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Defence Science and Technology Laboratory
Annual Report and Accounts 2005/2006



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Note: on 1 July 2001, in accordance with the Statutory Instrument 2001 No. 1246, the Defence Science and Technology Laboratory (Dstl) was created as a result of the separation of the Defence Evaluation and Research Agency (DERA); Dstl continuing as the Trading Fund.

Our mission, vision and values

Mission

Our mission describes the fundamental purpose of the organisation in terms of the impact we want to make in the world. It addresses what we are passionate about doing, what motivates us.

Our mission is to create the winning edge for UK forces and government through the best use of science and technology.

Vision

Our vision describes the kind of organisation we aspire to be. It is an expression of what would constitute success in three, five or ten years.

Our vision is to be the indispensable source of science and technology at the heart of defence.

Values

The type of organisation Dstl becomes, and what will distinguish us from others, will be defined by the way we behave as individuals. Our values describe the way we behave, day by day.

- Supporting each other regardless of position in the organisation
- Cherishing knowledge
- Commitment to the public interest
- Responsiveness
- Excellence
- Creativity



The work we do

Dstl provides science and engineering-based products, services and expertise to government on defence and security issues. This work falls into six main product areas:

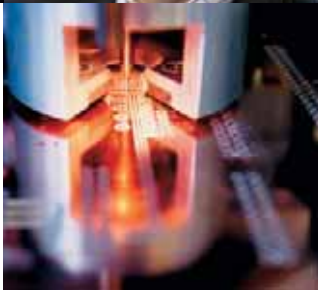
- Decision support
- Defence enterprise management support
- Support to operations
- Innovative capability and systems concepts
- Innovative technology exploitation
- Science and technology services

Our work creates the evidence base for major decisions – covering the full range of policy, operational, military capability, scientific and acquisition issues. We support customers in their planning, procurement and risk management activities, and deliver assurance of the science and technology they exploit.

We work extensively with industry and academia to help understand, develop and evaluate a range of options to meet customers' future capability requirements. We also exploit advances in science and technology to deliver practical solutions to defence and security-related problems in areas of national and international sensitivity.

Our wide-ranging expertise is underpinned by an authoritative understanding of defence policy, complete systems and sub-systems and world-class research capabilities. Dstl's unique position in MOD gives us an overview of our customers' problems, across domains and over time, which helps to bring an integrated and coherent approach to our programmes.

The breadth of our work means that our highly skilled and professional workforce is operating at the leading edge of defence science and technology. We are therefore a key source of specialist staff for MOD and other government departments and our people also work on secondment, or interchange, in these organisations.



Chairman's statement

Dstl's aim is to deliver excellent solutions to our customers' most important problems. Over the last year, the organisation has made significant progress towards this goal and is, in many cases, exceeding expectations. In terms of meeting key MOD targets, we are delivering across the board with encouraging progress in all areas, most notably in technical competency benchmarking.

Once again Dstl met all of its financial targets – thus maintaining an unbroken record in this area since its formation. This is a significant achievement and is indicative of strong performance across the business.

Dstl is going through a period of great change. The **i lab** change programme, which is essential for improving cross-functional working and creating greater efficiencies, will see around 40% of our staff working in different locations within the next 36 months.

Excellent progress has been made on various aspects of **i lab** this year. With building plans finalised and planning permission secured, Project INSPIRE can now begin. This is the major rationalisation project that will consolidate Dstl's activities onto three core sites and create a better equipped, more flexible working environment for our people.

The last year has seen several changes on the Dstl Board. We now have our full complement of Non Executive Directors who bring a wealth of experience, knowledge and expertise. I am confident that this new Board will greatly assist Dstl in fulfilling its mission.

We have also seen changes in our Executive team. After five years of leading Dstl, Martin Earwicker has moved to a new role as Director of the National Museums of Science and Industry. On behalf of the Board, I would like to pay tribute to Martin's many achievements, which have laid sound foundations for Dstl's future. We wish him great success in his new role. Frances Saunders, who moved from Technical Director to Director of Operations during the year, is acting Chief Executive until a permanent successor is appointed.

Technology organisations and companies across the world rely heavily on the excellence of their staff to deliver success. Dstl is no exception and I have been privileged to meet many of our excellent people during my first year as Chairman. I would like to take this opportunity to thank all of our staff for their professionalism and contribution to our goals.

A handwritten signature in black ink that reads "Richard Maudslay". The signature is written in a cursive, flowing style. Below the signature is a horizontal line.

Richard Maudslay FREng
Chairman

05 July 2006

Chief Executive's statement

We have a clear vision of where we want to be – a single unified laboratory delivering high-quality solutions to our customers' most important problems through the excellence of our people, our management and our integrated expertise.'



This year we have continued to build on Dstl's track record of achievement. Overall, our business performance remains strong and we have delivered well against our key targets and financial objectives. We have continued to make progress with our technology transfer and exploitation activities. Ploughshare Innovations Ltd, our wholly owned subsidiary, is now fully operational and focused on managing Dstl's intellectual property portfolio.

Our technical achievements are equally notable. We have continued to apply our broad science and technology expertise to the wide range of defence and security-related problems facing our customers. We have also supported key strategic decisions for some of MOD's most important equipment procurement programmes and have successfully piloted new, improved technical assurance processes.

Support to operations in Iraq continues and a Dstl team has been permanently deployed in theatre throughout the year. Closer to home, our scientists supported the Metropolitan Police investigation into the London Bombings in July 2005 and worked tirelessly to retrieve and analyse vital evidence from the scene. We have also worked closely with colleagues across MOD to set up the new Counter-Terrorism Science and Technology Centre, ensuring that the right facilities and staff were in place before its launch in April 2006. Finally, we have continued to deliver exceptional underpinning science and technology for our customers to exploit in the longer term.

The **i lab** programme is starting to deliver tangible benefits. Our customer satisfaction survey showed that changes to the customer interface are having a positive impact. As a result, customers now have a much clearer idea of key points of contact within Dstl. We are also playing an increasingly important role in some of MOD's more challenging cross-cutting programmes and our newly formed Joint Systems Department is already building an excellent reputation for working at the highest levels in MOD. The increasing number of visits from our senior customers, and the tremendous interest they show in our work, is also testament to our progress on crucial MOD programmes.

In December 2005 we launched our Corporate Social Responsibility (CSR) programme. For a number of years, we have co-ordinated successful outreach activities to promote science and technology careers in schools. This new programme is much broader in scope, encompassing community, environmental and social initiatives such as charity events, conservation projects, car sharing and recycling schemes. In the long term, these activities will ensure that we make a lasting contribution to the wider UK community.

We have achieved great success this year. Maintaining this level of performance requires a considerable amount of hard work from all of our people and I would like to thank Dstl staff for their contribution. We have much to be proud of, but there is much still to do to reap all the benefits from becoming a truly integrated laboratory.

A handwritten signature in black ink, appearing to read 'Frances Saunders'. The signature is fluid and cursive.

Frances Saunders
Chief Executive (from 03 May 2006)

05 July 2006





Technical highlights



© Metropolitan Police

Frontline forensic support

Dstl provided crucial support to the Metropolitan Police when London became the target of a terrorist attack in July 2005. Suicide bombers targeted the capital's transport system during the morning rush hour, killing 52 people and leaving more than 700 people injured.

Forensic explosives experts from Dstl deployed immediately to the scene and worked round-the-clock to retrieve and analyse as much forensic evidence as possible for this fast-moving police operation.

Debris from the explosions, damaged vehicles, underground carriages and other vital evidence were all examined in meticulous detail. Supporting analysis was carried out in Dstl's unique forensic laboratories and specialist expertise was drawn from across the organisation to support the investigation. The findings are expected to play a crucial role in the forthcoming criminal cases linked to the London bombings.

Every year, Dstl provides forensic support to more than 300 police investigations involving the criminal misuse of explosives, from individual criminal cases through to terrorist incidents.

UK forces 'reachback' to Dstl

Scientific support to operations in Iraq continues with the work of Dstl's deployed scientific advisers (SCIADs) being highly commended by military commanders.

The first SCIAD was deployed to south-east Iraq in January 2005 and performed a multitude of tasks. These included technical trials and demonstrations of new concepts that addressed some of the most pressing issues facing UK forces. Of particular use was the ability of the SCIAD to 'reachback' into the technical knowledge base across Dstl. This helped to solve a broad range of problems quickly and effectively in theatre.

Six SCIADs have now been deployed and the role is seen as a crucial and ongoing requirement for UK forces in Iraq.

Crash investigation support

The investigative capabilities of Dstl were called into action following the tragic loss of a Hercules C130K in Iraq in January 2005. Nine RAF personnel and one soldier were killed in the crash. Dstl made a significant contribution to the technical aspects of the RAF Board of Inquiry to determine the cause of the loss. Working alongside air accident staff, Dstl scientists from Dstl's Missiles and Countermeasures, Air Systems and Energetics departments conducted analysis, assessment, testing and trials.

The Board of Inquiry subsequently concluded that hostile ground-to-air fire was the most likely cause of the crash and made a number of recommendations to reduce the risk of a similar incident occurring in the future. The Secretary of State for Defence has since presented the findings to the House of Commons.



Technical highlights

Cutting-edge detection and analysis

Dstl is unique within the UK in conducting definitive, rapid analysis of suspected chemical or biological warfare agents. Dstl's laboratory employs state-of-the-art techniques to provide timely and accurate analysis of a range of chemicals, pathogens and toxins. In some cases, results are available within six hours, allowing incident and strategic management to be adapted accordingly.

This year Dstl's scientists received and analysed their 1000th sample. Ironically, despite the organisation's worldwide sphere of operations, the suspect material came from within Wiltshire, just a short distance from the Porton Down site. Wiltshire Constabulary had reasonable grounds to suspect that the sample may have posed a chemical or biological hazard to the general public, but analysis proved that the material was in fact a harmless, although threatening, hoax.

Smallpox vaccine breakthrough

A new smallpox vaccine that could deliver improved safety benefits has been pioneered by Dstl scientists.

Although naturally occurring smallpox was certified as being eradicated in 1979, the causative agent (the variola virus) is still recognised as a potential biological warfare threat. The current vaccine, a live virus, is highly effective but has a number of complications. These include a newly established link with cardiac abnormality in adult, first-time vaccinees.

Dstl's new experimental vaccine offers equivalent protection and should overcome some of the side effects associated with the current vaccine because it does not replicate in the body. The vaccine has the potential to provide a safe, effective medical countermeasure against a significant threat.

Tracking the threat

Keeping our military forces protected against current and emerging chemical warfare threats requires the latest scientific capabilities.

Dstl experts have devised an innovative chemical hazard detection and monitoring capability that can identify a much wider spectrum of chemical agents than previously possible. High Field Asymmetric Waveform Spectrometry (HiFAWS) is an evolution of Ion Mobility Spectrometry (IMS) technology, which is currently used in detectors and monitors. HiFAWS allows a broad range of chemical warfare (CW) agents to be detected, at low concentrations, as well as toxic industrial chemicals.

A prototype detector has successfully identified CW agents in the presence of materials that would cause interference with current technology. Dstl is now seeking industry engagement to develop an integrated detection system. HiFAWS technology could ultimately lead to a low-cost, small-sized detector.



Simulation success

Over the last year, Dstl has provided comprehensive support for MOD's Future Aircraft Carrier and Future Joint Combat Aircraft projects.

Dstl experts have been analysing the policy implications of the future capability, assessing the level of technical risk in the programme and developing simulation software to explore operational concepts and tactics for the Future Joint Combat Aircraft.

Dstl has also helped to develop a new 'man-in-the-loop' air combat simulation facility (Cutlass) at MOD Abbey Wood. The simulator has been used to investigate the operational and tactical concepts that underpin Joint Strike Fighter (JSF). It has also proved invaluable in assessing the complex interaction of technical issues associated with this state-of-the-art, revolutionary aircraft.

This simulation capability is highly regarded by the US JSF Joint Programme Office and has played a significant role in the UK's contribution to the project. The facilities have also supported UK efforts to better understand and influence many aspects of the programme.

Battlefield benefits for blood-clotting drug

A drug used to treat haemophiliacs could help to save lives on the battlefield thanks to recent Dstl research.

Recombinant Factor VIIa (rFVIIa), which has been developed by Danish company Novo Nordisk, halts uncontrolled internal and external bleeding and is usually only administered in hospitals. Dstl's research has shown the potential benefits of rFVIIa in a pre-hospital or battlefield scenario to stop haemorrhaging – the leading cause of death on the frontline.

Factor VIIa naturally exists in the bloodstream and enables clot formation in exposed tissue. By boosting this natural substance with rFVIIa, the clotting time can be reduced and the strength of the clot increased. Administering rFVIIa intravenously enhances clotting at sites of vascular injury, extending casualty survival times to enable evacuation to a surgical facility, such as a field hospital.

In the future, it is hoped that the drug could be used as a life-saving treatment for road accident victims and other trauma patients.

Technical highlights



Supply chain improvements

Over the past year, Dstl has supported MOD's Future Defence Supply Chain initiative (FDSCI), which is looking to create operational improvements and achieve savings of £440 million.

