

DSDA Annual Report & Accounts 2006/07



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Located throughout the UK and Northern Germany DSDA manages a range of storage, processing and distribution tasks on behalf of its customers in defence and industry. Our main customer base is made up of the Integrated Project Teams (IPTs) that manage the introduction of defence materials to the MoD. DSDA is a key enabler within the newly formed Defence Equipment and Support (DE&S) organisation and our ability to manage this partnership between our customers and the Armed Forces is unique. DSDA is strategically placed at the centre of the defence supply chain and has evolved to provide a unique portfolio of services that are specifically tailored to the defence supply industry.

This is why DSDA is the preferred supplier to some of the biggest names in defence.



The DSDA Mission

To sustain the fighting power of UK Armed Forces worldwide by providing a storage, processing and distribution service that meets the highest levels of professional excellence.

The DSDA Vision

A customer driven, commercially aware, storage, distribution and processing organisation within the transformed defence supply chain. Through working in collaboration with our staff, customers, consumers and the DLO, we have a team that can meet in full the logistics challenges posed to the MoD in the 21st Century.





Foreword by The Chief Executive

This is the Annual Report and Accounts for 2006/07 for the Defence Storage and Distribution Agency (DSDA) and coincides with the first anniversary of my appointment as Chief Executive of DSDA.

In this reporting period there have been significant changes to the Agency. At this time last year the typical time to receive, process, issue and deliver an order was 28 days. This figure is currently at 10 days and is reducing to meet prescribed service objectives, which will ultimately position the Agency alongside the best commercial logistics service providers.

This transformation is being achieved while providing unprecedented levels of support to in-theatre operations, with output in munitions delivered at almost 10 times last year's level.

At the heart of the changes is a new Board; further to my appointment in April 2006, we have appointed, from industry, a Chief Operating Officer and a Change Director, and the post of Deputy Chief Executive has ceased to be required. We have appointed new Human Resources and Finance Directors, as well as a new non-Executive Director (NED) to replace the former NEDs who left in 2006. A serving Colonel has joined the Board to provide a military perspective, and I have created the position of Commercial Director.

There has been a fundamental shift in senior leadership within the Agency. The respective Board members are now working their way through their organisations, with the support of a well developed change

programme, to improve capabilities and to implement a series of transformation projects designed to re-engineer the whole Agency.

The immediate benefits in terms of service are self evident and recognised by customers and consumers. The overarching challenge is to establish a sustainable shift in culture that combines the best of the civil service, military and commercial worlds.

The Future Defence Supply Chain Initiative (FDSCi) mandated that the Agency make significant structural change, including the closure of storage complexes in Stafford and Llangennech, and the non explosives activities in Longtown, as well as reducing staff by about 40% over an initial 3 year period from a base of 5648. I am pleased to report that these structural changes are all running to plan or slightly ahead of plan.

These structural changes are achieved by the introduction of a single central warehouse for fast moving stock, the redesign of operational processes, and a planned reconfiguration of the transport network. When the fast moving warehouse is fully operational in September 2007, about 60% of all issues will be from this facility.

In making these changes, we have encountered significant hurdles, in particular the legacy IT systems and existing MoD policies on Human Resources and Procurement. These systems and processes have extended the timescales beyond the commercial norm and hinder our business capability.



Foreword Continued

On a positive note, good relationships with Trade Unions have been a key factor enabling the pace of change. The DSDA watchword in all relations with Trade Unions has been "Reasonableness", and it is appropriate to note in these Accounts the demonstrable benefits of frequent, open and honest two-way relations, for which the respective Trade Unions should take some credit.

The future also offers more opportunities and challenges. We need to continue to drive through structural change, and at the same time we are expanding to take on the receipt, storage and issue aspects of the Defence Fuels Group, and we expect to take on operation of warehousing in the Naval bases when current reviews are concluded.

The receipt, storage and in-service maintenance of complex weapons is a key DSDA activity, and while DSDA is uniquely positioned in terms of licensing and capability, our work must be seen in the overall context of the MoD move to "contracting for availability".

The challenge in the conventional munitions area is to maintain output and processing capability in an environment that in some cases requires significant investment to raise them to modern standards and to ensure they are fit for purpose.

The Ministry of Defence continues to make alterations to its structure as well as implementing procedural changes. Two particular changes impact upon DSDA.

Firstly, the decision to merge the Defence Logistics Organisation (DLO) and Defence Procurement Agency into a new Top Level Budget (TLB) - Defence Equipment & Support (DE&S) includes the disestablishment of all agencies within the two TLBs save for DSDA. DSDA will therefore hold a unique position within the new DE&S. Secondly, the decision to move all Fixed Assets to Single Balance Sheet Owners by category has had an impact upon the size of DSDA's Balance Sheet.

In conclusion, this is a time of major change and we expect next year to be "more of the same". As the transformation programme progresses, my team expect DSDA to emerge as a unique logistics service capability that can be benchmarked against world leading competitors.

I commend this report to you.

Mr N A Firth
Chief Executive
06 July 2007

Annual Report



Achieving Operational Excellence



Business Review

On 3rd April 2006 DSDA was re-launched as an Enhanced Agency of the MoD. During this reporting period the previous Management Board has been replaced and a centralised system of matrix management has been introduced with enabling business streams and functional support services. This has re-focussed the business and brought both commercial and professional logistics understanding to the formation of plans that will achieve the changes necessary to deliver the performance required by FDSCi.

Net costs and mandated manpower reductions are on target; output performance has improved and we are confident that we will achieve the 7-day routine delivery target as prescribed by FDSCi before October 2007.

All of these changes along with the consolidation of DSDA's structure, the closure of sites and the rationalisation of stock have been part of the largest transformation programme defence has ever seen, and we have been doing it whilst providing support to an unprecedented number of military operations worldwide.

DSDA is in the process of implementing a new storage strategy, which will see us store less but distribute it faster. Instrumental to this is the establishment of our new Fast Moving Warehouse (FMW) in Donnington. This initiative has helped to identify over £1bn of obsolete stock for disposal and has also encouraged the formation of a new distribution strategy. The revised strategy will allow our customers to receive optimum benefit from

this facility, as there will be more scope for direct deliveries and the use of third party parcel carriers for smaller consignments. These new initiatives will be fundamental to us achieving the targets set to us by our Key Performance Indicators.

One of the most telling outcomes of our improved ability to deliver, and verifiably measure our performance, is the growing understanding that unacceptable customer wait times now have their roots elsewhere in the supply chain.

DSDA has had an extremely successful year and is about to enter an exciting year with new challenges ahead and we will see some of the initiatives we have worked on over the past year come in to fruition.

Activity

- DSDA made 2.35 million Non-Explosive issues (less forms and publication issues) during 2006/07.
- 307,914 of these issues were in support of operations; representing 13% of the total issues made. This equates to an increase of 19% on operational issues made in 2005/06.
- DSDA made 79,933 issues of explosive materiel, of which 10,566 were in support of military operations.



Support to Operations

- During 2006/07, DSDA has provided seamless logistical support to operations all over the globe. Some highlights include:
- A major outload of Tented Camps to OP HERRICK (Afghanistan)
- Continued medium scale operations to OP TELIC (Iraq)
- Spearhead Lead Element to Cyprus to assist in the extraction of UK Nationals from Lebanon.
- Supported major training exercises both in the UK and overseas
- Created 293 PEPS/SPOS in support of Lead Commando Group and the Airborne Task Force (ABTF)

Business Agreements

- DSDA Key Account Managers (KAM's) work alongside the Integrated Project Teams (IPT's) in order to win any business that they may have considered awarding to either industry or any other service provider.
- Business Agreements have also been established with Front Line Commands for specific services, and whilst these agreements are currently immature they will develop and allow for the needs of the Customers to be satisfied in the future.

Commercial Activity

- During the past year, DSDA generated £29.4M in receipts for the Agency.
- DSDA continues to strive to expand its commercial customer base by consistently providing a commercially competitive, operationally effective and Customer-focused portfolio of services.
- The forecast for DSDA's Income Generation turnover for 2007/08, based on current contracts and those in the final stages of negotiation is £30.04m.
- In addition to this, DSDA Commercial has a number of significant business opportunities currently under consideration, a major factor in future business activities is the work presently underway on the bidding process for major weapons contracts in support of sophisticated munitions projects.
- Currently, the MoD has promulgated a draft policy document that has potential to remove the munitions processing income (£19.9M in 2006/07) from DSDA's accounts on the basis that it is circular contracting.

DSDA Board



Mr Neil Firth
Chief Executive

Mr Firth joined the Agency on 3rd April 2006 and is a career logistician having successfully managed supply chain businesses on both a pan European and global basis. Most recently he was a Director of UPS Supply Chain Solutions with responsibility for transportation.

Mr Paul Wilson
Director Change Management

Mr Wilson joined the Agency on 1st August 2006 bringing with him extensive change management experience. He has worked with leading multi-national companies, creating efficiencies within their supply chains and has held senior roles within some of Europe's most successful logistics businesses.

