMUNERATION POLICY

The Finance Director, Chief Operating Officer and Human Resources Director are Senior Civil Servants. As such their pay is set through recommendations made by the Review Body on Senior Salaries. The Review Body on Senior Salaries provides independent advice to the Prime Minister and the Secretary of State for Defence on the remuneration of SCS taking account of evidence it receives about wider economic considerations and the affordability of its recommendations. Further work about the work of the Review Body can be found at www.ome.uk.com.

All other employees have their remuneration determined by a process consistent with MOD and Treasury regulations.

The Chief Executive has delegated powers for the setting of terms and conditions of employment, including pay, for all DSG employees below SCS. This delegation requires him to consult with the MOD and HM Treasury before agreeing to any changes to pay and grading systems and arrangements. This is achieved through the pay remit process whereby the DSG Pay Strategy is submitted for MOD and HM Treasury approval before negotiation with staff representatives. The outcome of negotiations is reported back to HM Treasury through the annual outturn statement.

For the 2011/12 pay settlement year, most employees were subject to a pay freeze for the first of two years in accordance with government public sector pay policy. However, those earning a full-time salary of £21k or below received a £250 non-consolidated payment. DSG also took the opportunity, with MOD's agreement, to align employees in the Land Supply Business Unit, who originally transferred to DSG from MOD in 2008 on a three year pay settlement, to DSG pay and terms and conditions.

The DSG Pay Strategy is approved by the DSG Board and Remuneration Committee and is designed to achieve the Corporate Business Strategy having due regard to the financial success of DSG, current Government and MOD policies and targets, and public sector pay guidance.

Performance Pay for SCS is dependent firstly on DSG meeting agreed Internal Business Measures at a corporate level and then on individuals meeting agreed targets cascaded from the Corporate Plan. Achievement is determined by individual assessment within the line management chain. Pay and changes to conditions of services are approved by the DSG Board and Remuneration Committee prior to the commencing the pay negotiating process with the Trades Unions and then reviewed after implementation.

All pay awards are subject to the satisfactory performance of the duties assigned.

SERVICE CONTRACTS OF DIRECTORS

Directors who are substantive members of the SCS hold appointments that are open-ended and made in accordance with the Civil Service Commissioner's Recruitment Code. This requires appointment to be on merit and based on fair and open competition, but also includes the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommission.org.uk. Members of the SCS recruited or promoted to the grade before 2 April 1990 have a 3 month notice period, members recruited or promoted to the grade after this time have a 1 month notice period.

Early termination of an Executive Director's appointment, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Details of the Civil Service Compensation Scheme can be found at www.civilservice.gov.uk/pensions

Archie Hughes was re-appointed on 1 August 2011 as Chief Executive on a fixed term contract which is due to expire in September 2015. Compensation for early termination, other than for misconduct, would be in accordance with the Civil Service Compensation Scheme. The Chief Secretary to the Treasury objected to the size of the CE's bonus (as shown in the table on following page) and required this objection to be noted here.

David Morgan was appointed as Commercial Director on a fixed term contract which is due to expire in May 2014. Compensation for early termination, other than for misconduct, would be in accordance with the Civil Service Compensation Scheme.

Independent Non-Executive Directors are appointed for a fixed term and are not appointed as civil servants. Contracts may be terminated at one month's notice by either party or on dissolution of the Board unless found guilty of gross misconduct when termination will be immediate. Their contracts may be extended by mutual agreement.

Remuneration for Non-Executive Directors is set at a fixed annual rate determined by the Department's Permanent Under Secretary. Fees are set on the basis that the role should require around 40 days work per year. This excludes the Non-Executive Director representing the interests of the MOD's Finance Director whose services are not charged to DSG. Non-Executive Directors are not involved in any discussion about their own remuneration and all payments made are non-pensionable. There are no compensation entitlements for early termination.

REMUNERATION DETAILS OF DIRECTORS (Audited)

SALARY

Executive Directors	2011/12 Salary and allowances[1] £'000	Performance Bonus £'000	2010/11 Salary and allowances[1] £'000	Performance Bonus £'000
Archie Hughes Chief Executive[2]	155-160	60-65	155-160	85-90
Steve Hall Finance Director[4]	65-70	0-5	65-70	0-5
John Reilly Chief Operating Officer[3,4] (to 31st March 2012)	240-245	0-5	105-110	0-5
Geraint Spearing Chief Operating[5] Officer (from 1st March 2012)	5-10	–	–	–
Derek Owen Human Resources Director[4]	80-85	0-5	80-85	0-5
David Morgan Commercial Director[4,6] (from 1 June 2010)	95-100	5-10	80-85	10-15
Keith Norris Strategy Director[4]	65-70	5-10	65-70	5-10
Richard Atkinson Commercial Director [7] (to 31 May 2010)	–	–	10-15	–

1 Gross salary includes: salary; reserved rights to London Weighting or London allowances; recruitments and retention allowances; travel and subsistence allowances, compensation packages and any other allowance to the extent that it is subject to UK taxation.
2 Performance Bonuses are considered as part of the overall performance appraisal process, the outcome of which is not known until after the publication of the Annual Accounts. The value reported for this Executive Director reflects the estimated bonus in year for the individuals' performance for that same year which has been accrued at the maximum value payable.
3 John Reilly left under Voluntary Early Release terms on 31 March 2012. The capitalised cost of the package he received was £130,000 - £135,000.
4 The performance bonus value reported for this Executive Director reflects the actual bonus accrued, approved and now paid for the individuals' performance for that same year.
5 The full year equivalent salary for this appointment is £75k - £80k per annum in 2011/12.
6 The full year equivalent salary for this appointment is £95k - £100k per annum in 2010/11.
7 The full year equivalent salary for this appointment is £75k - £80k per annum in 2010/11.