Dstl teamed up with the Defence Logistics Organisation to review the Armed Forces materials storage and distribution system in the UK and north-west Germany. A range of options were assessed against new, higher delivery standards for supply chain services. Dstl analysts looked at their effectiveness in providing a day-to-day service and in handling the surge in demand generated by major deployments. In-house services were compared with industry-partnered solutions in terms of value-for-money.

Dstl created a unique simulation model – SUSTAIN (storage, utilisation, supply, transport and information networks) – to analyse possible solutions. This demonstrated how storage site rationalisation, and changes to the transport network and staff deployment, could meet the new delivery standards and generate significant savings for MOD.

In July 2005, the Secretary of State for Defence announced that MOD had selected an in-house solution, which provided the best combination of improved effectiveness and lower costs.

Interoperability demonstrations

Dstl once again played host to the UK Coalition Warrior Interoperability Demonstration (CWID) at Portsdown West in June 2005.

CWID is designed to demonstrate emerging technologies for C4¹STAR* systems and improve interoperability between coalition nations. Participants at the 2005 event included Australia, Canada, New Zealand, the United Kingdom and South Korea.

The Dstl laboratory, based at Portsdown West, has the capability to represent the land, air, maritime and logistics component commanders and is designed to improve war-fighting capacity. The flexible design means that the battle laboratory can be adapted to host command, control and information infrastructure experimentation in support of MOD projects.

CWID has repeatedly proven the benefits of live military multinational interoperability exercises and has generated significant financial savings for MOD.

In 2005, Dstl was awarded a Smart Procurement Award by the Minister for Defence Procurement for its outstanding contribution to CWID.

*C4¹STAR – Command, Control, Communications and Computers (C4) and Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR).



Understanding and influencing the strategic thinking of your allies – and adversaries – is all important.'

Richard Scott, Programme Director
(Science and Technology)



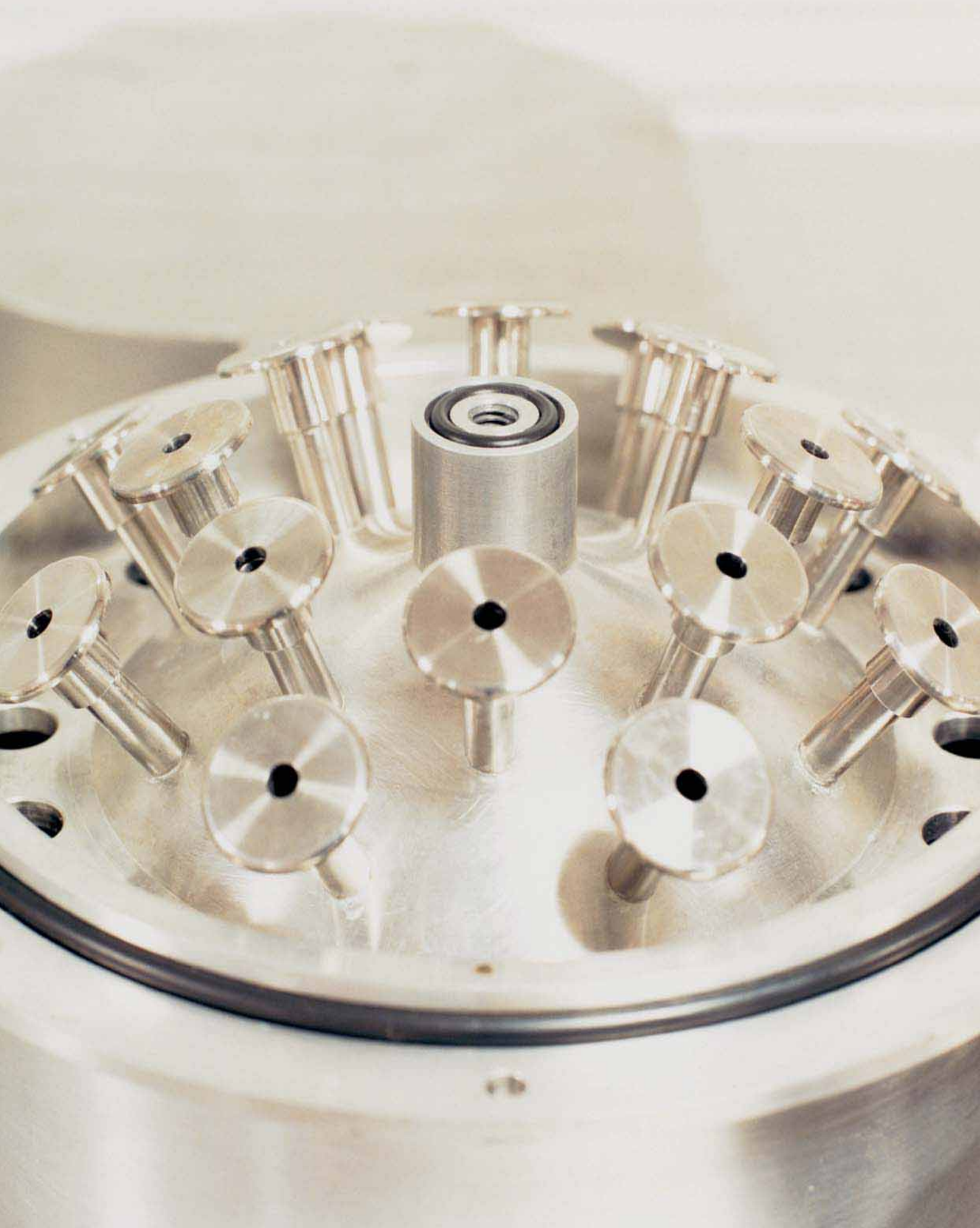
Thinking ahead

Understanding and influencing the strategic thinking of your allies – and adversaries – is all important when defusing a growing diplomatic crisis. Now, novel techniques that unlock the cognitive thought processes behind adversarial decision making have been devised by Dstl.

The Strategic Analysis Group has been investigating various diplomatic, economic, political and military methods used by government to change enemy intent to pursue a particular course of action. The work, which exploits role-playing games, strategic studies and political psychology, has led to a new technique that evaluates the cognitive behaviour of different adversary regimes. Historical analysis has been conducted, in parallel, to verify and validate the findings.

This work has cross-government support, with input from the Foreign and Commonwealth Office, Cabinet Office, and broad exposure from across MOD.

The findings will enable MOD to develop its policy and planning framework for future military tasks, which will feed into a range of studies supporting policy formulation and capability management.



Programmes, capabilities and exploitation

'We have made a number of changes over the last year to strengthen programme leadership and make it easier for customers to do business with us.'

Peter Starkey, Director of Future Business



Strengthening programme leadership

Our continuing business success is built on the range and quality of services we deliver to customers and how we meet, and anticipate, their needs. To deliver this strategy, we need strong programme leadership that co-ordinates a cohesive and coherent programme of work and addresses MOD's, and wider government's, requirements.

While Dstl has been broadly successful in achieving this aim since its formation, we have made a number of changes over the last year to strengthen programme leadership and make it easier for customers to do business with us. Specifically, the introduction of Programme and Future Business Directors has ensured that this principle is embedded within the Executive.

Programme Directors are supported by Senior Programme Leaders (SPLs) who are responsible for the leadership of particular programme domains. Our SPLs provide overall coherence and ensure that the best and most relevant capabilities are brought into programmes from across Dstl and from outside the organisation. Key to their effectiveness is capturing and addressing customers' requirements through direct engagement with the end user (especially senior-level management), close engagement with industry and maintaining a clear focus on the exploitation route for the results of the work.

These changes are already starting to have an impact, with an increased level of engagement noted by our customers and reflected in their views of our performance.



Technical focus – future business

This year, for the first time, we have analysed our programme split in terms of product service and customer groupings to assist with the development of the future business strategy.

	Products							Totals (£M)	
	Decision support	Innovative capability and systems concepts	Innovative technology exploitation	Defence enterprise management support	S&T services	Provision of S&T staff resources	Support to operations		
Policy	4.5	0.1	0.4	6.5	2.0	0.5	0.1	14.1	4%
Capability	11.5	33.1	84.0	33.8	2.8	6.4	0.8	172.4	50%
Acquisition	21.4	8.4	37.9	0.5	4.8	0.3	4.5	77.8	23%
Operations	0.6	0.5	2.6	0.4	7.3	2.3	5.0	18.7	5%
Security	1.0	0.5	11.6	0.0	4.5	0.8	1.3	19.7	6%
OGD	1.1	0.1	9.8	0.1	7.1	0.8	2.6	21.6	6%
Non-Exchequer	1.5	0.6	8.9	2.9	4.5	0.0	0.1	18.5	5%
Totals (£M)	41.6	43.3	155.2	44.2	33.0	11.1	14.4	342.8	
	12%	13%	45%	13%	10%	3%	4%		

Co-operative engagement with the best overseas laboratories, and with UK industry and academia, enhances our capability and value to MOD.'

David Harris, Technical Director



Programmes, capabilities and collaboration

Matching our capabilities to MOD's needs

Looking to the future, we must ensure that our skills and capabilities are aligned with MOD's evolving needs, anticipating the trends in our external environment, customer expectations and monitoring the ever-changing defence and security environment. For this reason, we have taken our strategic guidance from MOD, drawing on Defence Strategic Guidance and the Technology Strategy in particular, coupled with our own observations of tasking trends across our whole programme. This is helping us to better understand where increasing and decreasing demand for support will be focused in future years.

The recently published MOD Science and Technology Capability Alignment Study has confirmed that Dstl's science and technology programme is broadly well matched to MOD needs but new priorities will emerge to which we must respond. More far-reaching still, the Defence Industrial Strategy will profoundly influence the ways in which future defence acquisitions are managed when it starts to be implemented in late 2006. These trends will affect not just what we do but how we do it.

Support to operations, acquisition (using system-level advice from a wide range of technical sources across Dstl and beyond) and science and technology staffing levels are areas of growing importance. Demand for technology-led work is diminishing slightly, although it remains our largest single area of activity. Within acquisition support, the Defence Industrial Strategy has reinforced the importance of systems and the need to better understand risk and whole-life issues, including cost, technology management and technology insertion.

These changes will lead to the development of a new Future Business Strategy that will flow into, and go hand in hand with, revising our Technical Capability Strategy. A new technical capability planning process has been developed within **i lab** that will give senior technical staff and departments full responsibility for identifying and responding to changes in capability requirements on an annual cycle. In parallel with this gearing for the future, technical benchmarking of our current capabilities has confirmed the year-on-year improvement (from 70.6% to 71.6%) required to meet the Dstl key target (72%) next year. The process is audited by external assessors agreed with the Chief Scientific Adviser.

Fostering professional development

Professional development of our scientists and engineers remains a key priority:

- For the second successive year, Dstl won the Institute of Physics' Best Practice in Professional Development Award.
- STEPS*, run by and for the benefit of new starters, continues to flourish with imaginative events and networking initiatives.
- Dstl's Chartership Scheme is now formally accredited by eight professional bodies and approved by a further three.
- The Fellowship Scheme is evolving to more closely align the achievement of Fellowship and Senior Fellowship with career level and pay.

*Scheme for Technical Events and Professional Support



- The Associate Fellowship Scheme has been developed to encourage the brightest and best to pursue the scientific career route.
- One new Fellowship and one Senior Fellowship were awarded this year, as well as the Quinquennial renewal of Fellowship to ten Dstl staff.

Wider relationships

International research collaboration continues to underpin Dstl's ability to deliver MOD programmes and develop our technical capability. We participate in around 20 fora spanning the main European nations, the US, Australia and Canada. Particular highlights have included prestigious awards made by the Minister for Defence Procurement in recognition of outstanding collaborative activity in The Technical Cooperation Programme (involving the UK, Australia, Canada, New Zealand and the US). Six awards were made to Dstl staff in areas such as chemical and biological defence. In this area alone, collaborative work has improved our ability to model agent dispersion in urban environments – an important factor in directing emergency response activities.

Dstl's role in forging a new UK/US initiative – the International Technology Alliance (ITA) – has been recognised by MOD and the US. Our staff were closely involved in the complex tender assessment with US colleagues. The ITA will now facilitate joint technology development across UK and US governments, industrial and academic laboratories.

Finally, a Dstl employee on secondment to the Pentagon has been awarded the US Department of Defense Medal for Distinguished Civilian Service – the highest award that can be bestowed on a foreign civilian – for his contribution to the US Quadrennial Defense Review.

Forging links

Laboratory-to-laboratory partnerships are an essential complement to our internal schemes. Agreements with the French DGA DET Laboratory and the Institute of St Louis (ISL), under signed letters of intent, have delivered tangible benefits this year.

Reciprocal meetings on technical benchmarking have been held with DET and the first exchange of staff is planned for 2006. The Dstl staff secondment to ISL has worked extremely well, and consolidation of the letters of intent into a co-operation agreement is under consideration.

Nationally, Dstl has continued to forge productive links with industry and academia, which has included workshops with Imperial College, QinetiQ and Sheffield University. Four members of staff have been seconded to the Systems Engineering Innovation Centre (SEIC), Loughborough and our first inward industry attachment was sealed with the one-year secondment of a systems engineer from BAE SYSTEMS into Dstl's Joint Systems Department.

Finally, the external reputation of Dstl's top scientists continues to be recognised through visiting professorships awarded to Dstl staff: ten professorships (one honorary and nine visiting chairs) were awarded or renewed this year.