Mr Neil Rixon
Chief Operating Officer

Mr Rixon joined the Agency on 24th July 2006. He is a Logistics specialist who has experience of directly formulating and managing high profile and complex supply chain strategies. He has held a number of roles in both the manufacturing and retail industry.

Mr Timothy Gall,
Director Finance

Mr Gall joined the Agency on 12th February 2007. He qualified as an accountant in 1995 and has experience across the public and private sector, including roles in financial services, manufacturing and the Royal Navy. He has broad experience of change management.



Mr Nigel Ladbrooke
Director Human
Resources

Mr Ladbrooke joined the Agency on 11th July 2006 and has extensive experience of the Human Resources function, as well as Project Management, in businesses facing significant change. Senior HR roles have been successfully undertaken in the engineering, manufacturing and public transport sectors.



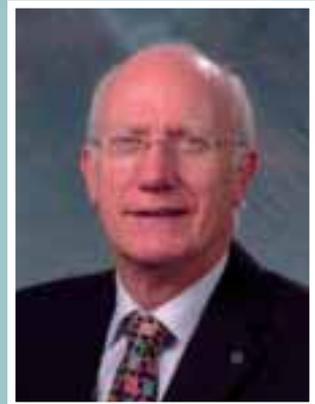
Colonel Mark Dunn
Director Operations

Colonel Dunn joined the Agency Board on 1st September 2006 upon its reorganisation. He is a career military logistician who has held a number of operational command and staff posts at Squadron, Regimental, Brigade, Division, PJHQ and HQ LAND as well as appointments in the DLO and Base area. He has served in Iraq, Kosovo, Bosnia, Cyprus, The Sinai Desert, Canada, Northern Ireland, Germany and a great deal in Wiltshire.



Mr Douglas Doherty,
Director Commercial

Mr Doherty rejoined the Agency as Interim Chief Operating Officer in March 2006, stepping in to bridge a gap pending the appointment of Mr Rixon. Mr Doherty was appointed Director Commercial on 18th September 2006. He was previously the Agency's Director of Explosive Operations.



Mr Michael Maher
Non-Executive
Director

Mr Maher joined the Agency Board in July 2006 bringing wide experience in general management and organisational change in manufacturing and supply chain strategies. He has served on other boards in the DLO since 2002. Most recently he was executive chairman of Jarvis Porter Group PLC.



History and Background

DSDA was created as a result of the 1998 Strategic Defence Review (SDR) which brought together the third line storage and distribution activities of the Ministry of Defence (MoD). A study in 2002 concluded that a merger with Defence Munitions (DM) into the structure envisaged by the SDR would deliver further significant benefits and efficiencies. On 1st April 2003 DM and DSDA were merged into a single Defence Agency under the DSDA banner.

As a result of winning the FDSCi bid in July 2005 DSDA's organisation was restructured to include elements of the Supply Chain Services (Customer Support), Rail and Container Services from the Defence Transport and Movements Agency (DTMA) and the road transport functions of the Defence Freight and Distribution Group (DFDG). At the end of this reporting period the Agency has incorporated the receipt, storage, maintenance and issue of fuels, oils, lubricants and Tactical Fuel Handling Equipment (TFHE) from Defence Fuels Group based at West Moors.

During the reporting period DSDA was an Enhanced Executive Agency within the Defence Logistics Organisation (DLO). The merger of the Defence Logistics Organisation (DLO) and the Defence Procurement Agency (DPA) in April 2007, will result in DSDA being the only remaining Agency within the new Defence Equipment and Support (DE&S) organisation.

Resources and Organisation

At 31st March 2007 DSDA employed 4,175 civilians, both industrial and non-industrial, and 175 military staff on a permanent basis plus 40 agency staff. The majority of these deliver our storage, distribution





and processing services direct to the customers, whilst the remainder provide administrative, financial and managerial support. The storage, processing and distribution services were provided through a network of twelve major installations, with a Civilian or Service Director managing each of these. DSDA also had a network of smaller installations across the country consisting of Regional Distribution Centres, Materiel Parks and Munitions Compounds.

Investors in People (IIP)

DSDA continues to hold its IIP accreditation. The organisation has embedded a number of IIP requirements within its working practices, and with the advent of a revised IIP Standard, is seeking to refresh and move forward with these important principles.

Quality Assurance

In line with the Agency’s policy of adopting formal quality assurance, DSDA has achieved ISO 9001:2000 accreditation at a majority of its sites. This will act as a mechanism for quality processes within DSDA.

Performance Management

DSDA has a performance management framework document emanating from (but not exclusive to) the formalised Key Targets – see pages 16 to 18. Performance is monitored and reported at all levels, from site level to board level.



The DSDA Code of Business Principles

Business Partners

DSDA is committed to establishing mutually beneficial relations with our suppliers, customers and business partners. In our business dealings, we expect our partners to adhere to business principles consistent with our own.

Increasingly we are seeing major Integrated Project Teams (IPTs) applying 'End to End' principles and looking for either Contractor Logistic Support (CLS) or a Contract for Availability, in respect of major weapons systems and equipments. Consequently we can no longer rely solely on traditional relationships with our primary customer base and therefore re-position ourselves in relation to those IPT-contractor relationships.

We are working with a number of companies to develop a range of relationships stretching from 'partnerships' to the possibility of joint business ventures. This work is on-going and developmental, but the imperative is growing in the light of the changes mentioned above. We need to successfully place ourselves in a position to win defence work. We also need partners to enable us to maximise the utilisation of our assets in order for us to meet our FDSCi income generation targets.

Equality and Diversity

- All Line Managers will be encouraged to attend the DSDA Disability and Discrimination Act workshop, which highlights the Line Managers/employers responsibility to staff with disabilities under the Disability Discrimination Act 95 (DDA 95).

- DSDA ensures that all disabled applicants who meet the minimum criteria to do the job are given the opportunity to have a guaranteed interview.
- DSDA aims to recruit and retain more people with disabilities, at all bands and within all specialisms.

DLO targets for 06/07 are:

Band B Disability – 6%

Band D Disability – 6.5%

Reasonable adjustments will be made where required to meet the needs of staff with disabilities, at the recruiting stage, in the workplace and on training courses.

DSDA currently employ 261 members of staff with a declared disability.





Community Involvement

DSDA strives to be a trusted corporate citizen, and an integral part of society. To fulfill our responsibilities, we believe that active involvement in the community is essential. We are committed to working with all our stakeholders to build and maintain relationships of mutual trust and respect. We also work to improve the quality of life of our employees, their families, and the communities around our operations.

The Environment

DSDA is committed to making continuous improvements to achieve our longer-term goal of developing an environmentally sustainable business. DSDA will work in partnership with others to promote environmental care, increase understanding of environmental issues and disseminate good practice. DSDA recognises the MoD's commitment to have an Agency wide

Environmental Management System (EMS) compliant with ISO 14001 by 2008.

Conflicts of Interests

All DSDA employees are expected to avoid personal activities and financial interests that could conflict with their responsibilities to the Agency. DSDA employees must not seek to gain for themselves or others through misuse of their positions. All Board members have completed a 'Register of Interests.' This records details of registerable interests through employment, trade, profession, shares and membership of other bodies.

Safety Health and Environment (SHE) Audits

This year the SHE Audit Team has conducted audits on 12 sites on Health and Safety Management Systems and 15 sites on Environment Management Systems (EMS) across the Agency. The average scores overall were:

Safety, Health and Fire	81.3%
Environment	80.3%

Both figures fail to meet Key Performance Indicator Target 19 set by the TLB. The Environmental Audit parameters were firmly applied to establish a base line across the Agency. Of 15 EMS audits carried out, 6 sites had an audit score of 85% or more, 5 sites 80-84% and 4 sites under that. The DSDA Board has endorsed a remedial action plan to address the shortfall against the target.





Strategy

To meet the Agency's aims, the following strategies have been identified.

Supporting Customers

Our top priority remains the provision of services to our customers, in order to support UK Armed Forces on operational and expeditionary deployments, as well as meeting the routine requirements of UK Forces worldwide.

The support that the Agency has agreed to deliver to our customers is set out in Business Agreements, which specify what the Agency will provide in terms of quality, cost and performance. We will continue to maintain a high level of support to deployed operations, through the negotiation of robust Business Agreements. We will aim to improve the quality of those outputs and to deliver them in an increasingly cost effective manner, in order to improve customer satisfaction.

DSDA manages a comprehensive range of storage, processing and distribution tasks on behalf of its customers in defence and industry, responsible for an inventory of 1.412 million lines, valued at £12.594 billion.

The Agency's main customers are the Defence Logistics Organisation's Integrated Project Teams managing the support of the UK MoD's fleets of ships, submarines, aircraft and vehicles, their munitions and equipments.

DSDA is increasingly working with industry prime contractors to deliver the most cost-effective and efficient logistics services to the Armed Forces, already acting as a subcontractor for many defence

manufacturers in support of deployed defence equipment and systems.

DSDA is also able to provide the gateway between the commercial and military supply systems, providing services such as cross-docking, reverse logistics and onward transmissions.