PENSION BENEFITS

	Accrued Pension at pension age as at 31/03/12 and related lump sum £'000	Real increase/ (decrease) in pension and related lump sum at pension age £'000	CETV at 31/03/12 £'000	CETV at 31/03/11[1] £'000	Real increase/ (decrease) in CETV £'000	Employee contribution to partnership pension account £'000
Archie Hughes	15-20	0-2.5	271	221	28	–
Steve Hall	20-25 Plus lump sum of 65-70	0-2.5 Plus lump sum of 0-2.5	344	316	1	–
John Reilly (to 31 March 2012)	35-40 Plus lump sum of 105-110	(2.5)-0 Plus lump sum of (5)-(2.5)	800	755	(20)	–
Geraint Spearing (from 1 March 2012)	20-25 Plus lump sum of 65-70	(2.5)-0 Plus lump sum of (2.5)-0	283	267	(1)	–
Derek Owen	35-40 Plus lump sum of 105-110	(2.5)-0 Plus lump sum of (5)-(2.5)	855	810	(24)	–
David Morgan (from 1 June 2010)	5-10	2.5-5	45	20	20	–
Keith Norris	25-30 Plus lump sum of 85-90	(2.5)-0 Plus lump sum of (2.5)-0	608	567	(8)	–

1The figure may be different from the closing figure in the previous year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008

MEDIAN EARNINGS

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid Director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid Director in DSG in the financial year 2011/12 was £240,000 - £245,000 (2010/11, £240,000 - £245,000). This was 10.99 times (2010/11, 10.99 times) the median remuneration of the workforce, which was £22,300 (2010/11, £22,300).

No employees in either 2011/12 or 2010/11 received remuneration in excess of the highest-paid Director. Remuneration fell in ranges from £10,000 - £15,000 to £240,000 - £245,000 (2010/11, £10,000 - £15,000 to £240,000 - £245,000).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The current pay freeze in DSG for all but the lowest earners has the effect of maintaining the median remuneration year on year. In both years the highest paid Director fell coincidentally into the same remuneration banding thus the multiple did not change year on year.

CIVIL SERVICE PENSIONS

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The real increase in CETV represents the amount that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Further details relating to the Civil Service pension arrangements can be found in Note 5 to these accounts and at the website www.civilservice.gov.uk/pensions

None of the Directors have opted for a Partnership Account therefore there are no employer contributions to such accounts in respect of these Directors.

No other Director has received a payment for compensation for loss of office under the terms of an approved compensation scheme and no awards or compensation have been paid to former Directors.

None of the Directors have remuneration packages containing non-cash elements or other benefits in kind. No payments have been made to third parties for the services of a Director.

REMUNERATION DETAILS OF DIRECTORS (AUDITED)

Non-Executive Directors	Fees 2011/12 *£'000*	Fees 2010/11 *£'000*
Alex Jablonowski (from 01 January 2012)	5-10	–
Jamie Pike (to 31 December 2011)	25-30	35-40
David Barass	15-20	15-20
Janet Baker	15-20	15-20
Emma Davis[1] (from 01 June 2011)	N/A	N/A
David Williams[1] (from 01 November 2010 to 31 March 2011)	N/A	N/A
Terence Jagger[1] (to 29 October 2010)	N/A	N/A

1 This position has been appointed in conjunction with its responsibilities at MOD. It is not entitled to receive separate remuneration in undertaking its DSG duties.

APPROVAL

The Directors' Remuneration Report has been approved by the DSG Chief Executive.

Archie Hughes
Chief Executive
9 October 2012

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 Defence Support Group for the year ended 31st March 2012 under the Government Trading Funds Act 1973. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

RESPECTIVE RESPONSIBILITIES OF THE DEFENCE SUPPORT GROUP, ACCOUNTING OFFICER AND AUDITOR

As explained more fully in the Statement of the Accounting Officer's Responsibilities, the Defence Support Group and Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Defence Support Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Defence Support Group; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

OPINION ON REGULARITY

In my opinion, 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.

OPINION ON FINANCIAL STATEMENTS

In my opinion:

- the financial statements give a true and fair view of the state of the Defence Support Group's affairs as at 31st March 2012 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

OPINION ON OTHER MATTERS

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH I REPORT BY EXCEPTION

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or,
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or,
- I have not received all of the information and explanations I require for my audit; or,
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

REPORT

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
15 October 2012

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2012

		2011/12			2010/11		
						Restated	
		Continuing	Discontinued	Total	Continuing	Discontinued	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	2	169,594	14,307	183,901	187,506	21,556	209,062
Cost of sales	3	(154,714)	(8,802)	(163,516)	(174,182)	(15,825)	(190,007)
Gross profit		**14,880**	**5,505**	**20,385**	**13,324**	**5,731**	**19,055**
Operating expenses	3	(8,231)	(674)	(8,905)	(10,322)	(1,227)	(11,549)
Operating profit		**6,649**	**4,831**	**11,480**	**3,002**	**4,504**	**7,506**
Large Aircraft business closure provision	13	2,141	409	2,550	694	0	694
Profit on ordinary activities before interest		**8,790**	**5,240**	**14,030**	**3,696**	**4,504**	**8,200**
Interest receivable		253	0	253	95	0	95
Interest payable	4	(1,282)	0	(1,282)	(1,359)	0	(1,359)
Profit on ordinary activities before Dividend		**7,761**	**5,240**	**13,001**	**2,432**	**4,504**	**6,936**
Dividend Payable		(4,500)	0	(4,500)	(2,300)	0	(2,300)
Net Income after interest and dividend		**3,261**	**5,240**	**8,501**	**132**	**4,504**	**4,636**
Other comprehensive Income/(Expenditure)							
Net gain/(loss) on revaluation of Property Plant & Equipment		258	0	258	46,649	0	46,649
Net gain/(loss) on revaluation of Inventories		149	0	149	(31)	0	(31)
Asset Donations received during the year		0	0	0	2,034	0	2,034
Total comprehensive Income/(Expenditure) for the year		**3,668**	**5,240**	**8,908**	**48,784**	**4,504**	**53,288**
Return on capital employed (ROCE)				**8.84%**			**7.99%**

The notes on pages 46 to 65 form part of these accounts.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2012

	Note	31 March 2012	31 March 2011
			Restated
	Note	*£'000*	*£'000*
Non-current assets			
Property, Plant and Equipment	7	87,706	92,520
Total Non-current Assets		**87,706**	**92,520**
Current assets			
Inventories and work in progress	8	21,544	14,943
Trade and other receivables	9	32,960	56,688
Cash and cash equivalents	10	64,756	36,090
Total current assets		**119,260**	**107,721**
Total Assets		**206,966**	**200,241**
Current Liabilities			
Trade and other payables	11	(49,049)	(46,015)
Loans	12	(1,663)	(1,664)
Provisions	13	(493)	(4,046)
Total current liabilities		**(51,205)**	**(51,725)**
Non-current liabilities			
Loans	12	(24,962)	(26,625)
Total non current liabilities		**(24,962)**	**(26,625)**
Net Assets		**130,799**	**121,891**
Financed by:			
Capital and reserves			
Public dividend capital		23,324	23,324
Revaluation reserve		66,504	66,332
Retained earnings		40,971	32,235
Taxpayers' equity		**130,799**	**121,891**

The notes on pages 46 to 65 form part of these accounts.