The impact made by Ploughshare on bringing greater rigour to the exploitation of Dstl's intellectual property is very encouraging.'

David Harris, Technical Director

Exploitation and technology transfer

Dstl annually turns over approximately £350 million of mostly UK government funding. Around half of this figure is directed at R&D in science and technology programmes for defence and security. Like all public sector research establishments (PSREs), Dstl has a duty to exploit its world-leading innovative ideas and technologies, where appropriate, for the maximum social and economic benefit for the UK.

The organisation has already built an excellent track record in exploiting its Intellectual Property (IP) portfolio of 150 patented technologies in areas such as biotechnology, healthcare, sensors and materials (see table, below right). With a further 20–30 patent applications filed each year, Dstl has a significant pipeline of new technologies ripe for exploitation.

In April 2005 Ploughshare, a wholly owned subsidiary, was formed to manage technology transfer activities on behalf of Dstl. The company's remit is to exploit Intellectual Property (IP) licensing opportunities and manage the bulk of Dstl's joint venture activities. Ploughshare's Board reports to the Dstl Board and its activities are monitored by senior MOD and Dstl officials and other government stakeholders.

Ploughshare has already signed several new licence agreements and launched a range of activities designed to exploit Dstl's asset base more efficiently. One such activity has been the launch of quarterly and rolling intellectual property reviews of IP patent cases. Early involvement from Ploughshare helps to ensure that the highest commercial value is generated from leading prospects. IP reviews also provide an opportunity to purge the portfolio of patents that have low commercial potential, thus saving millions in nugatory protection, maintenance and enforcement costs.

Over the past year, Dstl and Ploughshare have also launched a 'Rewards to Inventors' scheme, which encourages Dstl scientists to think innovatively and consider IP issues by recognising success at patent application milestones. Early and generous reward is available to both inventing staff and their supporting teams when inventions fulfil their commercial potential.

Other recent achievements have included the launch of the Ploughshare Innovation Fund (which helps Dstl scientists to take bright ideas to proof-of-concept stage) and successful application for capacity building funding from the Public Sector Research Exploitation Fund.

In the short term, over the next one to three years, an increase in the rate and strength of patent applications across Dstl would reflect increased levels of innovation driven by Ploughshare's activities. This would undoubtedly enhance Dstl's reputation in its core business – paying dividends for Dstl and MOD in the long term.

Dstl's current IP patent portfolio

Portfolio segment	Total no. of cases	Technologies (examples)
Biotechnology	38	adenylate kinase, luciferases, DNA amplification
Healthcare	35	liposomes, pharmaceuticals, vaccines, virus detection
Sensors	30	fluorescence, UV ionisation, photometry, gas & air monitoring
Decontamination	4	activated carbon, zeolite, micro-emulsions
Protection	9	blast protection, personal and collective protection
Coatings/materials	9	oil/water-repellent coatings, adhesives, novel materials
EM/comms	14	electromagnetic radiation sources and X-ray
Miscellaneous	7	explosives, miscellaneous technologies
Total	146	



Case study – animal vaccine breakthrough

A novel vaccine that could dramatically improve animal health in the poultry industry is in production thanks to Dstl and Ploughshare.

Dstl scientists approached Ploughshare with a proposal for a new vaccine to fight avian necrotic enteritis – a disease with rapid onset and high mortality rates. Incidence of the disease is expected to soar following the ban on antibiotic growth promoters in animal feeds in the European poultry market. The new vaccine would protect poultry from both necrotic enteritis and salmonellosis – diseases caused by *Clostridium perfringens* and *Salmonella* respectively.

The Dstl team secured financial backing from the Ploughshare Innovation Fund (PIF), which helps Dstl scientists move Dstl technologies towards commercial exploitation in non-defence sectors. Within weeks of PIF funding, Ploughshare formed a licensing agreement with a leading veterinary products supplier to commercialise the technology.

The project utilises Dstl's IP and world-leading expertise in the vaccine field. It also demonstrates how technology developed for military purposes can have applications in civilian markets.

Our people

*The 2005 staff survey showed that our people now have a greater awareness about the **i lab** change programme and many feel that communication has improved across the organisation.'*

Ruth Davies, Director of Human Resources and Communications



In our corporate plan for 2005/06 we highlighted the importance of our people in achieving continued success for Dstl. We are dependent on our staff for their skills and knowledge (and the expert application of both to deliver customer solutions), their drive for excellence and their willingness to work together to help each other succeed.

Outstanding leadership is undoubtedly a critical factor in achieving the very best from our people. This is especially important at a time of change as we prepare to relocate onto three core sites and adopt new working practices and tools. This year has seen the clarification of leadership roles and responsibilities, with an emphasis on leading and developing people to fill the full range of management roles. Our new leadership development programme will equip managers with the skills they need to support and engage their people, especially through this period of change.

The 2005 staff survey showed that our people now have a greater awareness about the **i lab** change programme and many feel that communication has improved across the organisation. In Dstl, we seek to maximise every communication channel to involve our employees in the running of the organisation. This is done through regular in-house newsletters and bulletins, face-to-face briefings, trade union consultation and training activities.

Over the past year, we have acted on staff feedback which indicated that career paths were insufficiently clear. We have since published structures that demonstrate the main career paths and options, along with career 'stories' from leading scientists and technical experts from across Dstl. These are helping junior staff to identify how they can use particular skills and experience to fulfil their aspirations. During

the year, a review of training and development has also got under way, including an evaluation of results delivered so far. These efforts will ensure that future improvements are targeted at the right areas.

Closer to home, we have completely restructured the HR function to ensure that we deliver consistent, high-quality advice to managers. We have also put in place professionally qualified HR practitioners to work alongside the business.

Recruitment and retention remains healthy. More than 200 graduates have joined Dstl in the last year and we have maintained our standing as an employer of choice in *The Times* 'Top 100 Graduate Employers Survey'.

We are also recruiting a higher than average* proportion of new entrants from ethnic backgrounds and we employ more than 50 people with disabilities. Dstl is, of course, an equal opportunities employer and every possible consideration is given to applications for employment regardless of gender, religion, disability or ethnic origin.

In 2005/06, 153 staff resigned from Dstl (4.5% of the total workforce), 73 staff retired and 30 staff transferred to other parts of MOD or other government departments.

The professional and career development of our staff remains a top priority. We continue to encourage internal development moves and nearly 400 posts were advertised through the job opportunities bulletin this year. Around 300 staff successfully gained promotion in the annual career level review.

The number of staff secondments has increased this year. In total 157 staff are on secondment to MOD and other government departments, including 32 people overseas, and 39 people on inward secondments.

*regional

Statement by Dstl trades unions



This has been another busy year for the trades unions (TUs), with some successes which must be balanced against continued uncertainty in other areas.

i lab

Dstl's plans to consolidate its activities onto three core sites have progressed under the **i lab** change programme. The relocation of staff, which is a key part of the programme, continues to have the greatest impact on large numbers of TU members. TU officers are lending their support to help facilitate a smooth transition, and we have encouraged staff to work with Dstl's 'On the Move' team.

Dstl's invitation for the TUs to have a seat on all Strategic Improvement Programme (SIP) committees has given us a greater visibility of the **i lab** process and its implications for staff.

Management transformation

The TUs support management efforts to transform the careers process. We hope that this will establish logical paths for progression, both on the scientific and management axis.

The opportunity for staff to rise to senior levels on the basis of technical and scientific merit alone is encouraging. This should help team and group leaders strike a better balance between technical and management work, and reduce some of the traditional tensions between management and staff. We hope that the review of the corporate functions will achieve similar results for support staff.

Pay

After negotiations, we agreed a multi-year pay deal with management. Although this only partially fulfilled the TU's aspirations, it was viewed as a good result that exceeded Treasury targets. When viewed against the current Civil Service pay environment, the agreement seems even more favourable. However, the TUs remain concerned about the shortfalls between Dstl and MOD additional hours' payments and leave conditions.

Pensions

We welcomed the agreement between government and the Civil Service Unions (CSU) with regard to pensions. However, the Dstl TUs and the CSU remain vigilant following recent speculation in the press and private industry regarding civil service pensions.

Age discrimination and retirement age

The TUs welcomed legislation which outlaws discrimination on the grounds of age and the right of people to work to the age of 65. However, these changes pose major challenges as Dstl adjusts terms and conditions to fulfil its legal obligations. The TUs are keen to work with management to ensure that these changes are met, provided that there is no detrimental effect on the workforce.

Health and safety

We have continued to work closely with Dstl's management to help maintain a safe working environment. The number of cases of stress in the workplace remains a concern. Against a background of change and uncertainty, the TUs support management in recent moves to assess and reduce the impact of stress on staff.

Staff morale

TU officers, by the nature of their role, deal with problems that arise in the workplace and so their perspective on morale may at times be rather gloomy. Overall, however, Dstl is a good employer and management tries to work with staff in the vast majority of cases. However, in areas affected by relocation plans, morale is more brittle.

Overall picture

Although staff are now better informed about the **i lab** change programme and what it means to them, many are being moved out of their personal comfort zones. This has contributed to a busy year for the TUs and relocation activities continue to present challenges in the short term.

The integrated laboratory – **i lab**



*Overall, **i lab** has made steady progress over the last year and is in good shape to deliver long-term benefits for Dstl customers, stakeholders and staff.'*

Nick Helbren, Director of Rationalisation



i lab is Dstl's major change programme that aims to unify all aspects of technical, physical, business process and behaviour across the organisation. It is designed to sustain and strengthen technical capability while increasing efficiency.

This year has been one of firming up and consolidation for **i lab**. During the year, the Dstl Board approved the **i lab** business case and we now have a roadmap that shows how individual projects will deliver **i lab's** objectives. A Business Change Manager has also been appointed to monitor key milestones and ensure that the programme is delivering tangible results across the organisation.

Our communications activities in relation to **i lab** have intensified during the year. We have launched *inform*, the quarterly **i lab** newsletter, revamped the **i lab** website and briefed new starters at all Dstl inductions during the year. We have also formed i-Friends – a group of 50 staff who review proposals, test web initiatives and discuss new ideas for change.

i lab has now moved into the programme delivery phase and the following summarises key highlights from 2005/06.

Delivering a high-quality service

Dstl is responsible for ensuring that the work it undertakes for customers makes a real difference to them and the wider stakeholder community. This fundamental goal drives the evolution of our processes and systems, our skills and technical capabilities, and our behaviours and working practices.

We have continued to work with MOD stakeholders to align our planning processes and share our thinking on future business and technical strategies. A redesigned customer interface has, for example, helped to increase the level of senior engagement and create a more coherent focus for key customer groups.

We are developing a future business strategy based around our services and products and have introduced new ways of capturing and responding to customer feedback and communicating key highlights to our stakeholders.

A review of our project management processes is under way to ensure that the model meets our future needs. Building on our early work on Dstl's technical strategy, we are now identifying capability areas at risk and implementing mitigation measures. We have published guidelines for technical capability planning to achieve a more consistent approach across departments and further developed our understanding of the range and number of 'systems people' Dstl will require in the future.

Investing in our people

The success of Dstl is dependent on the skills, knowledge and behaviours of its people. We must ensure that our people deliver the very best they can, both as individuals and through effective teamworking.

This year, we have further clarified the responsibilities of our leadership community, in both technical and managerial areas. Having the right match of people to roles is a key part of this process and we must ensure that the right development

opportunities are in place to help our leaders fulfil these new expectations.

In the past year we have transformed the HR function to better align our services to business needs and support strategic organisational change. The introduction of HR Business Partners has helped us to deliver improved professional advisory services across the organisation. The next stage is to focus on streamlining HR support activity, simplifying HR processes and improving our HR IT system. We are also developing a new framework for 'people planning' to cover the size, shape and skills mix of our current and future workforce.

Another key project is reviewing Dstl's intranet. The aim is to create a more intuitive user interface that fits in with our processes and with the way people naturally work.

The future workplace

This part of **i lab** is focused on two core objectives. The first is to rationalise onto three sites, forge strategic partnerships for facilities management and support services, and introduce new ways of working to make better use of our buildings, facilities and assets. The second objective is to deliver seamless business processes and systems. Project INSPIRE, the main rationalisation project, has made major advancements during the year. Following a robust selection process, Serco has been appointed to undertake building construction and refurbishment at Porton Down and Portsdown West and provide facilities management over a 15-year period. Planning applications have been submitted and agreement reached with the relevant local authorities. We are working closely

with politicians, planning officials and local communities to address queries and concerns as they arise.

The sister activity to INSPIRE, 'On the Move', has also made significant progress. This project is overseeing the relocation of staff whose jobs are moving to new sites. We have regularly briefed our staff face to face about relocation plans and progress, and our people can access regular online updates. A comprehensive relocation information pack is also available for movers.

Over the last year, we have achieved considerable success in dealing with legacy site issues (particularly at Porton Down) in conjunction with Defence Estates, and a significant number of buildings have been demolished. Major investment continues to be made in building refurbishment at Fort Halstead.

One key project is addressing our future working environment – how we work in open plan offices, what support is available and how we can make more effective use of our assets. This will be a key enabler to introducing new ways of working within the organisation.