Managing our Human Resources

The success of the Agency depends on our people having the right skills, motivation, training, information and resources to





enable them to meet the challenges and to respond positively to the reality of change.

The Agency will continue to invest in our people, ensuring that all personnel, both civilian and military, have the opportunity to undertake training to enhance their skills in their current employment. The Agency recognises that without supporting and investing in our people we would be unable to fully achieve our aims and objectives.

DSDA staff have been able to take advantage of the wide and varied selection

of training opportunities available through the MoD's in-house training organisation DbLearning, and also those provided by external training providers, where the Agency has ensured value for money and a return on investment.

The Agency is fully committed to the creation and maintenance of a working environment, which is free from unfair discrimination, harassment and victimisation. It is a mandatory requirement for all DSDA staff to attend the Bullying and Harassment in the Workplace training course.

Managing our Financial Resources

The Agency will ensure that our assets are utilised in the most cost-effective way and will maximise income from irreducible spare capacity. To this end, it is imperative that we control our Operating Costs and Capital Expenditure in year.



DSDA Major Installations

The move to 7 day delivery for routine issues is one of many FDSCi targets and to achieve this challenge revised shift patterns, to support same day pick and pack; centralised planning of vehicle routes to support improved service and an overnight delivery capability, together with consolidated and sequenced loading of vehicles at hubs in Bicester and Donnington will be introduced. As it becomes more aligned with commercial practice the Agency will move from a storage based organisation to a distribution led operation.



Glen Douglas

Beith

Crombie

Longtown

North

Kineton

Bicester

Llangennech

Ashchurch

Plymouth

Gosport

Dülmen



Performance Summary

Performance Against Key Targets for FY 2006/07

Key Targets (KT)

Category = Efficiency

Key Target 1: To meet the Customers' requirements as negotiated and agreed in Customer Suppliers' Agreements.

Note: When performance is more than 100% it is because the number of receipts processed on time by DSDA was higher than the number forecast and agreed with the customers at the beginning of the year.

Key Target 1a	Target	2004-05	Target	2005-06	Target	2006-07	Target	2007-08
For explosives materiel; to supply 95% of available maintained munitions within demand timescales.	95%	99.74%	95%	99.55%	95%	98.32%	95%	

Key Target 1b	Target	2004-05	Target	2005-06	Target	2006-07	Target	2007-08
95% of all issues of non-explosives materiel to consumers to meet that element of the Supply Chain Pipeline Time for which DSDA has responsibility.	95%	97.81%	95%	106.99%	95%	96.72%	95%	

Key Target 1c	Target	2004-05	Target	2005-06	Target	2006-07	Target	2007-08
98% of all receipts that conform to the specifications laid down in the contract and/or materiel regulations to be processed within the time limits agreed with each individual customer.	98%	100.07%	98%	103.98%	98%	98.08%	98%	



Key Target 2

Category = Efficiency

KT 2 is an efficiency measure for continuous performance improvement to achieve a 2.5 per cent (net of 2.5 per cent inflation factor) reduction in the unit cost of output (UCO) in financial year 2006/07 (based on financial year 2005/06) while maintaining an effective level of services to the customers in accordance with the business agreements (BAs).

The table below shows performance for FY 2006/07 where an average saving in UCO of 4.33% has been achieved.

Key Target 2	Baseline	Target FY 2006-07	Achieved FY 2006-07	Average Savings
Make average saving of 2.5% (5% less 2.5% inflation) year on year on a rolling basis.	2005-06	£.p 25.81	£.p 24.69	% 4.33%

Performance

Explosives Materiel	2005-06		2006-07	
Unit of Output	Target	Performance	Target	Performance
Receipt Voucher	£99.42	£58.52	£97.05	£63.57
Storage M ³	£69.62	£57.51	£67.96	£89.03
Processing M -Hrs	£40.49	£24.06	£39.52	£23.36
Issue Voucher	£92.43	£113.37	£90.23	£115.42

Non-Explosives Materiel	2005-06		2006-07	
Unit of Output	Target	Performance	Target	Performance
Receipt Voucher	£36.45	£41.84	£35.58	£36.94
Storage M ³	£17.85	£17.40	£17.42	£22.94
Maintenance M -Hrs	£45.08	£22.34	£ 44.00	£15.73
Issue Voucher	£8.94	£10.67	£8.72	£8.51

The comparisons, year on year, have been influenced by the restructuring of the Agency.



Key Target 3:

The value of the inventory written off as a result of DSDA's action to be less than the value of materiel written off during the financial year 2005/06.

Key Target 3a	Target	2004-05	Target	2005-06	Target	2006-07	Target	2007-08
This target was introduced in 2003/04 following the merger with Defence Munitions.	0.02%	0.00068%	0.02%	0.0003%	0.02%	0.00009%*	0.02%	

KT 3a note: * The performance against KT 3a at March 2007 stood at £4,736.17 written off for the year to date against a target of £1,065,122 (0.02% of the £5,325,609,530.00 inventory).

Key Target 3b	Target	2004-05	Target	2005-06	Target	2006-07	Target	2007-08
The performance against KT 3b at March 2007 stood at 0.0149 & (YTD) of the value of Receipts, Issue and Storage activity written off as a result of DSDA's actions.	<0.02% of the value of activity	0.0130%	<0.02% of the value of activity	DCSA 0.019% DG Log (Fleet) 0.00% DG Log Land 0.0395% DG Log Nuclear 0.00% DG Log SC 0.189% DC IPT 0.20% DCG IPT 0.011% DFG 0.08% DGM 0.003% GS IPT 0.11% DG Log Strike 0.013% MSA 0.22% TES 0.05%	<0.02% of the value of activity	DCSA 0.0021% DG Log (Fleet) 0.0042% DG Log Land 0.0290% DG Log Nuclear 0.00% DG Log SC 0.827% DC IPT 0.0882% DCG IPT N/A% DFG N/A% DGM N/A% GS IPT N/A% DG Log Strike 0.0087% MSA 0.2476% TES 0.0143%	<0.02% of the value of activity	



Remuneration Report (Audited)

Remuneration Policy

Members of the DSDA Board, with the exception of Mr Maher, Mr Ladbrooke and Mr Doherty, hold substantive civil service contracts or are in the armed forces. Appointments may be terminated in accordance with the Civil Service Management Code or Single Service Military Appointments procedures. Mr Maher receives a fee for attending meetings based on an annual rate. Mr Ladbrooke and Mr Doherty are employed through specialist recruitment agencies for their services.

The Chief Executive, Chief Operating Officer and Director Change Management are senior civil servants and their pay is set through recommendations made by the review body on senior salaries, which provides independent advice to the Prime Minister. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

The remaining executive directors and all other Non Industrial staff have their remuneration determined by a process consistent with MoD and HM Treasury regulations. The Agency has delegated authority for setting Industrial staff salaries.

The last agreement covered a four-year period but it has now expired and a new agreement is still subject to local and Treasury approval.

The Chief Executive has delegated authority for the personnel management of the civilian staff within the Agency. He has the authority to create or abolish posts, and change the mix of ranks and grades (both

military and civilian); this is set against his delegated complementing powers.

Performance pay is awarded in line with the laid down procedures adopted across the MoD. A number of cluster panels are established across the Agency and sit by location and grade; this system is to change with panels being replaced by Award Managers. The change will align staff within a work area as opposed to a location. Posts at senior management level are managed on an Agency wide basis. Additional performance related pay, via Special Pay Awards and Minor Awards schemes are available to all civil servants. Both schemes are administered in line with MoD policy.

All pay awards – consolidated base pay and non-consolidated bonus pay – are subject to satisfactory performance of the duties assigned.

Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioner's Recruitment Code, which requires appointments to be on merit on the basis of fair and open competition but also covers the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the staff covered by this report hold appointments, which are open-ended, until they reach the normal retirement age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.



Appointments

Neil Firth was appointed Chief Executive, via open competition, and took up post on 3rd April 2006 and is a member of the senior civil service. He has been appointed on a 3-year contract.

Paul Wilson was appointed Change Management Director, via open competition, and took up post on 1st August 2006. He has been appointed on a 3-year contract.

Neil Rixon was appointed Chief Operating Officer, via open competition, and took up post on 24th July 2006. He has been appointed on a 3-year contract.

Doug Doherty was appointed interim Chief Operating Officer on a contract for services with Systems Consultants Ltd on 20th March 2006 until 24th July 2006. Following the appointment of Neil Rixon, Doug Doherty was appointed as the interim Commercial Director on 18th September 2006. The post will be filled on a permanent basis via open competition.

Nigel Ladbrooke was appointed interim Human Resources Director on a contract for services with Hays Human Resources. He took up the post on 11th July 2006 on an agency basis.

Timothy Gall was appointed Finance Director via open competition and took up post on 12th February 2007.





A mid year review of DSDA's 2-board structure concluded that the Executive Board should be dissolved. However, the posts of Director Operations and Director Commercial were added to the main Board and, accordingly, Colonel Mark Dunn and Doug Doherty took up their roles on the Board on 1st September 2006.

Non-executive directors are not appointed as Civil Servants. Mr Michael Maher was appointed as a Non Executive Director on 1st July 2006.