Archie Hughes
Chief Executive
9 October 2012

These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's audit certificate.

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 MARCH 2012

	Note	2011/12 £'000	2010/11 Restated £'000
Cash flows from operating activities			
Operating profit	Statement of Comprehensive Income	11,480	7,506
Adjustments for:			
Losses on disposals of non-current assets	7	10	91
Permanent Diminution of non-current assets	7	(54)	1,541
Depreciation charges		5,900	2,092
Decrease in Large Aircraft closure costs	13	2,550	694
(Increase)/decrease in inventories	8	(6,454)	12,422
Decrease/(increase) in receivables	9	23,727	(8,298)
Increase/(decrease) in payables	11	836	(6,476)
(Decrease) in provisions for liabilities and charges	13	(3,553)	(439)
Net cash inflow from operating activities		**34,442**	**9,133**
Cash flows from investing activities			
Payments to aquire property plant and equipment	14a	(784)	(2,214)
Asset Donations received		0	2,033
Interest received	14a	253	95
Net cash (outflow) from investing activities		**(531)**	**(86)**
Cash flows from financing activities			
Decrease in borrowings	14a	(1,663)	(1,665)
Dividends paid	Statement of Comprehensive Income	(2,300)	(4,500)
Interest paid	14a	(1,282)	(1,359)
Net cash (outflow) from financing activities		**(5,245)**	**(7,524)**
Increase in cash and cash equivalents	14c	**28,666**	**1,523**
Cash and cash equivalents at start of year	14c	36,090	34,567
Cash and cash equivalents at end of year	14c	64,756	36,090

The notes on pages 46 to 65 form part of these accounts.

Cash Flows from the Discontinued Operations are shown in note 14c

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2012

	Public Dividend Capital	Revaluation Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000
Taxpayers' equity at 31st March 2010 (Restated)	**23,324**	**20,180**	**25,099**	**68,603**
Comprehensive income for the year		46,618	6,670	53,288
Realised element of revaluation reserve		(466)	466	0
Taxpayers' equity at 31st March 2011 (Restated)	**23,324**	**66,332**	**32,235**	**121,891**
Comprehensive income for the year		407	8,501	8,908
Realised element of revaluation reserve		(235)	235	0
Taxpayers' equity at 31st March 2012	**23,324**	**66,504**	**40,971**	**130,799**

The notes on pages 46 to 65 form part of these accounts.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012

1 ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared in accordance with the Government Financial Reporting Manual (FReM) for 2011/12 and the Accounts Direction, both issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of DSG for the purpose of giving a true and fair view has been selected.The particular policies adopted by DSG are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

Going Concern

In autumn 2010 the MOD's Strategic Defence and Security Review (SDSR) announced that DSG would be one of the MOD owned assets which would be offered for sale. Work is progressing in MOD Centre to bring about the sale of DSG by 2014 and it is still unclear if any elements ofthe existing DSG business are to remain in MOD ownership. The Chief Executive as Accounting Officer has considered the impact of the announcement on DSG's ability to continue as a going concern. In his view, whilst there remains uncertainty about the future ownership of the organisation, this will not have any affect on the operation of the organisation for at least the next 12 months. Therefore, notwithstanding the stated discontinued operations, the financial statements have been prepared on a going concern basis.

Discontinued Operations

On 29th March 2010 the then Secretary of State for Defence, Bob Ainsworth, laid before Parliament a Written Ministerial Statement about Defence Equipment, which concluded with a statement confirming the intention to close the LABU facility at St Athan by June 2013 at the latest. Whilst the major production line ceased in December 2010, DSG continued to operate these facilities until the minor production stream ended during 2011/12. In alignment with IFRS 5, the Large Aircraft business has been presented as discontinued in these accounts, with the 2010/11 results re-stated accordingly.
Further details can be found at note 13.

Accounting convention

These accounts have been prepared in accordance with the accruals concept and the historical cost convention, modified to account for the revaluation of land and buildings and other non-current assets, at current costs or value to the business.

Turnover

Turnover comprises the invoiced and accrued value of services (excluding VAT and other sales taxes) and is recognised in line with the underlying sales contract which may result in turnover and costs recognised prior to job completion.

Property, Plant and Equipment

Basis of Valuation

Property, Plant and Equipment are carried at fair value. A professional quinquennial valuation, in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards Red Book, was carried out by GVA Grimley Ltd as at 31st March 2011 and covered all classes of non-current assets. Due to the nature of the business assets a market valuation is difficult to determine therefore the basis of valuation applied is generally either Depreciated Replacement Cost or Existing Use.

Property, Plant and Equipment is revalued in the years between professional valuations, using the Corporate Financial Controller (CFC) Modified Historic Cost Accounting (MHCA) indices produced by the Defence Analytical Services Agency (DASA), and is carried at valuation as at the end of the accounting period.

Basis of Recognition

Non-current assets are recognised initially as Assets in the Course of Construction which are not depreciated. At the point that an asset becomes fully available for use, it is recategorised appropriately and depreciation commences.

Land and buildings
Where DSG bears the risks and rewards of using Departmental Estate, such estate is treated as an asset of the Trading Fund although legal ownership rests with the Secretary of State for Defence.

Other property, plant and equipment
Plant, equipment, computers and transport equipment are capitalised where the useful life exceeds one year and the cost of acquisition exceeds £10,000 excluding VAT. The value of capitalised plant, equipment and transport equipment is reviewed annually and adjustments made using the CFC MHCA Index in the relevant periods.

Depreciation
Freehold land is not depreciated. Depreciation on buildings, plant and equipment, transport equipment and IT equipment is calculated to reflect the consumption of economic benefit of assets by equal instalments over their estimated useful lives. The lives of the assets are periodically reviewed with reference to obsolescence and continued asset useage.

The depreciation rates applied to the main categories of assets are based on the following estimates of useful life.

Buildings	Not exceeding sixty years
Plant & Equipment	Between three and twenty years
Transport Equipment	Between three and twenty years
IT Equipment	Between three and ten years

Where an impairment loss has occurred with reference to the existing use of an asset, a discount rate of 3.5% has been applied to the cashflows.