Another notable success has been category management. We have continued to rationalise our supply chain by reducing the number of centrally-managed contracts for items such as stationery, consultancy support and laboratory equipment. Savings have amounted to around £3 million over the last 12 months. Total savings to date amount to £10 million.

Overall, **i lab** has made steady progress over the last year and is in good shape to deliver long-term benefits for Dstl customers, stakeholders and staff.





Corporate social responsibility



Our aim is to act in a positive way in our dealings with our staff, customers, suppliers and the local community. In doing so, we shall behave with integrity and minimise the negative impact on the environment and our stakeholders.'



In Dstl we recognise the importance of being socially responsible and environmentally friendly, as set out in our CSR policy statement: 'Our aim is to act in a positive way in our dealings with our staff, customers, suppliers and the local community. In doing so, we shall behave with integrity and minimise the negative impact on the environment and our stakeholders. We will measure our performance and publicise the results.'

Dstl has, for some years, undertaken many excellent social and environmental initiatives. To develop these activities further, Dstl's CSR programme was officially launched in December 2005, with 12 initiatives falling broadly into three main categories – community and workplace, environment and ethics. These initiatives encompass schools' activities, charity days, recycling schemes and conservation projects. We now report progress against these initiatives and our goals for the coming financial year.

Community and workplace

We continue to raise awareness of and roll out Dstl's education outreach programme and have 125 school ambassadors across the organisation. Ambassadors helped to staff the Institute of Physics' 'Lab in a Lorry' during National Science Week and continue to make regular visits to local schools and organise science fairs.

In March 2006, the first Dstl charity day raised more than £2,500 for Marie Curie Cancer Care. Another £600 was raised for Breast Cancer Research and The Prostate Cancer Charity in a prize raffle. The lucky winner had the chance to take part in the demolition of two disused towers on the Porton Down range.

Environment

We are working closely with facilities management service providers on a range of environmental initiatives. These offer dual benefits, contributing to a cleaner environment and reducing Dstl's operating costs.

The number of recycling points across core sites has increased and Dstl's Estates team has started to gather baseline data so that we can set realistic targets against which future improvements can be measured. This will help us towards meeting the waste targets set out in the Government's Framework for Sustainable Development. We have also been encouraging the purchase of duplex printers and better environmental practice to reduce paper usage.

Dstl takes great care to ensure that work is planned and performed to minimise the impact on the environment, including areas designated Sites of Special Scientific Interest. We are in the process of setting up a pan-Dstl conservation committee to ensure conservation interests at the core sites are consistently managed while assisting MOD in achieving Strategic Development in Government (SDiG) biodiversity targets.

Ethics

As many Dstl staff are increasingly required to travel between sites, we are actively promoting a car-sharing scheme and video conferencing facilities. A prototype car-sharing calendar has been developed and will be launched next year. Staff have also completed a video conferencing questionnaire, which has helped to promote the use of these facilities.

Aside from these initiatives, efforts have focused on raising greater awareness about CSR issues across Dstl. This year has seen the launch of a dedicated CSR intranet site and consultation group – a forum for employees who want to get more involved in CSR issues and suggest ideas for change. We have now established a sound platform for our CSR programme but there is still much to achieve in the coming years.



A positive financial performance saw Dstl build on the financial foundation of the previous four years, thus enabling plans for new facilities and laboratories to proceed with confidence.'

Mark Hone, Finance Director

Financial highlights

Turnover remained steady during the period, with the Trading Fund maintaining the £353.3 million achieved in 2004/05. Group turnover amounted to £353.4 million. This strong performance reflects the confidence placed in Dstl by its customers. Although work for the Ministry of Defence declined marginally during the year, work from other government departments and non-Exchequer customers increased. This reverses the trend of recent years.

Cost control and close monitoring of financial performance throughout the year contributed to a Group profit* of £18.7 million. This is an increase of 2.7% on last year's profit.

Dstl had a positive cash inflow during the year amounting to £19.8 million (excluding the dividend payment). This inflow is partly due to the continued monitoring of the balance sheet to ensure cash does not get tied up pending investment on the **i lab** programme over the next two to three years. Cash and cash equivalents on the balance sheet improved by £16.8 million and cash balances remained positive throughout the period. Cash expenditure on fixed assets was £5.6 million (2005: £5.7 million), which included the £4 million capitalisation of costs associated with Project INSPIRE and the acquisition of new equipment to maintain Dstl's position at the leading edge of technology.

During the year Dstl earned interest amounting to £3.1 million from surplus funds being placed on the money markets with Treasury-approved institutions. This increase reflects Dstl's improved cash position prior to the forthcoming investment on **i lab**.

The level of government funds, represented by the Group balance sheet value, increased by £19.2 million to £218.1 million, mainly due to the £18.8 million retained profit for the year. A dividend of £3.0 million (2005: £3.0 million) will be paid.

The Group's return on capital employed was 8.8% (2005: 9.4%).

Credit payment policy and practice

Dstl's policy is to make payments to suppliers within government guidelines which comply with the requirements of the Late Payment of Commercial Debts (Interest) Act 1998. During the year, Dstl paid 98.35% of invoices within the agreed credit period on receipt of an undisputed invoice, or date of confirmation of receipt of an acceptable service. Trade creditors were equivalent to 21.7 days' purchases during the year.

Transition to International Financial Reporting Standards (IFRS)

HM Treasury is fully committed to adopting IFRS as the basis for its accounting guidance. However, with some issues still to be addressed, the Treasury has recommended that IFRS is adopted in line with the Accounting Standards Board (ASB) programme,

which currently favours a 'big bang' approach for its introduction in January 2009.

In accordance with HM Treasury guidance, Dstl will adopt IFRS in line with the ASB programme. While Dstl is already assessing the effects of this change, the full impact on the accounts has not been quantified.

Provisions

The accounts include a provision for certain infrastructure maintenance and upgrades where Dstl is legally responsible for the infrastructure concerned and there is a clear obligation to act, resulting in the transfer of economic benefits. This is the only significant provision held and amounts to £4.1 million. Details of all provisions are included in Note 16 to the Accounts.

Financial risk and Treasury management

The Treasury function is a centralised service and its role is to monitor and review the cash flow and future cash requirements of the business on a daily basis. Funds that are not immediately required are invested with HM Treasury-approved institutions. The function does not operate as a profit centre and the undertaking of speculative transactions is not permitted.

The main financial risks to Dstl are the availability of funds to meet future business requirements, particularly in the medium term as the organisation restructures, and the risk of default by counterparties to financial transaction (credit risk). To a lesser extent there is an exchange rate risk associated with certain transactions designated in foreign currencies.

Funding and liquidity: Dstl finances its operations from retained profits linked to the ability to borrow funds from the Ministry of Defence. The objective is to ensure continuity of funding. The policy is to minimise any potential borrowings from MOD by careful planning and ensuring adequate funding is in place before commitments are taken on board. Regular contact is maintained with MOD to plan and agree any borrowing requirements.

Credit risk: The objective is to reduce the risk of loss arising from default by parties engaged in financial transactions. The risk is mitigated to a large degree by the fact that more than 85% of Dstl's turnover is with MOD. All non-Exchequer parties are credit checked prior to contract agreement and regularly monitored.

Foreign currency risk: Certain contracts are quoted in foreign currencies and it is Dstl's policy to minimise the exchange rate exposure as far as possible. To achieve this, most Dstl contracts include a clause that allows for the price to be revised if the relevant exchange rate fluctuates by more than 2.5% during the life of the contract.

*Profit on ordinary activities before interest

Performance against MOD key targets 2005/06

Target	Outcome
1 Maintain and by the end of a three-year period show an increase in score for scientific and engineering capability in the technical benchmarking exercise from 67% in 2002/03 to 72% in 2005/06 – moderated by external assessors agreed with MOD's Chief Scientific Adviser (CSA).	Achieved. Dstl achieved a score of 71.6% in the 2004/05 technical benchmarking exercise – an improvement on the 2002/03 figures. This puts Dstl on track to meet its 2005/06 target of 72%. Audit teams included CSA-approved assessors and comprised a senior MOD official (not a direct customer), a senior academic and an industry representative.
2 Identify and agree with MOD's CSA the top 10 Dstl capability needs, their alignment with the future programme and the required MOD funding by March 2006.	Achieved. Dstl presented the top capability needs to CSA in February 2006. CSA has already taken action to address these issues, particularly the additional funding required to cover the full cost of strategic facilities. CSA and Dstl will assess current strategic reviews and agree key priorities for Dstl's research programme and future capability requirements by summer 2006.
3 By the end of a three-year period show a linear improvement of at least 1.5% on the FY2004/05 customer satisfaction score of 75.4% for service provision.	In the first year against this three-year target, the 2005/06 customer satisfaction score for service provision (measured with the agreed composite metric) was 74.7% – a decrease of 0.7% on the baseline 2004/05 score. The principal driver for this was a notably reduced score from customers in the Research Acquisition Organisation (RAO). The areas where improvement would make the most difference include providing a timely, quality service and realistic solutions, and explaining clearly at the outset what the work aims to achieve. Action is now focused on addressing these issues and on improving the relationship with MOD Head Office and RAO science staff. It should be noted that overall customer satisfaction (measured with a simple metric) actually increased from 80 to 83%.
4 Implement a process for identifying and publicising Dstl's major achievements during the year.	Achieved. Dstl's new 'Technical Highlights' document provides a formal platform from which to communicate key achievements to senior customers in MOD and wider government. This activity complements our existing public, customer and internal relations work.
5 Achieve Health and Safety Executive approval of the category 4 microbiology containment facility by 31 October 2005.	Achieved. HSE approval for Category 4 operation was granted in October 2005. Research work with category 4 organisms has now commenced.
6 Define the scope, structure and funding requirements of a new defence and security research and development centre and, subject to new funding being available from customers, prepare a specific proposal for its creation.	Achieved. Working closely with MOD colleagues, Dstl played a key role in developing this new centre at Porton Down, ensuring the right people and facilities were in place before its launch in April 2006.
7 Achieve planned progress within budget to meet the completion date of 2008 for the transfer of Dstl onto three core sites at Porton Down, Portsdown West and Fort Halstead. The key milestones for 2005/06 are: appoint the preferred bidder (August 2005); negotiate with the preferred bidder a reduction in facilities management costs for Dstl of at least 15% from August 2006; sign the contract (March 2006).	Overall progress has been good. Serco was appointed as the preferred bidder in August 2005. While it was not possible to sign the contract in March 2006, an interim agreement was signed on 5 May. The actual contract is expected to be signed on or before 16 June, allowing for the handover of facilities management on 1 August (as planned). Under the new contract, the overall saving is expected to be £10.3 million or 23.6% (following completion of rationalisation activities in 2009).
8 By December 2005, complete the detailed design and build phases of the new integrated corporate applications system (iCAS) that will deliver Dstl's business information requirements from 2006/07.	Following Board review in March 2006, the project was frozen in order to reassess, and precisely define, the requirements for the system. This redefinition is underway and the new target, to have in place an agreed programme to deliver a fully operational integrated information system by April 2008, has been included in the new corporate plan.
9 Maintain the average charge rate for staff for 2005/06 and beyond below that for 2001/02 uplifted by GDP deflator.	Achieved. Actual charge rate for the year was £53.56 – lower than the target rate of £54.46.
10 Achieve a ROCE of at least 3.5% averaged over the period 2004/05 to 2008/09 and a MOD dividend of £3 million in 2005/06.	Achieved. The ROCE for the year was 8.8% and the accounts allow for a £3 million dividend to be paid to MOD.

Dstl key targets 2006/07

Dstl has set out three overarching key result areas to focus the whole organisation's efforts on achieving results. These therefore shape both our short-term business priorities and the longer-term transformation activities that, through the **i lab** programme, will deliver the Dstl of the future as a single integrated laboratory. These key result areas are:

- Delivering high-quality output on the really important issues.
 - Enabling people to realise their full potential.
 - Creating an environment in which excellence can thrive.
- In addition to these we must continue to deliver the underlying business essentials expected of Dstl as a trading fund and as an agency of MOD. This means running a safe and secure operation, delivering our financial plans, managing our corporate affairs effectively and with probity, and ensuring all elements of risk are identified and managed appropriately. Our key targets for 2006/07 have been chosen to drive us towards achievement of these high-level goals as well as meeting the short-term demands of the business essentials.

Delivery

- 1 Achieve a level of overall customer satisfaction in our delivery of at least 76.4% for FY2006/07 against a three-year target of 76.9% (FY2007/08)
- 2 Deliver high-quality outputs that have impact on MOD customers' top ten priority issues.

People

- 3 Achieve an overall score of at least 72% for scientific and engineering capability in the technical benchmarking exercise. Develop, and agree with CSA, a robust process for assessing the quality of Dstl's evolving technical capabilities for the period 2007–2011.

Environment

- 4 As part of the strategic aim to bring Dstl onto three sites by 2009, agree the overarching construction and facilities management contract and achieve key milestones on programme to time and cost, including delivering predicted efficiency gains.
- 5 To enable greater knowledge sharing, improved management and operational efficiencies, by meeting agreed-in-year targets to ensure Dstl has in place an integrated corporate business environment by the end of FY2008/09.