The salary and pension entitlements of the Board are shown overleaf.



Directors' Salaries, Pension Entitlements (Including Cash Equivalent Transfer Values (CETV's)) and values of Taxable Benefits in Kind

	Salary including performance pay	Salary including performance pay	Benefits in kind	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31/03/07 and related lump sum (or date left DSDA)	CETV at 31/03/06 (or date joined DSDA)	CETV at 31/03/07 (or date left DSDA)	Real increase in CETV after adjustment for inflation and changes in market investment factors
	05/06 £k	06/07 £k	£k	£k	£k	(nearest) £k	(nearest) £k	(nearest) £k
Current Board Members								
Mr N A Firth Chief Executive	N/A	120-125	-	0-2.5	0-2.5	0	27	23
Mr N Rixon Chief Operating Officer	N/A	70-75	-	0-2.5	0-2.5	0	10	7
Mr P Wilson Director Change Management	N/A	65-70	-	0-2.5	0-2.5	0	7	5
Mr T Gall Director Finance	N/A	5-10	-	0-2.5	0-2.5	0	1	1
Col M L Dunn Director Operations	N/A	65-70	-	0-2.5 plus 0-2.5 lump sum	30-35 plus 90-95 lump sum	259	276	6
Mr D Doherty Director Commercial	N/A	145-150	-	-	-	-	-	-
Mr N Ladbrook Director Human Resources	N/A	135-140	-	-	-	-	-	-
Mr M Maher Non-Executive Director	N/A	10-15	-	-	-	-	-	-
Board members who Left in Year								
Mr S Chapman Director Human Resources	40-45	10-15	-	0-2.5	25-30 plus 60-65 lump sum	369	380	11
Mr R Godbold Deputy Chief Executive	55-60	15-20	-	-0-2.5 plus -0-2.5 lump sum	25-30 plus 75-80 lump sum	593	578	-8
Mrs C Scott Director Finance & Business Plans	45-50	40-45	-	0-2.5 plus 5-7.5 lump sum	20-25 plus 65-70 lump sum	397	448	40
Mr M White Director Change Management	N/A	95-100	-	-	-	-	-	-

- i. The total remuneration for Mr Firth is £124,014. Mr Firth is a member of the Premium scheme
- ii. Mr Godbold was employed for less than a year. The figures are therefore negative.
- iii. Mr Doherty's pay includes £71K whilst covering the Chief Operating Officer, Board appointment from 1st April to 23rd July 2006.
- iv. Mr Doherty and Mr Ladbrooke hold interim Board appointments. Payments shown above were made to Employment Agencies not directly to the Directors and include the Agency fee.
- v. Mr White was employed via an agency from 1st April to 31st August 2006.
- vi. All Board members, with the exception of Mr D Doherty, Mr N Ladbrooke, Mr M Maher, are members of the AFPS or CSP.
- vii. Col Dunn was in receipt of a Continuation of Education Allowance, which is a taxable benefit, settled by the Armed Forces Personnel Administration Agency under a PAYE settlement agreement.
- viii. The factors used to calculate the CETV for members of the PCSPS were revised for 2006-07, following advice from the Cabinet Office. The figures for 31st March 2006 have been recalculated using the new factors and this has led to changes to the figures published last year.
- ix. The salary bands exclude pension contributions and ERNIC and are apportioned for part years service with DSDA. CETV values have also been apportioned for part years service with DSDA. Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances or any other allowance to the extent that it is subject to UK taxation.
- x. No taxable benefits in kind were paid to any member of the Agency Board in either current or prior year
- xi. Real increase in pension and total accrued pension for Military members are based on a leaving date of 31st March 2007 (or date left DSDA) as pensions are payable on retirement and not deferred until age 60.
- xii. The amount in respect of Mr Maher is a Non Executive Fee entitlement excluding travel costs.



Pension Arrangements

Pension benefits are provided through the Civil Service Pension arrangements. From 1st October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). New entrants after 1st October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

(a) Classic Scheme

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

(b) Premium Scheme

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 commute some of their pension to provide a lump sum up to a maximum of 2.25

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

(c) Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1st October 2002 calculated broadly as per classic.

Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

(d) Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up



to a limit of 3% of pensionable earnings (in addition to the employer's basic contribution). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up to 25% of the fund as a lump sum.

With the exception of the Pension Partnership Account arrangement within the CSP, these schemes are unfunded multi-employer defined benefit schemes but DSDA is unable to identify its share of the underlying assets and liabilities.



A full actuarial valuation of the PCSPS was carried out at 31st March 2003 and for the AFPS at 31st March 2005. Details can be found in the Resource Account of these schemes, which are published and laid before the House of Commons. The PCSPS accounts are also available on the web at www.civilservice-pensions.gov.uk.

For 2006-07, employers' contributions of **£16,124k** were payable (2005-06 **£15,916k**) at rates in the range 17.1 to 34.3 per cent of pensionable pay, based on salary bands as highlighted below.

Employer contributions for the CSP are reviewed every four years following a full scheme valuation by the Government Actuary. Following revalorisation of the salary bands, rates have increased during 2006-2007.

The AFPS has had a full scheme review and new employer contribution rates have been introduced in 2005-2006.

For each class of member the employer's contribution rates for FY 2006/07 and FY 2005/06 were as shown below.

Scheme and class of member	06-07 %	05-06 %
CSP - Non-Industrial Staff	17.1 - 25.5	16.2 - 24.6
CSP - Industrial Staff	17.1 - 25.5	16.2 - 24.6
AFPS - Officers	34.3	34.3
AFPS - Other Ranks	21.3	21.3



The Cash Equivalent Transfer Value (CETV)

This is the actuary 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. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total service, not just their current appointment. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The Real Increase in the Value of the CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the member (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.

Higher Paid Staff

The numbers and remuneration of higher paid staff, excluding the Chief Executive and Board members at 31st March 2007 are shown below. The salary bands exclude pension contributions and ERNIC. All staff are members of either the AFPS or the CSP.

Salary Band	06-07	05-06
£40,000 - £49,999	38	30
£50,000 - £59,999	9	6
£60,000 - £69,999	8	8
£70,000 - £79,999	2	1
£80,000 - £89,999	0	0

Mr N A Firth
Chief Executive
06 July 2007



Accounts

Statement of Internal Control

Scope of Responsibility

As Chief Executive of the Defence Storage and Distribution Agency (DSDA) I am the Accounting Officer with the responsibility for maintaining a sound system of internal control. This control must support the achievement of Agency objectives that underpin the Departmental policies and aims, whilst safeguarding the public funds and departmental assets for which I am personally responsible. This is in accordance with the responsibilities assigned to me in Government Accounting.

Background

The Agency has been restructuring due to the outcome of the Future Defence Supply Chain Initiative (FDSCi). Control of the Agency has been centralised using a matrix management structure with a 'Shared Service Centre'. This has generated significant turbulence with the revision of roles and responsibilities and change of personnel in many key posts. During the year the Agency has been transformed into Business Streams with Functional Directors. The guiding governance principle applied during this transitional period was that existing controls remained extant and were maintained until replaced; this lessened the risk of the internal control process becoming ineffective. The new team is made up of existing MoD personnel and executives newly appointed to the MoD, of whom, two are employed on an 'interim' basis.

Purpose of the System of Internal Control

The system of internal control is designed

to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives. It evaluates the likelihood of those risks being realised and the impact should they be realised, and manage them efficiently, effectively and economically. The system of internal control has been in place for the year ending 31st March 2007 and up to the date of approval of the Annual Report and Accounts in accordance with Treasury Guidance.

Capacity to Handle Risk

The Agency's Director of Finance is the nominated Business Risk Management lead within my Board and day to day control of the risk management process rests within the Corporate Assurance Team. The Agency Audit Committee is responsible for reviewing the Agency Risk Register and the internal assurance programme.

The Risk and Control Framework

The Agency's framework is based upon the policy of the Defence Logistics Organisation. The Audit Committee, chaired by a Non-Executive Director, reviews the Agency Risk Register and risks submitted for transfer to Agency level from the Business Units, who all maintain their own Registers. Each Agency level Risk has an owner at Board level responsible for mitigating action.



The Corporate Assurance Team liaises with the Chairman of the Audit Committee and Director Finance & Business Planning to ensure that the Agency Risk Register is regularly reviewed at the Audit Committee and the DSDA Board. Director Finance & Business Planning is responsible for providing the relevant updates and revisions and reporting the Agency Top Risks to the Enabling Layer Corporate Assurance Team. The Agency uses the database software provided by the Defence Logistics Organisation to record major risks identified within the Agency.

Review of Effectiveness

As Chief Executive and Accounting Officer of DSDA, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Corporate Assurance Team and the Executive Managers within the Agency. They have responsibility for the development and maintenance of the internal control framework, taking cognisance of comments made by the external auditors in their management letters and other reports. Whilst I am content that the internal process for identifying risk has been correctly adhered to I recognise that the change in key personnel has significantly impacted upon the Risk Management Process.