Pension costs
Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and Armed Forces Pension Schemes (AFPS) which is non-contributory and unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS or AFPS appropriately. The cost of pension cover provided is by payments of charges (Accrued Superannuation Liability Charges - ASLC) based on a percentage of salary. Salaries include gross salary, certain performance bonuses and recruitment and retention allowances. It does not include the estimated monetary value of benefits in kind. Payments are made at contribution rates determined by the Government Actuary's Department.

Foreign exchange
All foreign denominated transactions are translated at the average exchange rate for the previous month, being a proxy rate for that ruling at the time of the transaction. At 31 March balances are translated into sterling at a year end spot rate. Foreign exchange differences are taken directly to the Statement of Comprehensive Income.

Inventories
Inventory is valued at current cost, being the amount of cash or cash equivalents that would have to be paid if the same or equivalent inventory was acquired at the date of the Statement of Financial Position. Following periodic reviews, provisions are made to cover obsolescent, surplus or defective items.

Where provision is made it is based on 100% provision against the value of the appropriate items. This calculation can include any significant surplus inventories based on projected consumption using historical trends.

Work in progress
Work in progress (WIP) is valued on the basis of direct labour, where this is applicable to the contract, and indirect production support, plus those business overheads that are directly related to normal levels of production activity. For spares inclusive contracts, the cost of the spares consumed is also included in the WIP valuation. The value is reviewed monthly to reflect the lower of cost or net realisable value and the rates used to value WIP are reviewed at least annually.

Long-term contracts
Long term contract (LTC) balances are stated at costs incurred (net of amounts transferred to cost of sales), after deducting related payments on account. Profit on individual long term contracts is taken only when their outcome can be foreseen with reasonable certainty, based on the lower of the percentage margin earned to date and that prudently forecast at completion, taking account of agreed claims. Turnover on long term contracts is ascertained in a manner appropriate to the stage of completion of the contract.

Provisions
At the point any contract is foreseen to become loss making a provision will be made for the future losses identified. Other provisions represent liabilities of uncertain timing or amount. Provisions are discounted where the effect of the discount would be material.

Provision for bad and doubtful debts
DSG makes provision for bad and doubtful debts as soon as they are deemed to be irrecoverable based on analysis and reviews of aged receivables.

Operating leases
Rentals under operating leases are charged to the Statement of Comprehensive Income as incurred.

Return on capital employed
The return on capital employed is expressed as the profit before interest for the year as a percentage of the average capital employed during the year. Capital employed comprises the total net assets (non-current assets at net book value, plus current assets, less current liabilities, less non-current liabilities) and adding back the short and long term loans provided from government sources.

Value Added Tax
DSG has a single registration for VAT with HM Revenue & Customs and accounts for VAT on an accruals basis.

Employee benefits
DSG accrues for untaken employee leave entitlement at the end of the financial year. For permanent employees the leave year runs to 30th April and employees are able to carry forwards an element of entitlement at the end of the financial year. These amounts fall due within one year and the value of the liability is calculated using records of actual untaken leave and average pay rates to comply with IAS 19.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

DSG management makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. The risk generated by these judgements and estimates is therefore materially only cost related and is mitigated as far as is practical. The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

Provisions
Provisions have been made for the closure of the Large Aircraft business and obsolete stock. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Accounting Accruals
Accruals for the costs of goods and services received are recognised based on the best information available at the reporting date. Accruals include significant balances related to reimbursement for utilities payable to the MOD. Any difference between accounting accruals and the actual liability when presented will be accounted for in the period when such determination is made.

CFC Indexation rates for the Quinquennial Non-Current Asset Review
Indices are provided by the Corporate Financial Controller (CFC) for revaluing non-current assets under the Modified Historic Cost Accounting (MHCA) regime. Whilst these indices predict a valuation as at the end of the accounting period they include corrections for previous periods. In these accounts, DSG has applied the professional external revaluations of its non-current assets from GVA Grimley as at 31 March 2011.

Inventory revaluation reserve realisation
DSG has historically used standard costing to value its inventory but, where the standards are subject to annual or periodic revaluation, does not track the realisation of this revaluation on an item by item basis. The realisation is accounted for by applying an aged inventory analysis to the inventory revaluation reserve.

Change in Accounting policy - Donated assets
DSG has changed its policy on Accounting for Donated assets in order to comply with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance interpreted by the HM Treasury Financial Reporting Manual. This change has been applied retrospectively as allowed by the transitional provisions in IAS 20.

The effect of the change is to credit receipts in respect of Donated Assets to income rather than the Donated Asset Reserve.

There have been no Donated Assets prior to the year ended 31st March 2010.The effects on the accounts for the years presented in this report are shown below:

	2010/11
	£'000
Decrease in Donated Asset Reserve	(2,287)
Increase in Retained Earnings	2,287

	Previously Stated	**Adjustment**	**Restated**
	31st March 2011		**31st March 2011**
	£'000	*£'000*	*£'000*
Donated Asset Reserve	2,287	(2,287)	0
Retained Earnings	29,948	2,287	32,235

IFRS's amendments and interpretations in issue but not yet effective or adopted

IAS 1 (amendment to IAS 1) Presentation of Items of Other Comprehensive Income
This amendment is effective for accounting periods beginning on or after 1st July 2012. This amendment will have no material effect on DSG's accounts.

Further Considerations
Other changes to, and new issues of, International Financial Reporting Standards, but which are not yet in effect or applied, do not have a material impact on the accounting or disclosure of these annual accounts.

2 TURNOVER AND SEGMENTAL ANALYSIS

Turnover is stated net of trade discounts, provisions, VAT and similar taxes. There were no acquisitions and the majority of turnover arose from UK sources. The discontinued operation relating to the Large Aircraft Business Unit is detailed on the face of the Statement of Comprehensive Income and included within Air and Electronics below.

Where the substance of the transaction is such that DSG effectively operates as an agent, turnover represents the net revenue receivable and due to DSG in accordance with contractual terms.

Although substantially all turnover relates to the same class of business: the repair, overhaul and maintenance of equipment, DSG is able to analyse its operating profit by activity depending on the type of equipment platform being worked on. The major segments are Land platforms, Air and Electronic platforms and specialist procurement and supply operation carried out by the Land Supply business.