Business Essentials

- 6 Achieve an average Return on Capital Employed (ROCE) of at least 3.5% over the period 2004/05 to 2008/9.



Statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Dstl's policies, aims and objectives, while 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'.

Dstl was established as an Executive Agency of MOD in July 2001. It operates as a Trading Fund, for which the Secretary of State for Defence has ultimate responsibility. The Secretary of State has appointed the Minister for Defence Procurement (Min(DP)) to assist him in the discharge of his responsibilities with regard to Dstl. This includes determining the policy and resources framework within which Dstl operates, setting its objectives and targets, and monitoring its overall performance.

The Corporate Plan, agreed with ministers, sets out Dstl's strategic objectives and key targets and the way in which the organisation will deliver impartial, excellent and trusted advice on science and technology issues. The plan also identifies corporate-level risks that could impact on our performance, and strategies for risk management. I am responsible for informing ministers and the Permanent Under Secretary of State as the Principal Accounting Officer of any material issue which may inhibit the effective and efficient performance of Dstl.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Dstl for the year ended 31 March 2006, and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to handle risk

As an integral element of its system of internal control, Dstl has a well-established corporate approach to risk management. In the period covered by this report, Dstl has established a new corporate governance structure to enhance the organisation's ability to manage risk in a way that most suits the business.

Dstl policy on corporate governance and the management of risk is set out in its policy manual, which is issued to all staff. This is currently being updated to reflect Dstl's new structure and will be reissued in autumn 2006. Dstl's risk management and corporate governance policies,

including audit and business continuity, are implemented in line with Dstl procedures in the Dstl Management System (DMS). The Dstl Audit Committee is responsible for reviewing Dstl's strategies, with a particular focus on internal control, and internal audit arrangements. Dstl's audit arrangements comply with government internal audit standards and details are set out in the DMS.

The Risk Advisory Group, which was chaired by the Deputy Chief Executive (Dstl's Board representative on risk management), was charged with the following objectives:

- Communicate emerging significant departmental risks to the Dstl Board.
- Communicate corporate risk issues to the relevant departments.
- Review and update the corporate risk register on a regular basis to ensure that key risks are prioritised in terms of probability and impact.
- Review and revise the risk management process as required.
- Champion risk management across the organisation.
- Ensure that best practice is shared across Dstl.

The Risk Advisory Group's membership and terms of reference are set out in the risk management section of the DMS. In 2005/06, the group met every two months. The Risk Advisory Group has now been disbanded and its responsibilities transferred to the operations managers in departments and corporate functions. Operations managers meet on a monthly basis and risk management is a fixed agenda item at these meetings. Training on risk awareness and use of the risk register is an essential part of Dstl's internal training for project managers. Dstl has a nominated Risk Co-ordinator, who maintains a register of agency risks and an overview of total risk to the organisation.

Dstl's strategy for business continuity is set out in the DMS. Drawing on business continuity management guidelines (as set out in JSP503), the strategy sets out business continuity processes and requirements at corporate and line management level. Dstl's current business continuity plan includes an evaluation of key business priorities, which is subject to ongoing review to incorporate new business-critical issues. Dstl has appointed a Business Continuity Co-ordinator to ensure that sufficient focus is given to this issue.

The risk and control framework

Dstl's risk management process is based around the strategic risk cycle, principles and terminology outlined in 'Management of Risk' (issued by the Treasury in 2004). The procedure sets out a framework to ensure consistency in the way in which Dstl identifies and assesses risk, reports probability and impact, and develops mitigation and contingency plans.

The Dstl Assurance Handbook, available on the DMS,

contains the risk management strategy for the organisation. In particular, the document describes how Dstl meets, and will continue to meet, the Turnbull guidance on risk, including risk reporting and management at Board level. This is currently under review and will be updated to reflect the new corporate governance structure of the organisation. Dstl implements all changes and improvements in a systematic manner across the organisation. Risk is considered at the 'requirements capture' stage, and is then monitored throughout the life span of any project.

It is Dstl policy to actively identify and manage the risks to which it is exposed. Risk assessment is a fundamental part of the agency's operational procedures. Risk reporting is encouraged, and Dstl actively manages risk to help meet business and strategic objectives. Thus, there is a process of continual risk identification, assessment and reporting across the organisation, ensuring the currency of the corporate risk register. Risk avoidance, mitigation or recovery plans are developed and monitored as necessary.

Dstl's major change programme, involving site rationalisation and laboratory integration (**i lab**), was identified as an area of significant risk at a corporate level and was highlighted in the corporate risk register.

Review of effectiveness

As Accounting Officer, 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 internal auditors, and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Audit Committee arrangements

The Dstl Audit Committee, which meets three times a year, reports to the Board on the implications of assurances provided in respect of risk and control in Dstl and the adequacy of audit arrangements. The Audit Committee reviews both the internal and external auditing requirements, the adequacy of the financial systems, risk management, control and governance.

The Dstl Board reviews the system of internal control through reports from its committees and Executive Directors, who have responsibility for Dstl's strategic improvement programmes and key risks. These reports are made on an exceptional basis. Where there are control deficiencies, mitigation measures are put in place. The Risk Advisory Group had a key role in updating the Dstl Board on emerging significant

departmental risks and ensuring that departments are informed about corporate risks that affect their areas. This role is now fulfilled via the Operations Managers Forum. Dstl's Chief Executive, who has ultimate responsibility for the risk management process, attends the Audit Committee.

PKF was appointed as Dstl's internal auditor for financial years 2003/04–2005/06. Regular reports to senior management and the Dstl Audit Committee provide independent assessment of the system of internal control and offer recommendations for improvement.

Maturity of risk management arrangements

As part of the internal audit process, Dstl's risk management arrangements were reviewed using HM Treasury's Risk Management Assessment Framework. The overall conclusion was that satisfactory levels of internal control were in place in all major respects.

External reviews

Dstl's management system was subject to two LRQA visits in 2005/06. In both cases it was concluded that the management system continued to meet the requirements of ISO9001:2000. No major non-conformities were raised during the certificate renewal in December 2005 and re-approval was recommended.

The following comments were made:

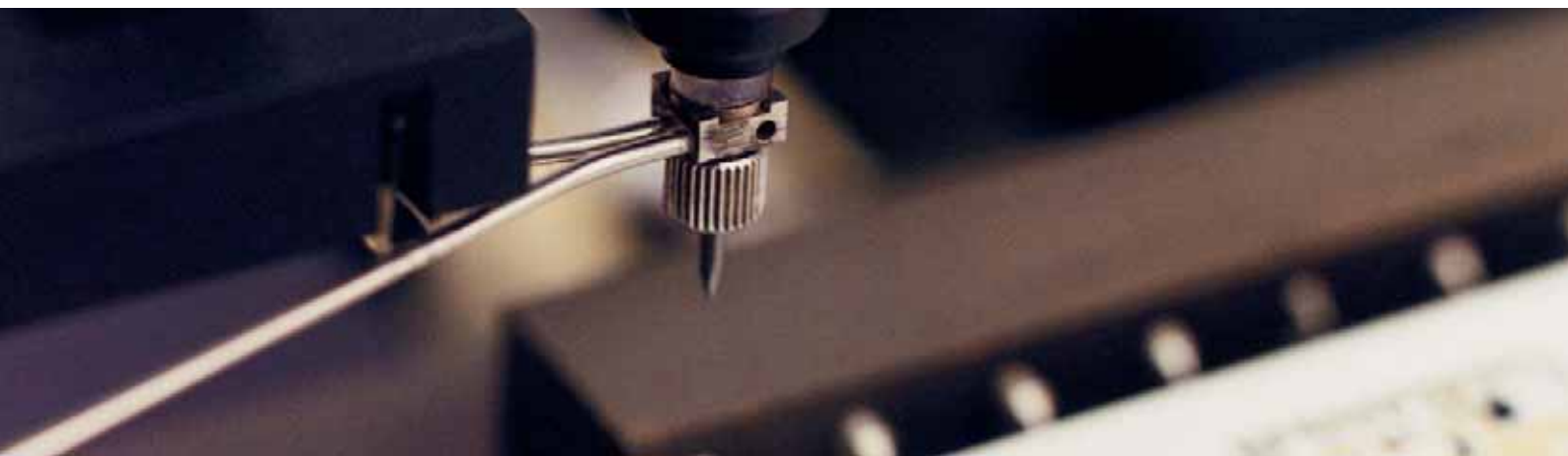
- Positive customer feedback and a majority of high scores in response to customer satisfaction surveys indicated an effective system.
- From the areas sampled, it was clear that Dstl's focus was on meeting customer requirements and delivering a high-quality service. Communication of, and alignment with, the Dstl Policy Manual and Corporate Plan continues to be well demonstrated.
- Improvement initiatives in a number of areas (via the **i lab** programme) were well demonstrated. Overall management of the change programme continues to be seen as a 'model' improvement initiative.
- **i lab** was subject to external health checks by the Office of Government Commerce (OGC). These reviews confirmed that the programme does not suffer from any of the NAO/OGC common causes of failure.

Significant internal control problems

There are presently no significant internal control problems. Based on the audit work carried out in 2005/06, PKF concluded that Dstl's evolving system of internal control continues to be developed, is sound for the purposes of Dstl, and continues to operate effectively in all key areas.



Frances Saunders
Chief Executive (from 03 May 2006)
05 July 2006



Statement of Dstl's and Chief Executive's responsibilities

Statement of Dstl's and Chief Executive's responsibilities

Under Section 4(6) of the Government Trading Funds Act 1973, the Treasury has directed Dstl to prepare accounts for each financial year in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis, modified for the effect of changing prices on the valuation of fixed assets, and give a true and fair view of Dstl's state of affairs at the year end and of its profit, total recognised gains and losses, and cash flows for the financial year.

In preparing accounts Dstl is required to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and to disclose and explain any material departures in the financial statements;
- prepare the accounts on a going concern basis, unless it is inappropriate to presume that Dstl will continue in operation;
- disclose that the Directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which Dstl's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that Dstl's auditors are aware of that information.

The Treasury has appointed the Chief Executive as the Accounting Officer of Dstl. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances for which she 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' (The Stationery Office).

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

Frances Saunders
Chief Executive (from 03 May 2006)

05 July 2006

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

I certify that I have audited the financial statements of the Defence Science and Technology Laboratory for the year ended 31 March 2006 under the Government Trading Funds Act 1973. These comprise the Profit and Loss Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Defence Science and Technology Laboratory, Chief Executive and auditor

The Defence Science and Technology Laboratory and Chief Executive are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Defence Science and Technology Laboratory's and Chief Executive's responsibilities. My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

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

I review whether the statement on pages 26 and 27 reflects the Defence Science and Technology Laboratory's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Defence Science and Technology Laboratory'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 judgements made by the Defence Science and Technology Laboratory and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Defence Science and Technology Laboratory'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

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of the Defence Science and Technology Laboratory's affairs as at 31 March 2006 and of its surplus 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 the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
 - in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.
- I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria, London SW1W 9SP
07 July 2006

Dstl Board and Executive

To reflect best practice for the governance of a Ministry of Defence trading fund, the Dstl Board was reconfigured into a Board and an Executive during the reporting period*.

The Board, which meets bi-monthly, focuses primarily on providing advice on strategic issues and on governance of the Trading Fund. The Executive, which meets monthly, is responsible for the leadership and management of the laboratory.

The Board

Richard Maudslay	Non Executive Chairman	
Martin Earwicker**	Chief Executive	
Mark Hone	Finance Director	
Frances Saunders***	Technical Director	Until 03 October 2005
	Director of Operations	From 03 October 2005
	Deputy Chief Executive	From 01 January 2006
Mark Preston	Non Executive Director	Appointed 30 August 2005
Major General Andrew Figgures	Non Executive Director	
Roger Platt	Non Executive Director	
Lord May	Non Executive Director	Appointed 01 March 2006
Professor Patrick Dowling	Non Executive Director	Appointed 01 November 2005
Christopher Swinson	Non Executive Director	Appointed 01 November 2005
Admiral Sir Nigel Essenhigh	Non Executive Director	Appointed 01 November 2005
Alison Stevenson	Non Executive Director	Resigned 30 August 2005

The Executive

Martin Earwicker	Chief Executive	
Mark Hone	Finance Director	
Frances Saunders	Technical Director	Until 03 October 2005
	Director of Operations	From 03 October 2005
	Deputy Chief Executive	From 01 January 2006
Ruth Davies	Director of Human Resources and Communications	
Peter Starkey	Director of Future Business Programme Director (Systems)	From 03 February 2006 Until 31 March 2006
Mike Jenden	Director of Future Business	Until 04 September 2005
Richard Scott	Programme Director (Science and Technology)	
Nick Helbren	Director of Operations	Until 03 October 2005
	Deputy Chief Executive	Until 31 December 2005
	Director of Rationalisation	From 01 January 2006

* With the Executive Director members of the Board also becoming members of the Executive.

** Resigned as Chief Executive on 02 May 2006

***Chief Executive from 03 May 2006

Directors' Remuneration Report

Remuneration Committee

The Remuneration Committee includes Richard Maudslay (Chair), Chris Swinson, Admiral Sir Nigel Essenhigh and Mark Preston. The Dstl Chief Executive and Director of Human Resources and Communications also attend committee meetings (except when their own remuneration is being discussed). The committee met once in the year.