The Non-Executive Directors from the previous year both stepped down before the beginning of this financial year and they were not able to be replaced immediately which meant that the Agency had no Audit

Committee for the first six months of the accounting period.

An informal meeting was held in June 2006 to review progress and discuss how to reinstate a new Audit Committee. With the appointment of the new NED in July 2006, a new committee was established with the NED as Chairman, two independent members, one from the munitions IPT, the other from Log Support HQ Land and Director Finance. A further 2 independent members from the FDSCi Client Organisation were added for the last meeting. The new audit committee has met 3 times in the year starting in October 2006.

During the initial period whilst the new team was being established, the Risk Management process has been affected by the changes amongst the top management team. While risk is an item on the DSDA Board, the Change Management Steering Group and the COO's forum, it has not always been a key agenda item on lower level management meetings. That has changed with the recent issue of DSDA Corporate Governance and Risk Management Handbook. This requires Business Streams / Enabling Functions to run a manual risk register and review it monthly. It has taken time to review and restructure the risk registers on the DLO tool. During this review I am content that the major risks within our control are being managed effectively. This is reflected in the recent DLO Risk Management Assessment Framework survey.

The DSDA Board and the Audit Committee have advised me on the implications of my



review of the system of internal control and the plan to address weaknesses to ensure continuous improvement. In line with Departmental guidance, the following formal processes have been established:

- A Board, which meets in 10 months of the year to consider and approve the plans and strategic direction of the organisation. It will comprise the senior members of DSDA and has one external independent member who is the Chairman of the Audit Committee.
- A monthly 1-1 meeting between each Executive Director and myself, to discuss daily priorities and current issues.
- A monthly informal Board meeting to allow for open discussion outside the formality of the Board.
- A series of bilateral meetings with Head Office Directors and Business Unit Directors.

For Financial Year 2006/07 the functions of Corporate Governance were divided in July 2006. The Assurance role responsibility and Corporate Assurance Team (CAT) moved to Director Finance and the remainder to Director Operations. The Agency has various internal sources of assurance, which include a Munitions Compliance Group, the CAT and Finance Health Checks. The methodology, defined in detail in the DSDA Corporate Governance and Risk Management Handbook, for obtaining assurance has moved to each Director providing a certificate of self-assurance, with the CAT undertaking audits to confirm the vigor of internal control systems in

specific areas. Results of CAT assurance work is fed into the DSDA Board via the Finance Director. Additionally CAT has created an assurance matrix, which shows areas which require audit or assurance. Further to this, Letters of Delegation are issued to all Directors on their arrival in post. It is believed that this action will better target activities towards mitigating the risks to the achievement of objectives.

Business Continuity Management is a core management activity and during the year it has been firmly embedded within the Agency. The DSDA Corporate Governance and Risk Management Handbook is currently being reworked to include an updated chapter on Business Continuity Management within DSDA. All sites have Business Continuity plans that have undergone tabletop testing. It is my intention that these plans are regularly reviewed and tested during financial year 2007/8.

A Fraud and Theft Policy is communicated throughout the Agency and reviewed annually. All incidents are investigated and reported.

Mr Michael Maher has reviewed the role of the Audit Committee and new terms of reference have been produced.

Mr N A Firth
Chief Executive
06 July 2007



Statement of Agency's and Chief Executive's Responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000 HM Treasury has directed the Defence Storage and Distribution Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in their Accounts Direction dated 18th December 2006. The Financial Statements are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether the Government Financial Reporting Manual and applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the "going concern" basis, unless it is inappropriate to presume that the Agency will continue to operate.

The Permanent Under-Secretary of State for Defence, as the MoD's Accounting Officer, has formally tasked the Chief Executive with responsibilities analogous to those of an Accounting Officer for the Agency. The Chief Executive's relevant responsibilities include responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in "Government Accounting".





Foreword to the Accounts

Basis of Accounts and Audit Arrangements

Introduction

The Accounts cover the period from 01 April 2006 to 31 March 2007. They have been prepared in accordance with the Government Financial Reporting Manual (the FreM) and the direction given by the Treasury in pursuance of section 7(2) of the Government Resources and Accounts Act 2000.

Audit Arrangements

The Accounts of the Agency are audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000. A notional fee of £80,000 has been included in the non-cash costs.

Members of the Board at 31 March 2007

N A Firth – Chief Executive
P Wilson
N Rixon
Col M Dunn
N Ladbrooke
D Doherty
T Gall
M Maher (Non-Executive Director)

Creditor Payment Policy

The Defence Bills Agency is MoD's central payment authority and has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. Actual performance against this target was 99.95% in 2006-2007. No interest payments arose.

Statement on Disclosure to Auditors

As Accounting Officer for DSDA, I can confirm that, so far as I am aware, there is no relevant audit information of which the entity's auditors are unaware, and I have taken all appropriate steps to ensure that I am aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

Mr N A Firth
Chief Executive
06 July 2007



Financial Review

For the Year Ended 31 March 2007

The total operating expenditure of the Agency for the year ended 31 March 2007 was £319.7m. Total income was £29.4m resulting in net operating expenditure of £290.3m. This represents a decrease of £10.4m over the restated position for the previous year and reflects the establishment of the FDSCi redundancy provision in the previous year's accounts. DSDA has been required to create an additional provision to cover the potential redundancies as a result of transfer of Engineering tasks from the Engineering Wing of Stafford to ABRO. The net interest payable reflects the unwinding of the redundancy provisions.

Approximately 42% of total operating expenditure is related to staff costs, reflecting the manpower intensive nature of the Agency. Permanent employee numbers have reduced from 4,974 at 31 March 2006 to 4,350 at 31 March 2007; this represents a 12.5% reduction in numbers during the period. A total of 171 staff left the Agency on 28 February under year 1 of the FDSCi redundancy scheme. A further 26 left under the MoD early retirement scheme and a further 30 as part of the Future Role of Crombie (FRoC). FRoC is a ministerial approved project, which requires DSDA to vacate the Crombie site. The number of casual employees has risen from 70 to 80 during the period. DSDA also currently employs 40 staff through Recruitment Agencies.

The income generated from a range of third parties, reflects DSDA's continuing drive to market our facilities and expertise in receipt, storage, maintenance and distribution during the last year, income from munitions processing assembly and maintenance accounted for £19.9m (68%) of the total income.

The cost of capital charge of £17.2m, as disclosed in the accounts, has decreased from the previous years restated position of £19.3m. The reduction is due to the introduction of Single Balance Sheet Owners (SBSO). This has reduced DSDA's Balance Sheet and as a result DSDA's depreciation and cost of capital charges have fallen. However, DSDA does still incur charges for the assets on the SBSO but these are shown separately as 'Beneficial Use' charges. DSDA now only shows assets that conform to FRS 5 in its Balance Sheet.

Mr N A Firth
Chief Executive
06 July 2007

Defence Storage and Distribution Agency

The Certificate and Report of the Comptroller and Auditor General to The House of Commons

I certify that I have audited the financial statements of the Defence Storage and Distribution Agency for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement 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 Agency, the Chief Executive and Auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information

given in the Annual Report, which comprises the Foreword by the Chief Executive, Business Review, DSDA Board, History and Background, DSDA Code of Business Principles, Strategy, DSDA Major Installations, Performance Summary and Remuneration Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of Audit Opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing

Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and of the net

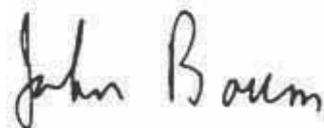
expenditure, recognised gains and losses and cashflows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report, which comprises the Foreword by the Chief Executive, Business Review, DSDA Board, History and Background, DSDA Code of Business Principles, Strategy, DSDA Major Installations, Performance Summary and Remuneration Report, is consistent with the financial statements.

Audit 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.

I have no observations to make on these financial statements.



John Bourn
Comptroller and Auditor General
10 July 2007

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

The maintenance and integrity of DSDA's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Operating Cost Statement

For the period ended 31 March 2007

	Note	06-07 £000	Restated 05-06 £000
OPERATING COST			
Staff costs	2	133,822	129,975
Supplies and Services consumed	3	85,670	84,618
Accommodation costs	4	77,892	69,035
Administration costs	5	22,307	45,023
TOTAL OPERATING EXPENDITURE		319,691	328,651
INCOME			
From non-MoD customers	8	(27,565)	(26,596)
From MoD Trading Funds & OGDs	8	(1,789)	(1,277)
NET OPERATING EXPENDITURE		290,337	300,778
Net Interest payable	13	717	350
Cost of Capital Charge	6	17,215	19,345
NET EXPENDITURE	14	308,269	320,473

Statement of Recognised Gains and Losses

For the period ended 31 March 2007

	06-07 £000	05-06 £000
Unrealised surplus on revaluation of fixed assets	104,550	4,004
RECOGNISED GAINS AND LOSSES FOR THE YEAR	104,550	4,004