Analysis of turnover and operating profit by these segments for the year ended 31 March 2012 was:

	Land	**Air and Electronics**	**Land Supply**	**Total**
2011/12	*£'000*	*£'000*	*£'000*	*£'000*
Turnover (i)	127,348	43,523	13,030	183,901
Cost of Sales	120,391	34,221	8,904	163,516
Administrative Expenses	5,756	2,481	668	8,905
Operating profit	**1,201**	**6,821**	**3,458**	**11,480**

(i) Within turnover, £151.638m relates to MOD customers

	Land	**Air and Electronics**	**Land Supply**	**Total**
2010/11 Restated	*£'000*	*£'000*	*£'000*	*£'000*
Turnover	143,414	53,149	12,499	209,062
Cost of Sales	137,596	43,419	8,992	190,007
Administrative Expenses	8,793	2,499	257	11,549
Operating profit	**(2,975)**	**7,231**	**3,250**	**7,506**

3 COST OF SALES AND OPERATING EXPENSES

	Note	2011/12	2010/11 Restated (ii)
		£'000	*£'000*
Cost of sales:			
Staff costs	5b	97,034	104,319
Supplies and services consumed		51,774	73,554
Accommodation costs		3,981	5,537
Depreciation and impairment		5,696	3,388
Cost reimbursement (i)		(5,052)	(6,104)
Other administration costs (ii)	6	10,083	9,313
Total cost of sales		**163,516**	**190,007**
Operating expenses:			
Staff costs	5b	8,537	6,735
Supplies and services consumed		156	665
Accommodation costs		109	256
Depreciation and impairment		135	193
Cost reimbursement (i)		(52)	0
Other administration costs (ii)	6	20	3,700
Total operating expenses		**8,905**	**11,549**
Cost of sales & operating expenses:			
Staff costs	5b	105,571	111,054
Supplies and services consumed		51,930	74,219
Accommodation costs		4,090	5,793
Depreciation and impairment		5,831	3,581
Cost reimbursement (i)		(5,104)	(6,104)
Other administration costs (ii)	6	10,103	13,013
Total cost of sales & operating expenses		**172,421**	**201,556**

(i) Cost reimbursement primarily relate to MOD and Welsh Assembly Government contibutions to St Athan airfield running costs of £2,710k (£2,328k in 2010/11), the MOD funding of the Large Aircraft hanger relocation of £328k (£3,073k in 2010/11), reimbursement of termination costs of Large Aircraft staff of £1,169k (Nil 2010/11) and various facility management and other costs recharged to units lodging on DSG sites of £895k (£703k in 2010/11). These are shown as a separate line to assist visibility.

(ii) DSG charges out centrally incurred IS costs to Business Units. During 2011 /12 this credit was allocated to Operating expenses. In 2010/11 the whole charge of £5,081k was allocated to Cost of Sales. In order to provide more accurate comparative data the figure for 2010/11 have been restated allocating the £5,081k credit to Operating expenses.

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2011/12	2010/11
	£'000	*£'000*
On loans wholly repayable within five years	0	0
On loans not wholly repayable within five years	1,282	1,359
	1,282	**1,359**

5 STAFF NUMBERS AND COSTS

	2011/12	2010/11
(a) Staff Numbers	**Number of employees**	**Number of employees**
The average number of persons employed during the year was:		
Senior Management	6	6
Service personnel	21	20
Civilian personnel	2,820	3,136
Agency staff	101	120
	2,948	**3,282**

(b) Payroll Costs	***£'000***	***£'000***
in cost of sales:		
Salaries, wages and allowances	75,799	80,811
Social security	5,824	5,970
Pension costs	12,384	13,788
Agency Staff	3,027	3,750
	97,034	**104,319**
in Operating expenses:		
Salaries, wages and allowances	6,425	4,579
Social security	432	450
Pension costs	882	978
Agency Staff	798	728
	8,537	**6,735**
Total:		
Salaries, wages and allowances	82,224	85,390
Social security	6,256	6,420
Pension costs	13,266	14,766
Agency Staff	3,825	4,478
Total payroll costs	**105,571**	**111,054**

5 STAFF NUMBERS AND COSTS (CONTINUED)

(c) Pension benefits for civilian employees are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Consumer Price Index. New entrants between 1 October 2002 and 30 July 2007 could choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account). New entrants from 30 July 2007 could choose only between a partnership pension and the "Nuvos" occupational pension scheme.

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium, Classic Plus and Nuvos. Increases to employee contributions applied from 1 April 2012. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic. Benefits in Nuvos accrue at the rate of 2.3% of pensionable earnings towards members pensions annually, to a maximum of 75% of final salary.

The partnership pension account is a stakeholder pension arrangement. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi employer defined benefit scheme and it is not possible to separately identify DSG's share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2011/12 employer contributions of £13,068,209 were payable to the PCSPS (2010/11 £14,805,942) at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands.

The Scheme's Actuary reviews employer contributions usually every four years, following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011/12 to be paid when the member retires and not the benefits paid during this period to existing pensioners. For 2011/12 employer contributions of £129,082 were payable to the Armed Forces Pension Scheme (AFPS) (2010/11 £111,696) as determined by the Government Actuary's Department at a rate of 36.3% for Officers and 21.8% for other ranks. A valuation of the scheme liabilities of the AFPS was carried out in 2009/10. In addition, employer contributions were paid into the National Health Service Superannuation scheme in 2011/12 of £9,573 (2010/11 £9,819).

For 2011/12 employer contributions of £42,554 were paid to one or more of a panel of four appointed stakeholder pension providers (2010/11 £50,395). In addition employer contributions of £2,935 were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees (2010/11 £3,545). Contributions due to the partnership pension providers at the statement of financial position date were £4,694 (2010/11 £4,322).

5 employees retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £2,303 (2010/11 10 persons - additional pension liabilities amounted to £23,835).

5 STAFF NUMBERS AND COSTS (CONTINUED)

(d) Reporting of Civil Service and other compensation schemes - exit packages

Exit costs are accounted for in full in the year of departure except for the annual compensation costs of certain packages which fall into future years and are accounted for in the year of payment.

Comparative data shown in brackets for 2010/11.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
<£10,000	0	(0)	17	(1)	17	(1)
£10,000 - £25,000	63	(0)	245	(12)	308	(12)
£25,000 - £50,000	11	(0)	176	(32)	187	(32)
£50,000 - £100,000	0	(0)	34	(68)	34	(68)
£100,000- £150,000	0	(0)	4	(34)	4	(34)
£150,000- £200,000	0	(0)	0	(4)	0	(4)
£200,000-£250,000	0	(0)	0	(0)	0	(0)
£250,000-£300,000	0	(0)	0	(0)	0	(0)
Total number of exit packages for in year departures	**74**	**(0)**	**476**	**(151)**	**550**	**(151)**
Total cost of in year departures £'000	**1,264**	**(0)**	**13,063**	**(7,914)**	**14,327**	**(7,914)**

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are funded directly by the MOD and are therefore not accounted for within DSG.