Remuneration policy

The committee applies the following remuneration policy to the employment of its Executive Directors: All Executive Directors are Senior Civil Servants (SCS) and subject to SCS terms and conditions, including the remuneration policy, with the exception of two Directors. The remaining two Executive Directors are Dstl employees and subject to the same performance-related remuneration policy as all other Dstl employees. However, their bonus arrangements are in line with the SCS scheme rather than the Dstl performance-award system.

Performance conditions

Executive Directors subject to SCS terms and conditions are also subject to the SCS performance conditions. The remaining two Executive Directors are subject to the Dstl performance management rules.

Service contracts

Dstl appointments are made in accordance with the Civil Service Commissioners' Recruitment Code and, wherever possible, on the basis of merit and fair and open competition.

Unless otherwise stated, the officials named in this report hold appointments which are open-ended until they reach the standard retirement age of 60. Early termination would result in the individual receiving compensation (except in cases of misconduct), as outlined in the Civil Service Compensation Scheme rules.

There were no significant awards made to past senior managers in 2005/06.

Board Directors' remuneration (excluding pension arrangements):

Name	Note	Age	Salary band 2005-06 £k	Salary band 2004-05 £k	Bonus 2005-06 £k	Bonus 2004-05 £k	Fee 2005-06 £k	Fee 2004-05 £k
Richard Maudslay		59					30-35	
Martin Earwicker		57	100-105	100-105	5-10	5-10		
Mark Hone		44	60-65	60-65	0-5	0-5		
Frances Saunders		51	70-75	65-70	0-5	0-5		
Mark Preston		44					-	-
Major General Andrew Figgures		55					-	-
Roger Platt		61					10-15	10-15
Lord May		70					-	-
Professor Patrick Dowling		67					5-10	
Christopher Swinson		58					5-10	
Admiral Sir Nigel Essenhigh		61					5-10	
Alison Stevenson	1	42					-	-

1. Resigned from the Board during the year

Bonuses have been awarded, as indicated, for the year 2005-06.

Fees have been paid, as indicated, for 2005-06.

No additional remuneration or other allowances were paid to members of the Board.

None of the Board members, key managerial staff or other related parties have undertaken any material transactions with Dstl during the year.

The salary bands set out above relate only to emoluments paid during the period of each Director's membership of the Board.

Mark Preston and Alison Stevenson have received no fee; both are Non Executive Directors representing the Ministry of Defence.

Directors' Remuneration Report

Board pension provision

The information below details the real increase in pension and related lump sum.

Name	Real increase in pension [and related lump sum at age 60] (£k)	Total accrued pension at age 60 at 31/3/06 [and related lump sum] (£k)	Cash equivalent value at 31/3/05 (£k)	Cash equivalent value at 31/3/06 (£k)	Real increase in cash equivalent transfer value as funded by employer (£k)
Martin Earwicker	2.5-5 [7.5-10]	50-55 [150-152.5]	818.3	910.3	73.0
Mark Hone	0-2.5 [2.5-5]	7.5-10 [27.5-30]	106.0	124.4	13.4
Frances Saunders	0-2.5	30-35	364.0	402.5	20.3

Executive remuneration (excluding pension arrangements)

Name	Note	Age	Salary band 2005-06 (£k)	Salary band 2004-05 (£k)	Bonus 2005-06 (£k)	Bonus 2004-05 (£k)
Martin Earwicker		57	100-105	100-105	5-10	5-10
Mark Hone		44	60-65	60-65	0-5	0-5
Frances Saunders		51	70-75	65-70	0-5	0-5
Ruth Davies		47	65-70	40-45	0-5	-
Mike Jenden	1	50	30-35	70-75	0-5	5-10
Peter Starkey		52	70-75	65-70		0-5
Richard Scott		57	75-80	70-75	0-5	5-10
Nick Helbren	1	60	65-70	70-75	5-10	5-10

*Note 1. Resigned from the Executive during the year. Nick Helbren resigned as Deputy Chief Executive but remained on the Executive as Director of Rationalisation.

Executive pension provision

Name	Real increase in pension [and related lump sum at age 60] (£k)	Total accrued pension at age 60 at 31/3/06 [and related lump sum] (£k)	Cash equivalent value at 31/3/05 (£k)	Cash equivalent value at 31/3/06 (£k)	Real increase in cash equivalent transfer value as funded by employer (£k)
Martin Earwicker	2.5-5 [7.5-10]	50-55 [150-152.5]	818.3	910.3	73.0
Mark Hone	0-2.5 [2.5-5]	7.5-10 [27.5-30]	106.0	124.4	13.4
Frances Saunders*	0-2.5	30-35	364.0	402.5	20.3
Ruth Davies	0-2.5	0-5	8.2	21.8	13.5
Mike Jenden	0-2.5 [5-7.5]	25-30 [82.5-85]	382.9	439.4	39.6
Peter Starkey	0-2.5 [2.5-5]	25-30 [80-82.5]	410.1	449.8	19.7
Richard Scott	0-2.5 [5-7.5]	30-35 [95-97.5]	519.3	572.9	40.2
Nick Helbren	0-2.5 [5-7.5]	30-35 [10-12.5]	572.3		

*Premium Pension Scheme, only refund of contributions due.

With the exception of Frances Saunders and Ruth Davies, who belong to the Premium Civil Service Pension Scheme, all Directors belong to the Classic Civil Service Pension Scheme. Both schemes are part of the Principal Civil Service Pension Scheme. See Note 6 to the Accounts.

There was no non-cash element of the remuneration package.

No compensation was payable to former senior managers during the year.

There were no amounts payable to third parties for services of a senior manager.



Frances Saunders
Chief Executive (from 03 May 2006)

05 July 2006

Dstl Profit and Loss Account

For the year ended 31 March 2006

	Note	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Turnover	2	353.4	353.3	353.3
Cost of sales		(91.5)	(91.4)	(103.6)
Net income		261.9	261.9	249.7
Net operating expenses – non-exceptional items		(243.2)	(242.4)	(226.5)
Operating profit before impairments		18.7	19.5	23.2
Net operating expenses – impairments		-	-	(4.7)
Operating profit	3	18.7	19.5	18.5
Loss on disposal of fixed assets	10	-	-	(0.3)
Profit on ordinary activities before interest		18.7	19.5	18.2
Interest receivable	7	3.1	3.1	2.0
Profit for the financial year		21.8	22.6	20.2
Dividends	8	(3.0)	(3.0)	(3.0)
Retained profit for the year	19	18.8	19.6	17.2
Return on capital employed	4	8.8%	9.1%	9.4%

All operations are continuing.

The notes on pages 37 to 51 form an integral part of these accounts.

Balance Sheet

As at 31 March 2006

	Note	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Fixed assets				
Tangible assets	10	123.8	123.8	122.1
Investments	11	0.8	0.8	0.8
		124.6	124.6	122.9
Current assets				
Stocks and work in progress	12	6.4	6.5	7.8
Debtors	13	95.2	95.7	103.8
Cash and cash equivalents	21	78.7	78.7	61.9
		180.3	180.9	173.5
Creditors: Amounts falling due within one year	14	(80.3)	(80.1)	(89.5)
Net current assets		100.0	100.8	84.0
Total assets less current liabilities		224.6	225.4	206.9
Financed by:				
Creditors: Amounts falling due after more than one year	15	2.1	2.1	2.8
Provisions for liabilities and charges	16	4.5	4.5	5.2
		6.6	6.6	8.0
Capital and reserves				
Public dividend capital	18	50.4	50.4	50.4
Revaluation reserve	19	36.9	36.9	37.7
Profit and loss account	19	130.7	131.5	110.8
Government funds		218.0	218.8	198.9
Total		224.6	225.4	206.9

The accounts were signed on 05 July 2006



Frances Saunders, Chief Executive (from 03 May 2006)



Mark Hone, Finance Director

The notes on pages 37 to 51 form an integral part of these accounts.

Statement of total recognised gains and losses

For the year ended 31 March 2006

	Note	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Profit for the financial year		21.8	22.6	20.2
Unrealised surplus on revaluation of tangible fixed assets	10, 20	0.3	0.3	5.2
Total gains and losses recognised since the previous annual report		22.1	22.9	25.4

The notes on pages 37 to 51 form an integral part of these accounts.

Cash flow statement

For the year ended 31 March 2006

	Note	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Cash flow from operating activities				
Net cash inflow from operating activities	28	22.4	22.4	43.5
Returns on investments and servicing of finance				
Interest received		3.0	3.0	1.9
Interest paid		-	-	-
Net cash inflow from returns on investments and servicing of finance		3.0	3.0	1.9
Net cash inflow before capital expenditure		25.4	25.4	45.4
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		(5.6)	(5.6)	(5.7)
Payments for investments		-	-	(0.5)
Amounts received upon sale of investments		-	-	0.2
Net cash outflow from capital expenditure and financial investment		(5.6)	(5.6)	(6.0)
Dividends paid		(3.0)	(3.0)	(3.0)
Net cash inflow before financing		16.8	16.8	36.4
Financing				
Repayment of long-term loan		-	-	(1.1)
Net cash outflow from financing		-	-	(1.1)
Increase in cash	21	16.8	16.8	35.3

The notes on pages 37 to 51 form an integral part of these accounts.

Notes to the accounts

1 ACCOUNTING POLICIES

(a) Accounting convention

The accounts are prepared in accordance with applicable accounting standards and under the historical cost convention modified to include the revaluation of tangible fixed assets.

Dstl has prepared accounts for the year ended 31 March 2006 in compliance with the accounting principles and disclosure requirements of the Financial Reporting Manual issued by HM Treasury which is in force for 2005-06.

The accounts have been prepared so as:

- (1) to give a true and fair view of the income and expenditure, total recognised gains and losses, and cash flows of the Trading Fund and Group, and of the state of affairs as at period ended 31 March 2006; and
- (2) to provide disclosure of any material income or expenditure that has not been applied to the purposes intended by Parliament, or material transactions that have not conformed to the authorities which govern them.

(b) Basis of consolidation

The consolidated accounts incorporate the Trading Fund together with those of Ploughshare Innovations Limited. All entities are consolidated using the acquisition method. The accounts are drawn up to 31 March 2006.

Ploughshare Innovations Limited was incorporated on 6 April 2005 as a wholly owned subsidiary of Dstl. It has been created as a vehicle to manage Dstl's Joint Venture initiatives.

(c) Joint Ventures

Various Joint Ventures exist to allow Dstl's technology to be developed for commercial purposes. These Joint Ventures are not consolidated. They are included in the balance sheet at historic cost. It is intended that these Joint Ventures will transfer to Dstl's wholly owned subsidiary undertaking, Ploughshare Innovations Limited, during next year.

(d) Tangible fixed assets

Tangible fixed assets are stated at valuation less accumulated depreciation. The valuation bases for different classes of asset are as follows:

Land and buildings:

- Porton Down – Depreciated replacement cost
- Portsmouth West – Existing use valuation
- For land and buildings that have been declared surplus
 - Open market value

Legacy and acquired facilities

- Net recoverable amount

Plant, machinery, computers and office equipment

- Net current replacement cost

A facility is a collection of fixed assets operated together to provide discrete services. Fixed assets included as legacy and acquired facilities incorporate, as appropriate, land, buildings, plant and machinery, computers and office equipment. The net recoverable amount is calculated as the greater of:

- (i) the estimated net present value of the cash flows deriving from the continued use of the asset less an allowance for profit to be earned in accordance with the Government Profit Formula; and
 - (ii) the estimated net sale proceeds of the asset.
- In order to meet the Treasury's requirement for modified historic cost accounting, tangible fixed assets are revalued in the years between professional valuations using the following indices:
- Land – Gross Domestic Product Deflator Index
 - Buildings – Buildings Cost Information Service (BCIS), All-In Tender Price Index
 - Other assets – Relevant indices published by the Office for National Statistics

Depreciation is provided evenly over the useful economic lives of the assets, which are generally considered to be the following:

Freehold land	Not depreciated
Freehold buildings	1–30 years
Legacy and acquired facilities	1–12 years
Plant and machinery	1–25 years
Computers and office equipment	1–10 years

Plant and machinery, computers, and office equipment are capitalised where their historical cost of acquisition is greater than £10,000.

The revaluation reserve is released to the profit and loss account reserve in accordance with FRS15.

Notes to the accounts

(e) Leased assets

Assets held under finance leases are capitalised as tangible fixed assets and depreciated over the term of the lease.

Rentals are apportioned between reductions in the capital obligations included in creditors and finance charges, which are charged to the profit and loss account.

Expenditure under operating leases is charged to the profit and loss account as incurred.

(f) Work in progress

Work in progress represents costs incurred on specific contracts, not classified as long-term contracts, and is stated at the lower of cost (or net replacement cost if materially different), and net realisable value. Cost represents direct materials and labour and other directly attributable overheads.

(g) Long-term contracts

Amounts recoverable on long-term contracts are stated at cost (or net current replacement cost if materially different), plus attributable profits less provision for any known or anticipated losses and payments on account, and are included in debtors as amounts recoverable under contracts.