The notes on pages 37 to 55 form part of these accounts

Balance Sheet

as at 31 March 2007

	Note	06-07 £000	Restated 05-06 £000
FIXED ASSETS			
Tangible fixed assets	9	526,351	586,257
Assets Under Construction	10	1,478	0
TOTAL FIXED ASSETS		527,829	586,257
CURRENT ASSETS			
Debtors	11	6,618	6,007
TOTAL CURRENT ASSETS		6,618	6,007
CURRENT LIABILITIES			
Creditors : amounts falling due within one year	12	(13,303)	(8,180)
NET CURRENT LIABILITIES		(6,685)	(2,173)
TOTAL ASSETS LESS CURRENT LIABILITIES			
Provisions for Liabilities & Charges	13	(33,996)	(32,582)
NET ASSETS		487,148	551,502
TAXPAYERS' EQUITY			
General Fund	14	(281,854)	(280,107)
Revaluation Reserve	15	(184,564)	(237,169)
Donated Asset Reserve	16	(20,730)	(34,226)
GOVERNMENT FUNDS	17	(487,148)	(551,502)

The notes on pages 37 to 55 form part of these accounts



Mr N A Firth
Chief Executive
06 July 2007

Cash Flow Statement

For the year ended 31 March 2007

	Note	06-07 £000	05-06 £000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	18	183,704	160,139
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire Tangible Fixed Assets		1,194	564
Net Cash Outflow from Capital Expenditure		1,194	564
NET CASH OUTFLOW BEFORE FINANCING		184,898	160,703
FINANCING			
Net Cash Inflow from Defence Resource Account		184,898	160,703
Net Cash Inflow from Financing		184,898	160,703
NET CHANGE IN CASH		0	0

The notes on pages 37 to 55 form part of these accounts

Notes to the Accounts

at 31 March 2007

1. Accounting Policies

BASIS OF ACCOUNTING

The accounts for the Defence Storage & Distribution Agency (DSDA) have been prepared in accordance with the Accounts Direction issued by HM Treasury on 18 December 2006 pursuant to Section 7(2) of the Government Resources and Accounts Act 2000. The accounts have been prepared under the historical cost convention, modified to include revaluations of fixed assets in accordance with the Government Financial Reporting Manual and applicable accounting standards. Without limiting the information given in the accounts, and subject only to compliance with the requirements set out in the Accounts Direction, they also;

- a. comply with the accounting and disclosure requirements of the Companies Act 1985, in so far as they are consistent with the status of an Executive Agency of the MoD; and
- b. comply with accounting standards issued by the United Kingdom Accounting Standards Board, except to the extent they are advised as inapplicable by HM Treasury.

VALUE ADDED TAX

The Agency is not separately registered for Value Added Tax (VAT) as VAT is accounted for centrally by MoD. Amounts included in the Operating Cost Statement and Balance Sheet are exclusive of VAT where it is recoverable from HM Revenue & Customs in respect of certain contracted out services as directed by the Treasury. All other input VAT is considered irrecoverable by the Agency and therefore is included in the cost of the related expenditure or asset.

INCOME

Income, which is stated net of value added tax, comprises the invoiced value of transactions with third parties both in the private sector, and the wider public sector including non-UK Governments, Trading Funds and Government Departments.

NOTIONAL CHARGES

- a) Interest on Capital
A notional charge for interest on capital is included in the Operating Cost Statement. This is calculated as 3.5% of the simple average of total assets, exclusive of Donated Assets, less liabilities at the start and end of the year. Additionally, the charge now includes communicated costs for those assets for which DSDA is the beneficial user but do not now appear on the Balance Sheet; (this is a further consequence of the move to Single Balance Sheet Owners) (SBSO). These charges are shown under beneficial use charges.
- b) Audit Fee
DSDA is not charged an audit fee by the National Audit Office. The audit fee in these accounts represents a notional charge to reflect the cost of the service provided.
- c) Communicated charges
Notional communicated charges are included in the Operating Cost Statement in respect of services provided from and to other areas of the MoD. The amounts so charged are calculated to reflect the full cost of providing these services.

PENSIONS

Pension benefits are provided for staff through the Armed Forces Pension Scheme (AFPS) and the Civil Service Pension arrangements (CSP). The majority of civilian employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). DSDA recognises the cost of providing pensions on a systematic basis over the period during which it benefits from employees' services by making regular payments of Superannuation Contributions Adjusted for Past Experience (SCAPE) into the above schemes at rates determined by the Government Actuary. Liability for payment of future pension benefits to members is a charge on the schemes and not a liability of the Agency.

FIXED ASSETS AND VALUATION

On 01 April 2006 the MoD transferred responsibility for accounting for fixed assets from DSDA to other parts of the Department. Where the Agency retains the risks and rewards of ownership of these assets they continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21. In all other cases the costs of the use of these assets are communicated to DSDA by the SBSO's and charged to the operating cost statement.

LAND AND BUILDINGS – DWELLINGS AND NON DWELLINGS

All the UK land is freehold. Legal ownership rests with the Secretary of State for Defence. Land and buildings are capitalised when the cost of acquisition is greater than £10,000 and where the useful life is greater than one year. The principle of SSAP 21 applies to land and buildings.

PLANT AND MACHINERY

Plant and machinery, which includes non-leased mechanical handling equipment, railway track and rail wagons are capitalised when the cost of acquisition, inclusive of installation, is greater than £10,000 and where the useful life is greater than one year. The principle of SSAP 21 applies to plant and machinery.

TRANSPORT

Transport equipment (including railway locomotives) is capitalised when the cost of acquisition, inclusive of installation, is greater than £10,000 and where the useful life is greater than one year. The principle of SSAP 21 applies to transport.

IT

All computer hardware expenditure is capitalised when the cost of acquisition, including installation, is greater than £10,000. The principle of SSAP 21 applies to IT.

ASSETS UNDER CONSTRUCTION (AUC)

AUC are shown on the face of the Balance Sheet and include capital accruals and creditors held at the year-end. Upon completion, AUC, when specific to the Agency, are reclassified into the appropriate fixed asset category and details communicated by the SBSO.

DONATED ASSETS

Fixed assets that have been donated in the UK or by foreign governments have been accounted for in accordance with the Government Financial Reporting Manual. Depreciation charges are matched in the Operating Cost Statement (OCS) with an equal release from the donated asset

reserve. The effect of releasing an amount equal to the depreciation charge means that no charge is borne for the use of the asset through the OCS. Legal ownership of donated assets rests with the Secretary of State; these are managed through the Single Balance Sheet Owner (Defence Estates). Any restrictions imposed by the donor on the use of the donated asset are managed and controlled through the SBSO.

DEPRECIATION

Freehold land is not depreciated. Depreciation on fixed assets is calculated to write off the cost, or valuation, less any estimated residual value, of assets by equal installments over their useful lives. The life span of each asset has been assessed by professional surveyors, in accordance with the Royal Institute of Chartered Surveyors valuation manual and is periodically reviewed. Depreciation details of assets, where the Agency is the beneficial user, are communicated via the SBSO.

The principal asset categories and their useful lives are as follows:

Permanent Buildings -	<i>between 6 and 60 years</i>
Standard Plant & Machinery -	<i>between 5 and 15 years</i>
Transport -	<i>between 5 and 30 years</i>
IT Equipment -	<i>between 3 and 7 years</i>

PRIVATE FINANCE INITIATIVE (PFI) COMMITMENTS

Where risks and rewards have been transferred to the private sector, the transaction is accounted for in the Operating Cost Statement through service charges in accordance with FRS 5 and HM Treasury Guidance.

STOCKS

DSDA no longer holds a consumable stock balance on its accounts. The charge reflected in the restated accounts is based upon the premise that all stocks used by DSDA in carrying out its business are consumable stock and are therefore consumed at the point of delivery. All other stocks remain on the Balance Sheet of the owning IPT until issued.

The change brings the Agency into line with the MoD's stock accounting policy and provides greater consistency in accounting treatment within the Department. The impact of these changes does not materially affect the Operating Cost Statement, Balance Sheet and Cash Flow Statement.

CASH/IMPREST ACCOUNT

Apart from minor transactions through local imprest accounts, which are cleared to nil balances at the balance sheet date, DSDA does not pay or receive money on its own account. The majority of cash payments are made, and receipts collected, by the MoD's central accounting organisations on behalf of DSDA. All transactions, both locally and centrally processed, are brought to account by the MoD in the Department Resource Account and are disclosed in aggregate in the Cash Flow Statement. The MoD charges DSDA during the year, with the gross payments, inclusive of PAYE

and National Insurance contributions, due to DSDA employees. The Department, therefore, is liable for the payment of any liabilities, which may be due to HM Revenue & Customs or Department for Works and Pensions, at the balance sheet date. These are not disclosed in DSDA's balance sheet.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the appropriate Official Government Accounting Rate. In respect of unsettled transactions or other monetary assets and liabilities as at 31 March 2007, these have been recorded at the spot rate for the year ending 31 March 2007, the rate at which these assets and liabilities will be settled.