Where early retirements have been agreed, the additional costs are met by DSG and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Total cost includes £5,019k for pre 1 April 2012 leavers which will fall into financial year 2012/13.

6 OTHER ADMINISTRATION COSTS

	2011/12	2010/11 Restated (i)
in Cost of sales:	£'000	£'000
Travel and subsistence, including vehicle hire	2,280	2,272
IT and telecommunications (i)	5,840	5,889
Training, recruitment and consultancy	406	602
Insurance	27	50
Other expenses	1,471	812
Movement in provisions	59	(312)
	10,083	**9,313**
in Operating expenses:	£'000	£'000
Auditors' remuneration	95	95
Travel and subsistence, including vehicle hire	600	636
IT and telecommunications (i)	(1,190)	(757)
Training, recruitment and consultancy	198	1,533
Insurance	1,008	1,162
Other expenses	231	311
(Gains)/Losses on Foreign Exchange	(3)	21
Movement in provisions	(919)	699
	20	**3,700**
Total:	£'000	£'000
Auditors' remuneration	95	95
Travel and subsistence, including vehicle hire	2,880	2,908
IT and telecommunications (i)	4,650	5,132
Training, recruitment and consultancy	604	2,135
Insurance	1,035	1,212
Other expenses	1,702	1,123
(Gains)/Losses on Foreign Exchange	(3)	21
Movement in provisions	(860)	387
Total of Other administration costs	**10,103**	**13,013**

(i) DSG charges out centrally incurred IS costs to Business Units. During 2011/12 this credit was allocated to Operating expenses. In 2010/11 the whole charge was allocated to Cost of sales (£5,081k). In order to provide more accurate comparative data the figure for 2010/11 has been restated allocating the £5,081k credit to Operating expenses.

7 PROPERTY, PLANT AND EQUIPMENT

The movements in each class of assets during 2011/12 were:

	Land	Buildings	Plant & Machinery	Transport Equipment	IT	Assets in course of construction	Total Tangible
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:							
At 31 March 2011	26,259	60,102	16,989	294	264	2,506	106,414
Additions	0	39	83	0	0	662	784
Donations	0	0	0	0	0	0	0
Disposals	0	0	(13,818)	(1)	0	0	(13,819)
Impairment	0	56	13	0	0	0	69
Reclassification (i)	(5,625)	8,093	68	(58)	0	(2,493)	(15)
Revaluation	839	(605)	(119)	5	46	0	166
At 31 March 2012	**21,473**	**67,685**	**3,216**	**240**	**310**	**675**	**93,599**
Depreciation:							
At 31 March 2011	0	0	13,887	0	7	0	13,894
Depreciation charged during the year	0	4,459	1,164	135	142	0	5,900
Disposals	0	0	(13,809)	0	0	0	(13,809)
Impairment	0	0	0	0	0	0	0
Reclassification	0	0	0	0	0	0	0
Revaluation	0	23	(148)	3	30	0	(92)
At 31 March 2012	**0**	**4,482**	**1,094**	**138**	**179**	**0**	**5,893**
Net book value:							
At 31 March 2012	**21,473**	**63,203**	**2,122**	**102**	**131**	**675**	**87,706**
At 31 March 2011	26,259	60,102	3,102	294	257	2,506	92,520
Asset financing:							
Owned	21,473	60,865	2,122	102	131	675	85,368
Donated	0	2,338	0	0	0	0	2,338
NBV as at 31 March 2012	**21,473**	**63,203**	**2,122**	**102**	**131**	**675**	**87,706**

(i) Reclassification between land and buildings is primarily the separate identification of infrastructure assets which had been previously disclosed as land. The affect of this adjustment on depreciation is not material and therefore no adjustments for this has been made.

The movements in each class of assets during 2010/11 were:

	Land	Buildings	Plant & Machinery	Transport Equipment	IT	Assets in course of construction	Total Tangible
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:							
At 31 March 2010	13,948	70,384	20,055	652	1,522	1,105	107,666
Additions	0	0	15	0	0	165	180
Donations	0	0	0	0	0	2,034	2,034
Disposals	0	0	(353)	0	(622)	0	(975)
Impairment	0	(700)	(781)	0	(15)	0	(1,496)
Reclassification	2,986	(2,553)	300	0	30	(798)	(35)
Revaluation	9,325	(7,029)	(2,247)	(358)	(651)	0	(960)
At 31 March 2011	**26,259**	**60,102**	**16,989**	**294**	**264**	**2,506**	**106,414**
Depreciation:							
At 31 March 2010	0	42,250	16,365	363	1,308	0	60,286
Depreciation charged during the year	0	1,110	772	35	176	0	2,093
Disposals	0	0	(258)	0	(627)	0	(885)
Impairment	0	0	10	0	0	0	10
Reclassification	0	0	0	0	0	0	0
Revaluation	0	(43,360)	(3,002)	(398)	(850)	0	(47,610)
At 31 March 2011	**0**	**0**	**13,887**	**0**	**7**	**0**	**13,894**
Net book value:							
At 31 March 2011	**26,259**	**60,102**	**3,102**	**294**	**257**	**2,506**	**92,520**
At 31 March 2010	13,948	28,134	3,690	289	214	1,105	47,380
Asset financing:							
Owned	26,259	60,102	3,102	294	257	219	90,233
Donated						2,287	2,287
NBV as at 31 March 2011	**26,259**	**60,102**	**3,102**	**294**	**257**	**2,506**	**92,520**

8 INVENTORIES AND WORK IN PROGRESS

	31 March 2012		31 March 2011	
	£'000	£'000	£'000	£'000
Gross Inventories	16,863		15,810	
Less inventory provision	(1,451)		(2,635)	
		15,412		13,175
Work in progress - net costs incurred		6,132		1,768
		21,544		**14,943**

During 2011/12, inventory with a value of £20.536m was charged to cost of sales along with the creation of an additional £1.451m of inventory provision. Inventory with a value of £2.255m was written off against previously created provisions with the excess provision being released. During the same period, £12.935m of work in progress was expensed to Cost of sales

9 RECEIVABLES AND PREPAYMENTS

	31 March 2012	31 March 2011
	£'000	£'000
Trade and sundry invoiced receivables	27,810	52,901
Other receivables	719	674
Bad debt provision	(401)	(209)
Prepayments and accrued income	4,832	3,322
	32,960	**56,688**

Current assets are further analysed by debtor category as noted below:

	31 March 2012	31 March 2011
	£'000	£'000
Other central government bodies	27,544	48,550
Local authorities	0	0
Bodies external to government	5,416	8,138
	32,960	**56,688**

All the balances above fall due within 1 year.