(h) Insurance

In common with other Government-owned organisations, Dstl carries commercial insurance only where it is considered cost effective. It carries its own risks in respect of fire, explosion, common law, third party etc, and its operating costs include claims against self-insurance. In the event of a loss occurring which exceeds the ability of the organisation to bear the cost, Dstl will consult with MOD about the action to be taken.

(i) Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer scheme providing benefits based on final salary. Dstl is unable to identify its share of the underlying assets and liabilities. Therefore, as required by FRS17 'Retirement Benefits', Dstl accounts for the scheme as if it was a defined

contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Employees joining after 1 October 2002 could opt to open a partnership pension, with an employer contribution. Details of rates and amounts of contributions during the year are given in Note 6.

(j) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. The resulting exchange differences are dealt with in the determination of profit for the financial year.

(k) Corporation tax

Dstl is exempt from corporation tax under Section 829(2) of the Income and Corporation Taxes Act 1988 and consequently the requirements to account for current tax and deferred tax under FRS16 and FRS19 are not relevant for these financial statements.

Ploughshare Innovations Limited and its subsidiary undertakings are liable to pay corporation tax in the United Kingdom on their taxable profits. See Note 9 to the accounts.

(l) Going concern

The accounts have been prepared on the basis that Dstl is a going concern.

(m) Turnover

Turnover represents amounts invoiced to customers (net of VAT), with an adjustment, where necessary, to reduce for values that are invoiced in advance of the work being performed.

For cost-plus contracts, amounts receivable under contract are recognised as turnover, which includes a contract fee. For long-term contracts, an appropriate amount of profit is attributed where there is reasonable certainty of the final outcome.

2 Turnover

Turnover by major class of customer is analysed as follows:

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
MOD:	306.1	306.1	310.1
Research	159.6	159.6	165.3
Non-research	146.5	146.5	144.8
Non-MOD:	47.3	47.2	43.2
Government Departments	22.8	22.8	19.5
Non-Exchequer income	24.3	24.3	23.5
Non-Exchequer royalty income	0.2	0.1	0.2
Total	353.4	353.3	353.3

All turnover relates to the same class of business, which is the supply of scientific and technical services. This is conducted principally in the UK in sterling, and no other geographical market has contributed significantly to turnover.

3 Operating profit

This is stated after charging/(crediting):

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Auditors' remuneration – audit services – UK	0.1	0.1	0.1
Depreciation charge for the year:	8.0	8.0	13.4
Depreciation of owned assets	8.0	8.0	8.9
Exceptional costs of impairment of tangible fixed assets	-	-	4.7
Adjustment/(downward) valuation of tangible fixed assets	-	-	(0.2)
Operating lease rentals – land and buildings	7.7	7.7	7.6
– plant and machinery	0.7	0.7	0.6
Travel, subsistence and hospitality	3.6	3.6	3.4
Foreign exchange (gains)/and losses	-	-	(0.1)
Other operating income	(9.6)	(9.9)	(8.8)

4 Key corporate financial target

Dstl has a return on capital employed target, defined as follows:

- a) Return – modified historical cost profit on ordinary activities before interest and dividends
- b) Capital employed – average net assets, being total assets less total current liabilities

The target for the year for return on capital employed was 3.5%.

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Profit on ordinary activities before interest	18.7	19.5	18.2
Total assets less current liabilities	224.7	225.4	206.9
Less: long-term creditors excluding provisions	(2.1)	(2.1)	(2.8)
Capital employed at year end	222.6	223.3	204.1
Average capital employed during the year	213.4	213.7	193.1
ROCE	8.8%	9.1%	9.4%

5 Trading Fund Board members' emoluments

Details of members' emoluments are shown in the Remuneration Report. They are summarised as follows:

	2006 £ thousand	2005 £ thousand
Salaries, bonuses and fees	680.1	577.3

6 Employee information

The average number of persons (including members of the Board) employed during the year was:

	2006 Group Number	2006 Trading Fund Number	2005 Trading Fund and Group Number
Professional and technical staff	2,753	2,746	2,661
Administrative and industrial staff	620	618	632
Secondees	40	39	35
Total	3,413	3,403	3,328

In addition, there were 718 (2005: 696) agency and contract staff utilised during the year at a cost of £18.1 million (2005: £16.6 million).

Staff costs incurred during the year in respect of these employees were:

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Wages and salaries	106.0	105.7	101.9
Social security costs	9.0	8.9	8.7
Other pension costs	19.6	19.6	13.9
Total	134.6	134.2	124.5

The employees of Dstl are eligible to be members of the Principal Civil Service Pension Scheme (PCSPS), a final salary scheme. The PCSPS is an unfunded multi-employer defined benefit scheme, but Dstl is unable to identify its share of the underlying assets and liabilities.

A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk). For 2005-06, normal employers' contributions of £19.6 million were payable to the PCSPS (2004-2005 £13.9 million) at one of four rates in the range 16.2% to 24.6% of pensionable pay. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and they reflect past experience of the scheme. Employees joining after 1 October 2002 could opt to open a 'partnership' pension account, a stakeholder pension with an employer contribution. Employers' contributions of £38,043 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £3,219 representing 0.8% of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service, and ill-health retirement of these employees.

Contributions due to the 'partnership' pension providers at the balance sheet date were £5,999. There were no prepaid contributions at that date.

Four persons retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £10,121.

7 Interest receivable

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Interest receivable on deposits and loan to Ploughshare Innovations Limited	3.1	3.1	2.0

8 Dividends

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Dividends	3.0	3.0	3.0

Dividends are set by agreement with the Secretary of State

9 Taxation

Dstl is not subject to income or corporation tax in the United Kingdom. However, Ploughshare Innovations Limited is liable to pay corporation tax in the United Kingdom on its taxable profits. No provision has been made in these accounts for tax payable by Ploughshare Innovations Limited on the grounds that tax losses arose during the year.

10 Tangible fixed assets

Consolidated and Trading Fund

The accounting policy for tangible fixed assets is covered in Note 1. Tangible fixed asset movements during the year were as follows:

	Freehold land and buildings £ million	Legacy facilities £ million	Plant & machinery £ million	Computers & office equipment £ million	Assets under construction £ million	Total £ million
Gross modified historic cost:						
Balance brought forward	102.7	0.3	59.0	2.7	6.6	171.3
Additions	-	-	0.7	-	8.7	9.4
Disposals	-	-	(0.2)	(0.1)	-	(0.3)
Transfers	1.9	-	3.6	0.1	(5.6)	-
Downward revaluation	-	-	-	(0.2)	-	(0.2)
Revaluations	0.4	-	(0.1)	-	-	0.3
Balance carried forward	105.0	0.3	63.0	2.5	9.7	180.5
Depreciation:						
Balance brought forward	(16.5)	(0.3)	(30.1)	(2.3)	-	(49.2)
Charge for year –						
historical	(3.4)	-	(4.3)	(0.2)	-	(7.9)
supplementary	(0.6)	-	0.1	-	-	(0.5)
downward revaluation	-	-	-	0.2	-	0.2
impairment	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Disposals	-	-	0.2	0.1	-	0.3
Revaluations	0.4	-	-	-	-	0.4
Balance carried forward	(20.1)	(0.3)	(34.1)	(2.2)	-	(56.7)
Net modified historic cost:						
Balance carried forward	84.9	-	28.9	0.3	9.7	123.8
Balance brought forward	86.2	-	28.9	0.4	6.6	122.1

A valuation of land and buildings at Porton Down and Portsdown West was conducted by an independent firm, GVA Grimley, Chartered Surveyors in March 2004 and those valuations are included as part of the above stated figures. The basis of the valuation was Depreciated Replacement Cost (DRC) for Porton Down, and Existing Use Valuation (EUV) for Portsdown West. For DRC, fees and stamp duty are included; for EUV acquisition costs are not included.

All EUVs are higher than Open Market Value. The reasons for the differences are:

- planning for alternative use not established;
- site locations generally not in areas of high land demand;
- Dstl facilities are specialist and have a higher replacement cost than their value;
- the specialist nature of some facilities would have no market elsewhere;
- the liabilities included in the sites such as Sites of Special Scientific Interest affect land value.

If tangible fixed assets had not been modified for the effects of changing prices, they would have been included as follows:

	Freehold land and buildings £ million	Legacy facilities £ million	Plant & machinery £ million	Computers & office equipment £ million	Assets under construction £ million	Total £ million
Cost or valuation:						
Balance brought forward	92.7	0.3	58.2	3.6	6.6	161.4
Additions	-	-	0.7	-	8.7	9.4
Disposals	-	-	(0.2)	(0.2)	-	(0.4)
Transfers	1.9	-	3.6	0.1	(5.6)	-
Revaluations	(1.3)	-	-	-	-	(1.3)
Balance carried forward	93.3	0.3	62.3	3.5	9.7	169.1
Depreciation:						
Balance brought forward	(14.3)	(0.3)	(29.5)	(3.2)	-	(47.3)
Charge for the year	(3.4)	-	(4.3)	(0.2)	-	(7.9)
Impairment	-	-	-	-	-	-
Disposals	-	-	0.2	0.2	-	0.4
Transfers	-	-	-	-	-	-
Revaluations	0.4	-	-	-	-	0.4
Balance carried forward	(17.3)	(0.3)	(33.6)	(3.2)	-	(54.4)
Net Book Values:						
Balance carried forward	76.0	-	28.7	0.3	9.7	114.7
Balance brought forward	78.4	-	28.7	0.4	6.6	114.1

Disposal of tangible fixed assets

	2006 £ million	2005 £ million
Gross modified historic cost of tangible fixed asset disposals	(0.3)	(1.5)
Depreciation	0.3	1.2
	-	(0.3)
Net proceeds – cash	-	-
Loss on disposals	-	(0.3)

11 Investments

	Trading Fund Subsidiary undertaking £ million	Trading Fund Joint Ventures and associate £ million	Trading Fund Total £ million	Group Joint Ventures and associate £ million	Group Total £ million
Cost					
At 1 April 2005	-	0.8	0.8	0.8	0.8
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 March 2006	-	0.8	0.8	0.8	0.8
Amount provided					
Net Book Value	-	-	-	-	-
At 31 March 2006	-	0.8	0.8	0.8	0.8
At 1 April 2005	-	0.8	0.8	0.8	0.8

Investments have been valued by the Board.

During the year, Dstl's investment in Alaska Food Diagnostics Limited was transferred to its wholly owned subsidiary undertaking, Ploughshare Innovations Limited.

It is intended that Dstl's holdings in Enigma Diagnostics Limited, Acolyte Biomedica Limited, Porton Plasma Innovations Limited, Leading Light Scientific Limited, and Remo Technologies Limited will transfer to Ploughshare Innovations Limited during next year.

Investments

Joint Ventures and associate at 31 March 2006 are shown below.

Name of company	Principal area of operation and country of incorporation	Proportion of voting rights and shares held	Class of shares held	Last financial year ended	Aggregate capital & reserves £ million	Profit/ (Loss) for year £ million	Nature of business
Joint Ventures							
Acolyte Biomedica Limited	Great Britain	15.3%	Ordinary/ Ordinary A of 10p	31 Dec 2005	1.4	(1.6)	R&D
Porton Plasma Innovations Limited	Great Britain	25.0%	Ordinary B of 10p	30 Jun 2005	4.4	(0.7)	R&D
Leading Light Scientific Limited (formerly Lucigen Limited)	Great Britain	50.0%	Ordinary B of £1	31 Dec 2005	0.4	-	R&D
Enigma Diagnostics Limited**	Great Britain	80.7%	Ordinary of 10p	30 Apr 2005	4.3	(0.9)	R&D
Remo Technologies Limited	Great Britain	40.4%	Ordinary of 10p	31 Oct 2005	-	-	R&D
Alaska Food Diagnostics Limited	Great Britain	42.0%	Ordinary of 2p	30 Jun 2005	1.6	(1.3)	R&D
Associate							
Tetricus Limited***	Great Britain	33.3%	Ordinary C of £1	31 Mar 2006	0.2	0.1	R&D

**A shareholders' agreement is in force which limits the power of shareholders such that no single party has control of the company.

***Management accounts for 12 months to the year ended 31 March 2006 have been used for the disclosure because audited accounts were not available.

12 Stocks and work in progress

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Work in progress			
Central government bodies	4.8	4.8	5.9
Trading funds	-	0.1	-
NHS Trusts	-	-	-
Local authorities	-	-	0.1
Non-public sector organisations	1.6	1.6	1.8
Total	6.4	6.5	7.8

13 Debtors

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Trade debtors	21.6	21.5	24.7
Central government bodies	16.8	16.8	20.5
Trading funds	-	-	0.1
NHS Trusts	-	-	0.1
Local authorities	0.1	0.1	0.1
Non-public sector organisations	4.7	4.6	3.9
Amounts recoverable under contracts – central government bodies	69.1	69.1	74.4
Central government bodies	68.5	68.5	74.4
Non-public sector organisations	0.6	0.6	-
Other debtors	1.3	1.6	1.0
Central government bodies	1.0	1.0	0.6
Trading funds	-	0.3	-
Non-public sector organisations	-	-	0.1
Staff debtors	0.3	0.3	0.3
Loans due from Ploughshare Innovations Limited	-	0.3	-
Prepayments and accrued income	3.2	3.2	3.7
Central government bodies	0.1	0.1	-
Non-public sector organisations	3.1	3.1	3.7
Total	95.2	95.7	103.8

The loan due from Ploughshare Innovations Limited is an inter-company loan, set at an interest rate of base rate plus 2%. The loan arrangement is on demand, with a total limit set at £750,000. The loan is repayable on the third anniversary of the loan agreement, which means that it is due in more than one year, although it may be repaid voluntarily before due date.