RESERVES

Taxpayers' equity comprises the General Fund, Revaluation Reserve and Donated Asset Reserve. The General Fund represents the total net assets of the Agency to the extent that they are not represented by other reserves. Net funding from HM Treasury and realised gains and losses are reflected in the General Fund. The Revaluation Reserve represents the unrealised element of the cumulative balance of revaluation and indexation adjustments to fixed assets.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges have been established under the criteria of FRS12 and are based on realistic and prudent estimates of expenditure required to settle future legal or constructive obligations that exist at the Balance

Sheet date. Provisions are charged to the Operating Cost Statement. All long-term provisions are discounted at current prices by use of the Treasury's Discount Rate, currently 2.2%. The discount is unwound over the remaining life of the provision and is shown as an Admin charge in the Operating Cost Statement.

NON-OPERATIONAL HERITAGE ASSETS

The Agency has a number of Non-Operational Heritage assets which do not appear on the Balance Sheet. The historic gun collection is currently being revalued, whilst for Edgehill Battlefield, Fort Elson and Ernesettle Fort, due to their nature, it is not practical to obtain a valuation. The gun revaluation programme is being conducted by Defence Disposal Services Authority.

2. Staff Numbers and Costs

(a) The average number of employees (including executive Board Members) during the year was as follows:

	06-07	05-06
Permanent employees		
Service (Officers)	48	54
Service (Other Ranks)	158	184
Civilian (Non Industrials)	1,546	1,652
Civilian (Industrials)	2,910	3,085
Sub Total	4,662	4,975
Casual employees		
Civilian (Non Industrials)	1	42
Civilian (Industrials)	79	21
Sub Total	80	63
Total employees	4,742	5,038

There were 4350 permanent staff and 80 casual staff employed at 31 March 2007.

(b) Staff Costs for the year were as follows:

	06-07	Restated 05-06
	£000	£000
Wages and Salaries	110,066	106,513
Social Security Costs	7,078	6,937
Superannuation and Other Costs	16,678	16,525
Total	133,822	129,975

- Staff Costs for casual employees, included in wages and salaries above, were **£1,116,950** for the year.
- Staff Costs for short term temporary employees, included in wages and salaries above, were **£1,850,146.36** for the year
- Other costs include charges for additional staff leaving on redundancy for whom no provision existed. Costs in 05/06 have been restated to include an additional **£475k** and **£433k** in 06/07 in respect of this.

3. Supplies and Services Consumed

	06-07	Restated 05-06
	£000	£000
Office and Administration Supplies	1,917	2,959
Consultancy Support	4,374	3,289
Third Party Distribution	11,670	9,933
Security and Fire Service Costs	25,569	24,227
Externally Procured Stores and Services	4,556	4,350
Supplies and Services provided by the MoD	156	154
Petrol, Oils and Lubricants	2,572	2,427
Information Technology related expenditure	6,394	3,772
Vehicles and Equipment Supply and Maintenance	8,702	7,218
PFI Contract	5,924	5,885
Depreciation - IT/P&M/Transport (see Note 7)	2,843	4,333
Beneficial use charges - IT/P&M/Transport	587	0
Impairment from Quinquennial Valuation - P&M/Transport	89	0
Fixed Asset write off - IT/P&M/Transport	1,840	442
Stock	8,388	14,771
Permanent Diminution in value - Information Technology	89	858
Total	85,670	84,618

Notes:

- a. Office & Administration costs have fallen due to the closure of the print centre at Keynsham.
- b. Increased consultancy support due to restructure, and the need to create the new Management Information tool.
- c. There has been an increase in the operational requirement for freight and therefore an increase in Conflict Prevention reclaimable costs.
- d. Security and Fire Service Costs are communicated directly from external agencies.
- e. IT expenditure has increased due to the costs associated with the Fast Moving Warehouse.
- f. A number of assets fall below capitalisation threshold and were not put on SBSO; this has reduced depreciation costs.
- g. The stock consumption for 05/06 has been restated to incorporate the change in accounting policy whereby DSDA consumes all stock on point of delivery.

4. Accommodation Costs

	06-07	Restated 05-06
	£000	£000
Accommodation Services	4	177
Works, Estate Maintenance and Property Management Fees	13,130	20,129
Accommodation Services provided by the MoD	248	331
Domestic Fuels	17,199	15,822
Non Domestic Rate Demand	7,437	8,482
Depreciation - Land & Buildings (see Note 7)	20,178	23,804
Beneficial use charges - Land & Buildings	7,256	0
Impairment from Quinquennial Valuation - Land & Buildings	8,768	0
Fixed Asset write off - Land & Buildings	3,672	1,799
Notional Rentals	0	(1,509)
Total	77,892	69,035

- Works costs have been serviced in from DE in 2006/07.
- Rates per person for Accommodation Services has reduced in 2006/07.
- Domestic fuels costs have increased in 2006/07 due to increases in utility prices.
- A rates rebate of £600k was received from Wrekin Council in 2006/07.
- Notional Rental costs in 2005/06 referred to costs serviced out to lodger units, due to the introduction of SBSO this is no longer applicable.
- Disposal of assets following transfer to Donnington Rail Project.

5. Administration Costs

	06-07	Restated 05-06
	£000	£000
Medical and Welfare	235	288
Education and Training	2,405	2,802
Travel and Subsistence	2,376	2,249
Share of MoD Overheads	10,185	10,652
Charges for Provisions	6,519	28,212
Other Administration Costs	503	741
Foreign Currency Losses	4	4
Audit Fee	80	75
Total	22,307	45,023

- a. The rates per person for MoD overheads have decreased in 2006/07.
- b. Previous years charges for provisions includes establishment of the FDSCi provision (See note 13)

The RACs feeding into notes 3, 4 and 5 have been realigned to category heading, to more accurately reflect the type of expenditure. Previous years expenditure has been restated to show the effect this change has on last years accounts.

6. Cost of Capital Charge

	06-07	Restated 05-06
	£000	£000
Cost of Capital	17,215	19,345

- a. The Cost of Capital Charge is based on the average total net assets of the Agency exclusive of Donated Assets, plus communicated costs for those assets we have beneficial use of which are held on the Single Balance Sheet.

7. Depreciation Charges

	06-07 £000	05-06 £000
Buildings excl dwellings	20,596	24,172
Dwellings	0	455
Plant and machinery	2,099	2,728
Transport equipment	151	822
Information technology	593	783
	23,439	28,960
Less total charges for Donated Assets	(418)	(824)
Total	23,021	28,136

a. Depreciation charges for balance sheet assets has fallen due to the introduction of SBSO.

Depreciation charges for beneficial charges are shown under notes 3 and 4.

8. Income

	06-07 £000	05-06 £000
Storage Facilities	4,858	5,187
Miscellaneous	22,707	21,409
From non-MoD customers	27,565	26,596
Other Government Departments	30	31
Agreed Reverse Tasking with Trading Funds	1,759	1,246
From MoD Trading Funds & OGDs	1,789	1,277
Total	29,354	27,873

a. Within miscellaneous income £16.8m relates to processing contracts with BAE systems & MBDA

b. Agreed Reverse Tasking relates to the Army Base Repair Organisation (ABRO), which was granted Trading Fund Status on 01 April 2002, and the Defence Scientific Technology Lab (DSTL) which was granted Trading Fund status on 01 July 2001. The income is split £1,552m ABRO and £34k DSTL.

9. Fixed Assets

	Land and buildings excl dwellings	Dwellings	Plant and machinery	Transport equipment	Information technology	Total
	£000	£000	£000	£000	£000	£000
COST OR VALUATION						
As at 01 April 2006	653,795	9,226	46,569	5,157	5,068	719,815
Transfers	(141,755)	(9,226)	(9,452)	(205)	(1,310)	(161,948)
Additions	250	0	32	60	0	342
Disposals	(4,276)	0	(810)	(1,620)	0	(6,706)
Revaluation in year	140,926	0	(293)	206	(219)	140,620
At 31 March 2007	648,940	0	36,046	3,598	3,539	692,123

DEPRECIATION						
As at 01 April 2006	115,031	1,955	12,691	1,395	2,486	133,558
Transfers	(29,699)	(1,955)	(1,551)	(173)	(433)	(33,811)
Additions	0	0	0	0	0	0
Disposals	(604)	0	(474)	(117)	0	(1,195)
Revaluation in Year	43,739	0	124	48	(130)	43,781
Charged during year	20,596	0	2,099	151	593	23,439
At 31 March 2007	149,063	0	12,889	1,304	2,516	165,772

NET BOOK VALUE						
As at 01 April 2006	538,764	7,271	33,878	3,762	2,582	586,257
At 31 March 2007	499,877	0	23,157	2,294	1,023	526,351

Additions to Fixed Assets comprise:	£000
Capitalised Spend	342
Transfer from other Management Groups	0
	342

Disclosure Note:

a. Land and Building assets shown above represent the core business being storage and distribution. All other Land & Building assets have been transferred to other management groups.

10. Assets Under Construction

	06-07 £000	05-06 £000
AT COST		
Balance brought forward	0	350
Additions in year	1,478	0
Capitalised in year	0	(350)
As at 31 March 2007	1,478	0

11. Debtors

	06-07 £000	05-06 £000
Trade Debtors	4,691	1,888
	4,691	1,888
Prepayments and accrued income	1,927	4,119
Total	6,618	6,007

a. 100% of all Agency Debtors at 31 March 2007 are due within one year.