Aged Trade and Sundry Invoiced Receivables Analysis	**Not Yet Due**	**30 to 60 Days**	**60 to 90 Days**	**90 to 120 Days**	**120 Days +**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2012	14,016	9,904	2,296	480	1,114	27,810
At 31 March 2011	44,834	4,187	1,219	1,055	1,606	52,901

10 CASH AT BANK AND IN HAND

	31 March 2012	31 March 2011
	£'000	*£'000*
Cash on short term deposit and at bank (i) (ii)	64,752	36,083
Cash in hand	4	7
	64,756	**36,090**

(i) Wherever possible cash is held in interest earning accounts, which are redeemable on demand within one working day.

(ii) Other than cash in hand all deposits and balances were held within a commercial bank.

An analysis of change in net funds can be found at note 14(b).

11 PAYABLES

Amounts falling due within one year:

	31 March 2012	31 March 2011
	£'000	*£'000*
Trade payables	943	1,132
Taxation and social security	2,393	2,226
Value Added Tax	5,533	8,416
Accruals	20,669	16,567
Dividend payable	4,500	2,300
Deferred income	11,538	11,514
Sundry payables	3,473	3,860
	49,049	**46,015**

Payables are further analysed by creditor category as below:

	31 March 2012	31 March 2011
	£'000	*£'000*
Other central government bodies	21,750	17,526
Bodies external to government	27,299	28,489
	49,049	**46,015**

12 SHORT TERM AND LONG TERM LOANS

	31 March 2012	31 March 2011
	£'000	*£'000*
Current portion of long term borrowings	1,663	1,664
Loan repayments due within 2 and 5 years	6,656	6,656
Loan repayments due after 5 years	18,306	19,969
	26,625	**28,289**

13 PROVISIONS FOR LIABILITIES AND CHARGES

	Revenue Provision	Other	Large Aircraft Closure	Total
	£'000	*£'000*	*£'000*	*£'000*
Balance at 1 April 2011	23	1,335	2,688	4,046
Increase/(decrease) in provisions	0	207	(2,142)	(1,935)
Utilised in year	(23)	(1,186)	(409)	(1,618)
Balance at 31 March 2012	**0**	**356**	**137**	**493**

Large Aircraft Closure Provision

On 29th March 2010 the then Secretary of State for Defence, Bob Ainsworth, laid before Parliament a Written Ministerial Statement about Defence Equipment, which concluded with a statement confirming the intention to close the LABU facility at St Athan by June 2013 at the latest. The costs of redundancy are funded directly by the MOD (see below) - this provision has been created to cover the other costs arising from this closure.

Verification was obtained from the MOD that ensured that all significant costs arising as a result of employees entering the redeployment pool would be met in line with other redundancy costs allowing the release of a significant proportion of the provision originally made in 2009/10.

Whilst the major servicing production line ceased in December 2010, DSG continued to operate these facilities until the minor servicing production line ended in February 2012. The remaining provision is to cover outstanding obligations in respect of the facility.

Other Provisions

These provisions are to meet a variety of obligations including:

- £180k for the estimated replacement cost of a small number of Government Funished Assets which documentation indicates are in DSG's custody.

- £157k for the estimated costs for future legal/employment tribunal cases where potential claims are already known to exist.

The liabilities and charges provided for are expected to fall due within one year.

The MOD has confirmed that it will continue to meet any liabilities in respect of DSG's redundancy costs and accordingly no further provision has been made for these future liabilities in DSG's accounts.

14 CASH FLOW STATEMENT NOTE

(a) Detailed analysis of gross cash flows	2011/12	2010/11 Restated
	£'000	£'000
Returns on investments and servicing of finance		
Interest received	253	95
Interest paid	(1,282)	(1,359)
	(1,029)	**(1,264)**
Capital expenditure		
Non current assets in the course of construction	(662)	(2,199)
Purchase of non current assets	(122)	(15)
	(784)	**(2,214)**
Financing		
With the MOD:	(1,663)	(1,665)
Decrease in borrowings	**(1,663)**	**(1,665)**

(b) Analysis of changes in net funds/(debt)	At 31 March 2011	Cashflow	At 31 March 2012
	£'000	£'000	£'000
Cash at bank and in hand	36,090	28,666	64,756
Debt due within one year	(1,663)	(0)	(1,663)
Debt due after one year	(26,625)	1,664	(24,961)
Total	**7,802**	**30,330**	**38,132**

(c) Analysis of changes in cash and cash equivalents	
	£'000
Balance at 31st March 2011	**36,090**
Net change in cash and cash equivalent balances	28,666
Balance at 31st March 2012	**64,756**

14 CASH FLOW STATEMENT NOTE (CONTINUED)

(d) Net cash flows of Discontinued Operations	2011/12	2010/11
	£'000	*£'000*
Cash flows from operating activities		
Operating profit from discontinued operations	4,831	4,504
Adjustments for:		
Depreciation charges	81	81
Decrease in Large Aircraft closure costs	409	694
(Decrease) in receivables	140	450
Decrease in payables	(1,610)	(421)
(Decrease) in provisions for liabilities and charges	(409)	(1,285)
Net cash inflow / (outflow) from operating activities	**3,442**	**4,023**
Cash flows from investing activities		
Payments to aquire Property, Plant and Equipment	0	0
Receipts for sale of non-current assets	0	0
Net cash (outflow) from investing activities	**0**	**0**
Cash flows from financing activities		
Decrease in borrowings	0	0
Net cash (outflow) from financing activities	**0**	**0**
Increase/(Decrease) in cash and cash equivalents	**3,442**	**4,023**

15 OPERATING LEASES

Operating Lease payments recognised as expenses in the period were:

	2011/12	2010/11
	£'000	*£'000*
Lease of buildings at RAF St Athan (i)	389	307
Lease of other Land and Buildings (i)	14	0
Lease of vehicles & other equipment (ii)	273	412
Total operating leases paid	**676**	**719**

(i) Contained within note 3 - Accommodation costs

(ii) Contained within note 6 - Vehicle hire and Other expenses, within note 3 - Supplies and services consumed.