Within other debtors is a current account with Ploughshare Innovations Limited. The balance on this account represents amounts due for services provided, and interest on the loan.

There is no intention to demand payment during the next year, and Ploughshare Innovations Limited has indicated that it is unlikely to make the payment during this period.

14 Creditors: amounts falling due within one year

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Payments received on account	12.9	12.9	12.8
Central government bodies	7.6	7.6	8.2
NHS Trusts	0.9	0.9	-
Local authorities	-	-	0.1
Non-public sector organisations	4.4	4.4	4.5
Trade creditors	11.4	11.4	13.0
Central government bodies	1.2	1.2	0.4
NHS Trusts	-	-	1.3
Non-public sector organisations	10.2	10.2	11.3
Taxation and social security	9.6	9.6	9.7
Other creditors	2.1	2.0	1.8
Non-public sector organisations	0.1	-	0.3
Staff creditors	2.0	2.0	1.5
Accruals and deferred income	39.7	39.6	46.7
Central government bodies	4.1	4.1	10.1
Trading funds	0.1	0.1	0.1
Local authorities	0.3	0.3	-
Non-public sector organisations	35.2	35.1	36.5
Rationalisation, redundancy and early retirement costs – non-public sector organisations	1.6	1.6	2.5
Dividend	3.0	3.0	3.0
Total	80.3	80.1	89.5

15 Creditors: amounts falling due after more than one year

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Accruals and deferred income	0.4	0.4	-
Central government bodies	0.4	0.4	-
Rationalisation, redundancy and early retirement costs – non-public sector organisations	1.7	1.7	2.8
Total	2.1	2.1	2.8

16 Provisions for liabilities and charges

Consolidated & Trading Fund

	Infrastructure maintenance and upgrades £ million	Decontamination £ million	Structural building £ million	Onerous contracts £ million	Total £ million
Balance brought forward	4.6	0.4	0.1	0.1	5.2
Utilised in year	(0.6)	(0.2)	(0.1)	-	(0.9)
Additions in year	0.2	-	-	0.1	0.3
Released in year	(0.1)	-	-	-	(0.1)
Balance carried forward	4.1	0.2	-	0.2	4.5

Infrastructure maintenance and upgrades A provision is recognised for certain infrastructure maintenance and upgrades where Dstl is legally responsible for the infrastructure concerned and there is a clear legal or constructive obligation resulting in an expected transfer of economic benefits. The timing for the transfer of economic benefits for the remaining amount is uncertain, but is expected to be completed before 2009.

Decontamination A provision is recognised for certain contamination costs on Dstl sites where there is a clear legal or constructive obligation resulting in an expected transfer of economic benefits. Utilisation of the remaining provision is expected next financial year.

Structural building A provision is recognised for certain commissioning costs where Dstl is legally responsible for bringing the buildings concerned up to a certain standard, and there is a clear legal or constructive obligation resulting in an expected transfer of economic benefits. The provision was fully utilised during the year.

Onerous contracts A leased property in Dunfermline has been vacated as part of a reorganisation programme. Under terms of the contract, Dstl is liable for rent and some utilities until 11 August 2006.

17 Operating leases

Consolidated & Trading Fund

Commitments for rental payments under non-cancellable operating leases payable during the year to 31 March 2007 are as follows:

	2006 £ million	2005 £ million
Buildings		
Leases expiring:		
– within 1 year	3.3	3.4
– between 2 and 5 years	4.1	-
– over 5 years	-	4.1
Total	7.4	7.5

There were no material operating leases for other categories.

18 Public dividend capital

Consolidated & Trading Fund

	2006 £ million	2005 £ million
Balance brought forward	50.4	50.4
Net movement in year	-	-
Balance carried forward	50.4	50.4

19 Revaluation and other reserves

	Note	Revaluation reserve £ million	Profit and loss account Group £ million	Profit and loss account Trading Fund £ million	Total Group £ million	Total Trading Fund £ million
At beginning of year as previously reported		37.7	110.8	110.8	148.5	148.5
Retained profit for the year		-	18.8	19.6	18.9	19.6
Release from revaluation reserve		(1.1)	1.1	1.1	-	-
Revaluation of tangible fixed assets	10	0.3	-	-	0.3	0.3
Balance carried forward		36.9	130.7	131.5	167.7	168.4

20 Reconciliation of movements in government funds

Government funds represent reserves

	Note	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Retained profit for the year		18.8	19.6	17.2
Movements on revaluation reserve	19	0.3	0.3	5.2
Net movement in government funds		19.1	19.9	22.4
Balance brought forward		198.9	198.9	176.5
Balance carried forward		218.0	218.8	198.9

21 Analysis of the balances of cash as shown in the balance sheet

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Cash at bank and in hand	0.4	0.4	(0.3)
Short-term deposits	78.3	78.3	62.2
Balance carried forward	78.7	78.7	61.9

Analysis of changes in cash and cash equivalents during the year

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Balance brought forward	61.9	61.9	26.6
Increase in cash and liquid resources	16.8	16.8	35.3
Balance carried forward	78.7	78.7	61.9

Financial instruments

The Trading Fund and its subsidiary undertaking's principal financial instruments comprise cash, and short-term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, that arise directly from its operations.

It has been the Group's policy throughout the year that no trading in financial instruments shall be undertaken.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank current account facilities and investment of surplus funds in short-term interest bearing accounts.

The main risks arising from the Group's financial instruments are liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks. These policies have remained unchanged throughout the year. There is no interest rate risk. All investments are short-term at a fixed rate.

The Group has limited transactional currency exposures. Such exposures arise from sales or purchases by an operating unit in currencies other than sterling.

The Group does not use forward currency contracts to eliminate such exposure to currency losses.

22 Analysis of changes in financing during the year

Consolidated & Trading Fund

	Note	2006 £ million	2005 £ million
Public Dividend Capital			
Balance brought forward		50.4	50.4
Net movement in year		-	-
Balance carried forward	18	50.4	50.4

23 Capital commitments

	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Capital expenditure that has been contracted for but has not been provided for in the accounts.	2.2	2.2	2.0
Capital expenditure that has been authorised but has not been provided for in the accounts.	87.4	87.4	79.0

24 Government accounting – losses and special payments

There were no losses or special payments exceeding £100,000 in the year.

25 Contingent liabilities

A Health and Safety incident occurred in 2002. Legal proceedings are underway and a court hearing is expected to commence later in 2006. At the date of signing these accounts, no firm prediction can be made as to any liability that may result.

26 Related party transactions

Dstl is a trading fund owned by the Ministry of Defence (MOD).

MOD is regarded as a related party. During the year Dstl had various material transactions with the Ministry.

All transactions are carried out on contract terms and are subject to the normal course of internal and external audit.

Sales to MOD during the year were £306.1 million (2005: £310.1 million). Purchases from MOD during the year were £6.8 million (2005: £10.2 million).

The debtor and creditor position with MOD at year end are as follows:

	2006 £ million	2005 £ million
Debtors	79.3	92.3
Creditors	7.9	15.2

Tetricus Limited is an associate, and Acolyte Biomedica Limited is a joint venture of Dstl (see Note 11). These entities are considered to be related parties. During the year, the following trading occurred between Dstl and these entities, carried out under normal contract terms:

	Sales		Purchases	
	2006	2005	2006	2005
	£	£	£	£
Acolyte Biomedica Limited	5,760	862	-	-
Tetricus Limited	7,500	-	70,103	42,465

The debtor and creditor position with these entities at year end are as follows:

	Debtors		Creditors	
	2006	2005	2006	2005
	£	£	£	£
Acolyte Biomedica Limited	3,899	-	-	-
Tetricus Limited	8,813	-	17,258	-

27 Post-balance sheet events

No events have occurred subsequent to the financial year end which require disclosure in these financial statements.

28 Reconciliation of operating profit to operating cash flows

	Note	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Operating profit as per profit and loss account		18.7	19.5	18.5
Depreciation charge on owned tangible fixed assets	3, 10	8.0	8.0	8.8
Adjustment/downward valuation of tangible fixed assets	3, 10	-	-	4.7
Decrease in stocks		1.4	1.3	1.0
Decrease in debtors		8.7	8.2	16.2
Decrease in creditors due within 1 year		(13.0)	(13.2)	(3.8)
Decrease in creditors due after more than 1 year		(0.7)	(0.7)	(1.6)
Cash outflow from utilisation of provisions		(0.7)	(0.7)	(0.3)
Net cash inflow from operating activities		22.4	22.4	43.5

29 Reconciliation of net cash flow to movement in net funds

	Note	2006 Group £ million	2006 Trading Fund £ million	2005 Trading Fund & Group £ million
Increase in cash and liquid resources	21	16.8	16.8	35.3
Cash used to repay long-term loan (including amounts falling due within 1 year)		-	-	1.1
Changes in net funds		16.8	16.8	36.4
Balance brought forward		61.9	61.9	25.5
Balance carried forward		78.7	78.7	61.9

30 Analysis of net funds

	Note	1 April 2005 £ million	Cash flows £ million	31 March 2006 £ million
Consolidated				
Cash	21	(0.3)	0.7	0.4
Short-term deposits	21	62.2	16.1	78.3
Cash and cash equivalents		61.9	16.8	78.7
Debt due within 1 year		-	-	-
Debt due after 1 year		-	-	-
Debt		-	-	-
Total		61.9	16.8	78.7
Trading Fund				
Cash	21	(0.3)	0.7	0.4
Short-term deposits	21	62.2	16.1	78.3
Cash and cash equivalents		61.9	16.8	78.7
Debt due within 1 year		-	-	-
Debt due after 1 year		-	-	-
Debt		-	-	-
Total		61.9	16.8	78.7

Five-year summary

	**Group 2006 £ million	2005 £ million	2004 £ million	2003 £ million	2002* £ million
Profit & Loss					
Turnover	353.4	353.3	358.1	343.5	498.8
Operating profit	18.7	23.2	19.8	13.3	24.3
Impairments/exceptional items	-	(4.7)	-	0.5	(8.8)
Loss on disposal of fixed assets	-	(0.3)	(0.1)	-	(2.9)
Interest receivable	3.1	2.0	1.0	1.5	3.4
Interest payable	-	-	(0.2)	(0.4)	(1.1)
Profit for the financial year	21.8	20.2	20.5	14.9	14.9
Dividends	(3.0)	(3.0)	(3.0)	(6.0)	(6.0)
Retained Profit for the Year	18.8	17.2	17.5	8.9	8.9
Balance Sheet					
Fixed assets	124.6	122.9	125.5	109.8	103.9
Working capital	21.4	22.1	34.4	15.8	24.3
Cash and cash equivalents	78.7	61.9	26.6	29.7	22.3
Creditors: amounts falling due after more than one year	(2.1)	(2.8)	(4.4)	(7.2)	(10.8)
Provisions for liabilities and charges	(4.5)	(5.2)	(5.6)	(7.6)	(11.7)
Net Assets	218.1	198.9	176.5	140.5	128.0
Cash Flow					
Cash inflow/(outflow) from operating activities	22.4	43.5	11.3	24.7	(19.7)
Net cash inflow from returns on investments and servicing of finance	3.0	1.9	0.8	1.1	2.3
Capital expenditure and financial investment	(5.6)	(6.0)	(7.1)	(10.3)	(13.9)
Acquisitions and disposals	-	-	-	-	(58.0)
Dividends paid	(3.0)	(3.0)	(6.0)	(6.0)	(5.0)
Cash inflow/(outflow) before financing	16.8	36.4	(1.0)	9.5	(94.3)
Net cash outflow from financing	-	(1.1)	(2.1)	(2.1)	(2.4)
Increase/(decrease) in cash	16.8	35.3	(3.1)	7.4	(96.7)
Return on Capital Employed	8.8%	9.4%	11.9%	9.6%	4.6%

* Dstl is the continuing part of DERA, separated on 30 June 2001. The results for 2002 include three months of the DERA Trading Fund.

** The Group includes consolidation of wholly owned subsidiary undertaking, Ploughshare Innovations Limited. This is the first year the Group existed, with Ploughshare Innovations Limited's incorporation date of 6 April 2005.

Dstl Board at 31 March 2006



Richard Maudslay
Non Executive Chairman



Martin Earwicker
Chief Executive



Mark Hone
Finance Director



Frances Saunders
Technical Director
Director of Operations
Deputy Chief Executive



Mark Preston
Non Executive Director



**Major General
Andrew Figgures**
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Roger Platt
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Lord May
Non Executive Director



**Professor
Patrick Dowling**
Non Executive Director



Christopher Swinson
Non Executive Director



**Admiral Sir Nigel
Essenhigh**
Non Executive Director

Dstl Executive at 31 March 2006



Martin Earwicker
Chief Executive



Mark Hone
Finance Director



Frances Saunders
Technical Director
Director of Operations
Deputy Chief Executive



Ruth Davies
Director of Human Resources
and Communications



Peter Starkey
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