12. Creditors: Amounts Falling Due Within One Year

	06-07	05-06
	£000	£000
Trade Creditors	3,351	2,664
Capital Accruals/Creditors	626	0
Other Accruals	9,326	5,516
	13,303	8,180

13. Provisions for Liabilities and Charges

	DSDA Early Retirement	FDSCi Scheme	Eng Svcs Scheme	Total
	£000	£000	£000	£000
Balance as at 01 April 2006	4,981	27,601	0	32,582
Charge for year (unwinding)	110	607	0	717
Increase	919	3,472	2,159	6,550
Utilised	(1,360)	(4,493)	0	(5,853)
Balance as at 31 March 2007	4,650	27,187	2,159	33,996

a. DSDA Early Retirement Provision represents the future liability to pay early pensions and lump sum payments for personnel who have left the Agency.

b. The impact of the DLO Early Release Scheme is not included in the DSDA schemes shown above. The impact of the 26 who left under Year 2 is assessed at an in-year charge of £824K and a provision of £996K.

c. As part of the IAB endorsed solution to the Future Defence Supply Chain Initiative (FDSCi), DSDA were allocated a redundancy provision to implement the closure of 2 sites and the manpower savings required to achieve the savings target of £441M over 10 years.

d. The transfer of Engineering Services to Army Base Repair Organisation (ABRO) is being negotiated and has the potential to result in 44 redundancies in October 2007; this provision may transfer to ABRO.

e. The charge for year (unwinding) equates to the interest payable shown in the OCS.

14. General Fund

	£000
Balance at 31 March 2006	281,459
Prior Period Adjustment	(1,352)
Adjusted Opening Balance	280,107
Net cash inflow from financing	184,897

Non Cash Charges:

Audit Remuneration	80
Cost of Capital	17,215
Other Notional Charges	65,728
Transfer from Revaluation Reserve	156,670
Transfer from Donated Asset Reserve	13,563
Transfer out of SBSO	(128,137)
Net Operating Cost	(308,269)
General Fund at 31 March 2007	281,854

15. Revaluation Reserve

	£000
Balance at 31 March 2006	237,169
In Year Revaluation of Fixed Assets	104,065
Transfer to General Fund	(156,670)
Revaluation Reserve at 31 March 2007	184,564

- a. The MoD Corporate Financial Controller (CFC) issues indices each year which are applied to relevant asset categories to facilitate revaluation.

16. Donated Asset Reserve

	£000
Balance at 31 March 2006	34,226
In Year Revaluation	485
Transfer to General Fund	(13,563)
Release to OCS	(418)
Donated Asset Reserve at 31 March 2007	20,730

17. Reconciliation of Movement In Government Funds

	General Fund	Revaluation Reserve	Donated Asset Reserve	Total
	£000	£000	£000	£000
Government Funds at 31 March 2006	280,107	237,169	34,226	551,502
General Fund Movement	1,747	0	0	1,747
Revaluation Reserve Movement	0	(52,605)	0	(52,605)
Donated Asset Reserve Movement	0	0	(13,496)	(13,496)
Government Funds at 31 March 2007	281,854	184,564	20,730	487,148

18. Reconciliation Of Net Expenditure To Net Cash Outflow From Operating Activities

	06-07 £000	Restated 05-06 £000
NET EXPENDITURE	308,269	320,473
Non Cash Items		
Depreciation	23,021	28,136
Impairment of Fixed Assets	8,946	0
Movement in Bad Debt Provision	(31)	(71)
Cost of Capital Charge	17,215	19,345
Write Off of Fixed Assets	5,511	3,301
Auditors Remuneration	80	75
Unwinding of Discount on Provisions	717	350
Movement in Provisions	5,345	27,524
Notional Items		
Notional Costs	65,728	83,912
	126,532	162,572
Other Movements		
(Increase) / Decrease in debtors	(611)	811
Increase / (Decrease) in creditors	5,123	(2,012)
(Increase)/Decrease in Capital Creditors	(626)	72
Use of Provisions	(5,853)	(1,109)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	183,704	160,139

19. Related Party Transactions

DSDA is an Executive Agency of the Ministry of Defence (MoD). MoD is regarded as a Related Party. During the year, the Agency has had various material transactions with the MoD and other MoD Agencies and entities, including a significant amount of notional charges, which are explained in Note 1 to the Accounts.

20. Private Finance Initiative (PFI) Commitments

The following information is provided for all off balance sheet PFI schemes.

Project Title and Description	Contract Start Date	Contract End Date	Charges to OCS in 2006-07 £000
Pathfinder - Barloworld contract for the provision of Material Handling Equipment.	01-Aug-2002	31-Jul-2010	5,924
			5,924

Annual payments which the Agency is committed to make during 2007-08 and future years, analysed by period in which the commitment is due to expire, are as follows:

Commitment expiring within:	less than 1 year	2-5 years £000	Rentals due thereafter £000
Pathfinder	6,180	15,172	0
	6,180	15,172	0

The estimated capital value for the Pathfinder contract is £7821k.

21. Non-operational Heritage Assets

As at 31 March 2007 the Agency had the following non-operational heritage assets:

Historic Gun Collection, DSDA (North) Donnington

The museum currently has responsibility for a collection of 750 items and includes many types of small arms of British and Foreign origin. Examples of the items held are pistols, revolvers, flintlocks, rifles, air rifles, sub-machine guns, shotguns, humane killers, chain guns, anti-tank weapons, bayonets, knives, grenade dischargers, sabres and swords together with a replica of the Victoria Cross Medal.

Located outside the DSDA (North) (Donnington HQ Building) also forming part of the museum holdings are larger items which consist of a 3.7 Howitzer, Harrier Jet, 25lb Field Gun and a Royal Navy Sea Mine.

Edgehill Battlefield, DSDA Kineton

The battle of Edgehill was the first major battle of the English Civil War and took place between Royalist and Parliamentary forces on 23 October 1642. The outcome of the battle was inconclusive. Part of the battlefield and the mass grave, now known as Graveground Coppice where many of the dead are buried, lie within the boundary of DSDA Kineton. The sites are preserved as undisturbed tracts of land. A monument commemorating the battle is maintained within the Edgehill sub depot, part of the Kineton site.

Fort Elson, DSDA Gosport

Fort Elson lies within the boundary of DSDA Gosport. It was constructed between 1858 and 1860 as part of the Palmerston Fortifications built to defend against a land attack on Portsmouth Harbour and is the oldest remaining fortification of its type. The current management plan for the fort commenced in 2007 and runs for the next four years.

Ernesettle Fort, DSDA Plymouth

Ernesettle Fort lies within the boundary of DSDA Plymouth. It was constructed between 1863 and 1868 and is a "Scheduled Ancient Monument" No.840. The Fort was abandoned in the early 1900s. Its current condition is fair to generally sound.

22. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Because of the largely non-trading nature of its activities and the way in which government Agencies are financed, the Agency is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities, or for trading. The fair values of all the Agency's financial assets and liabilities approximate to their book values. In line with FRS 13, short term debtors and creditors (those which mature or become payable within 12 months from the balance sheet date) have been excluded from these disclosures (except for those relating to currency risk).

Interest Rate Risk

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

Currency Risk

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

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

Liquidity Risk

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

23. Intra-Government Balances

	Debtors amounts falling due within one year £000	Debtors amounts falling due after more than one year £000	Creditors amounts falling due within one year £000	Creditors amounts falling due after more than one year £000
Balances with other central Government bodies	5	-	-	-
Balances with local authorities	8	-	9	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	1,315	-	15	-
Total Intra Govt Balances	1,328	-	24	-
Balances with bodies external to Government	5,290	-	13,279	-
Total as per Note 11 (debtors) and 12 (creditors) at 31 March 2007	6,618	-	13,303	-
Balances with other central Government bodies	90	-	-	-
Balances with local authorities	68	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	1,222	-	-	-
Total Intra Govt Balances	1,380	-	-	-
Balances with bodies external to Government	4,627	-	8,180	-
Total as per Note 11 (debtors) and 12 (creditors) at 31 March 2006	6,007	-	8,180	-

24. Losses

During the year constructive losses amounted to £3790, fruitless payments amounted to £14,882 and claims abandoned and waived amounted to £33,687.

25. Contingent Liabilities

There are occasionally insurance claims made against DSDA by external bodies. Common law liability claims against any part of the MoD are funded centrally and therefore such claims have no impact on DSDA Accounts.

26. Capital Commitments

	06-07 £000	05-06 £000
Contracted Capital Commitments at 31 March 2007 for which no provision has been made	14	0
Total	14	0

27. Post Balance Sheet Events

Post 31 March 2007 the following are disclosed as having an effect on the Agency:

1. In accordance with FRS21 the Chief Executive duly authorised the issue of these financial statements on 24 July 2007.
2. Movement of part of Engineering Services (Stafford) to ABRO/DARA. The transfer of part of Engineering Wing Stafford to ABRO is being negotiated. A provision has been set up for this covering 44 posts, which has the potential to transfer to ABRO/DARA.

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