None of these payments were contingent rents or sublease payments.

Future minimum lease payments under non-cancellable operating leases are due as follows:

	31 March 2012	31 March 2011
	£'000	*£'000*
Not later than one year	267	622
Later than one year and not later than five years	87	358
Later than five years	0	0
	354	**980**

DSG had only one lease of significance. This relates to the lease of a building on the St Athan site which commenced on 1st April 2010 and expired on 31st March 2012.

None of DSG's leasing arrangements have renewal or purchase options, rentals are payable on fixed instalments over the duration of the lease.

There are no restrictions imposed by lease arrangements on dividends or further debt.

Future minimum lease payments under non-cancellable operating leases where DSG is acting as lessor are:

	As at 31 March 2012	As at 31 March 2011
	£'000	*£'000*
Receivable within one year	318	258
Receivable after one year	0	0
	318	**258**

This relates to a short term lease on facilities at the Sealand site.

There are no finance leases.

16 COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

Whilst not yet commited, £345k of capital expenditure has been authorised but not provided for in the accounts as at 31 March 2012 (2011 £963k). Capital commitments of £269k existed and were not provided for as at 31 March 2012 (2011 £25k).

There are no contingent assets at 31 March 2012 (nil at 31 March 2011).

There are no contingent liabilities at 31 March 2012 (nil at 31 March 2011). Any liabilities concerning environmental pollution are considered to be pre-Trading Fund events and the liability therefore falls to the MOD.

17 FINANCIAL INSTRUMENTS

DSG's treasury operations are governed under the Government Trading Funds Act 1973(a) as supplemented by DSG's Framework Document and are conducted within a framework of policies, mandates and delegations authorised at the top level by the Board and regularly reviewed. DSG's financial instruments comprise cash deposits, debtors, creditors and loans. DSG uses forward foreign currency sales and purchase contracts as derivative instruments when required for risk management purposes only, although none have been utilised during 2011/12 (nil during 2010/11). The main purpose of these financial instruments is to finance DSG's operations and DSG has limited powers to borrow or invest surplus funds. The main risks arising from the financial instruments are foreign currency, liquidity and interest rate risks. DSG's policies for managing these risks are set to achieve compliance with the regulatory framework including the rules contained within Managing Public Money.

Interest Rate Risk

DSG's funding is determined by fixed rate Government loans. There are no floating rate liabilities and DSG has only one loan with an interest rate of 4.6% fixed for the remaining 16 years of the loan term.

Currency Risk

DSG conducts business in Sterling, US Dollars, Euros and Swedish Krone and is therefore subject to foreign exchange risk. At 31 March liabilities of $1k US Dollars existed. An adverse movement in foreign currency exchange rates of 10% for these currencies would give rise to no material additional liabilities.

DSG manages this risk by natural hedging and entering into forward foreign exchange contracts where amounts are material. DSG has one active foreign currency bank account which held $59k US Dollars at 31 March 2012 ($236k at 31 March 2011). DSG policy states that transactions are translated at the prior month average rate and year end foreign denominated net assets are translated at a year end spot rate.

Liquidity Risk

In excess of 68% of DSG's loans outstanding at the year end are repayable in more than 5 years. Current liquidity throughout the year was strong. Cash at bank is available on demand and short term investments are conducted through the Lloyds TSB Bank plc Money Market.

Counter-party/Credit Risk

DSG's approach is to minimise counter-party risk by aiming only to enter into contracts with institutions with long term credit ratings of AA or better.

Capital Management

The financial strategy of DSG supports its aim of sustaining its manufacturing capability and achieving the return on capital objectives set by its owner. The key elements of the strategy are:

- Sufficient flexibility for the funding of necessary capital expenditure and working capital required for any expansion of the business.
- Avoidance of risk and compliance with HM Treasury policies.
- Funding of dividend payments as agreed with the owner.
- Funding of loan repayment schedules.

The Capital structure of DSG is based on management's judgement of the balancing of all the elements of its financial strategy in order to meet its day-to-day and strategic needs. DSG together with its owner considers the amount of Public Dividend Capital in proportion to loans and retained earnings and manages the capital structure, making adjustments to it if necessary in the light of changes in economic conditions and risk characteristics of the underlying assets.

DSG is not subject to covenants in any of its financing agreements.

Categories of Financial Instruments

Financial assets

	At 31 March 2012	At 31 March 2011
	£'000	*£'000*
Trade, sundry and other debtors	28,529	53,575
Cash on short term deposit, at bank and in hand	64,756	36,090
	93,285	**89,665**

Financial liabilities

	At 31 March 2012	At 31 March 2011 Restated
	£'000	*£'000*
Trade and other payables	28,380	29,448
Ministry of Defence loans	26,626	28,289
	55,006	**57,737**

DSG does not retain any assets classed as held to maturity investments or available for sale financial assets, or any financial assets or liabilities held for trading. For all assets and liabilities, amortised cost is a proxy for fair value due to the short term nature of the instrument.

Embedded Derivatives

In accordance with IAS 39 - Financial instruments: Recognition and measurement, DSG has reviewed all material contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No instances were found that required embedded derivatives to be recognised at their fair value separately from the non-derivative host contract. For the contracts reviewed, the economic characteristics and risks were closely related to those of the host contract.

18 RELATED PARTIES

The MOD is a related party. During the year, DSG has had material transactions with the Department and with other entities for which MOD is the parent department. None of the DSG Board members or key managerial staff have any related party interests which may conflict with their management responsibilities.

19 EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period. These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's audit certificate.

20 LOSSES AND SPECIAL PAYMENTS

Other than the inventory write off disclosed in note 8, there were no material losses or special payments made during the year.

21 AUDITORS

The Trading Fund Act 1973 requires DSG's Annual Report and Accounts to be audited by the Comptroller and Auditor General. DSG's auditor is the National Audit Office (NAO). The cost of this audit is £95,000 (2010/11 £95,000). The Internal Business Measures within the Annual Report and Accounts are audited by the MOD Defence Internal Audit.

22 THIRD PARTY ASSETS

In connection with contracts held with the Jordanian Armed Forces, DSG holds in its name a bank account, controlled by a member of the Jordanian Armed Forces, with a balance of £1,236k as at 31 March 2012 (£388k as at 31 March 2011).

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