



DEFENCE ESTATES

Delivering Estate Solutions to Defence Needs

Agency Annual Report

&

Accounts

2004/2005





Annual Report and Accounts 2004/2005

Presented to Parliament pursuant to Section 7 of the
Government Resources and Accounts Act 2000

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CONTENTS

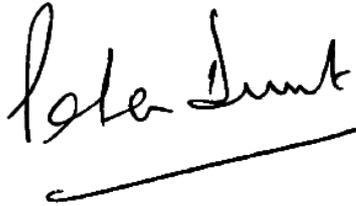
SECTION	PAGE
1. Chief Executive's Statement	1
<hr/>	
2. Key Targets – 2004/05	3
<hr/>	
3. Delivering To Our Customers	5
<hr/>	
4. Being Efficient In The Delivery Of Our Outputs	8
<hr/>	
5. Equipping Our People To Deliver	9
<hr/>	
6. Finance Director's Report	10
<hr/>	
7. Defence Estates Accounts for the year ending 31 March 2005	11

SECTION 1

CHIEF EXECUTIVE'S STATEMENT

- 1.1 This Annual Report and Accounts sets out *Defence Estates'* performance and recognises the success brought about by the hard work and dedication of all those who have worked both in and with the Agency during the year. On 1 April 2005 Defence Estates became a Top Level Budget, retaining Agency status, and now sits alongside the Defence Logistics Organisation and the Defence Procurement Agency as one of the acquisition organisations within the MOD budgetary structure supporting the delivery of the Defence Vision. This change recognises the importance of the defence estate as a key enabler for military capability.
- 1.2 As Chief Executive, I place enormous importance on the way in which we undertake our business. The DE Vision – 'To provide an estate of the right size and quality, which is managed and developed effectively in line with acknowledged best practice and is sensitive to social and environmental considerations' – encapsulates the aim of the Agency to provide high quality support to the front line. Indeed, our primary role is to support the Defence Vision and to this end DE has continued to provide direct support to operations in Iraq, Afghanistan and Bosnia. Underpinning the Vision are the three key principles, which govern how DE manages its business. These ensure that we meet our customers' needs and **deliver** them jointly with industry to time, quality and cost. We must also dedicate everything we do to helping the customer, be **efficient** in how we deliver our outputs and **equip our people** properly to do so. I have framed this Report to encompass what we have achieved against each of these principles.
- 1.3 Turning to the achievements of the past year, DE has successfully awarded the South East Regional Prime Contract, following previous contracts in Scotland and the South West, with contracts for the Central and East regions on schedule to be awarded in the latter half of 2005. Regional Prime Contracts are the cornerstone of our strategy for improving estate condition and I am confident that these contracts will lead to significant improvements in estate condition and deliver efficiency benefits in the coming years.
- 1.4 We have successfully merged with the former Defence Housing Executive (DHE), which will enable optimised investment and management of the estate, both technical and domestic, more coherently and effectively. As a result of this investment, the level of satisfaction in the service provided to our Service families has risen by 5%. Furthermore, since the merger last April we have upgraded over 2,500 houses to Standard 1 for Condition against a target of 500. Award of the Housing Prime Contract will further support delivery of effective housing maintenance and is due to go live in December 2005.
- 1.5 The improvement to Single Living Accommodation (SLA) remains a key objective on the Department. During the year DE delivered 1,862 new en-suite bedrooms under the Single Living Accommodation Modernisation (SLAM) Project, with a further 4,114 in construction and 2,000 in planning and design. A further 3,954 bedspaces were delivered by other TLBs through parallel projects. HRH The Duke of Edinburgh opened the first completed SLAM project at RM Poole in May 2004 and the initial reaction from occupants has been excellent with the new accommodation receiving widespread approval from Service personnel.
- 1.6 DE currently supports the Armed Forces in the provision of facilities and land to meet MOD's military training needs. Following joint work by Land Command and DE it has been agreed that from 1 April 2006 Land Command will be the principal customer focus for the Training Estate with DE managing all aspects of the supply side.

- 1.7 Sustainability and our impact on the environment are areas of increasing importance, emphasised by the Sustainable Development in Government Strategy. We are taking forward a strategy that addresses the Government's target for 95% of Sites of Special Scientific Interest to be in a satisfactory condition by 2010 and MOD plans to spend £18m over a five-year period to achieve this target. Additional funding was injected by DE into the 2004/05 programme which allowed the in year target to be exceeded, resulting in 75% of sites being brought to a satisfactory condition.
- 1.8 In my first Annual Report and Accounts Statement of 12 July 2002, I said how proud I was to have been given the opportunity to lead the Agency and to continue the impetus gained under my predecessor. After 3 years in post, I continue to be delighted with our achievements and record my thanks to all staff for their commitment to excellence and their continued support.

A handwritten signature in black ink, appearing to read 'P A Dunt', with a long horizontal line underneath it.

Vice Admiral P A Dunt CB
Chief Executive

24 June 2005

SECTION 2

KEY TARGETS – 2004/2005

2.1 The performance targets laid out in the table below are consistent with the targets set out in the DE Corporate Plan 2004/09.

KEY TARGETS	EVIDENCE OF PERFORMANCE	OUTCOME
1a. Improve SLA to Grade 1 (Project SLAM and SLA Parallel Projects (PP), including overseas).	Project SLAM – 1,862 bed spaces were delivered in year against the target of 1,640. SLA Parallel Projects – 3,954 bed spaces were delivered against the target of 4,307.	Target exceeded – Additional 139 bed spaces delivered. Target virtually achieved – The shortfall against this year's target results from a 1,697 over-achievement in 03/04.
1b. Improve SFA by completing the upgrade of properties as part of the programme to upgrade all core stock required for the longer term.	The original housing upgrade target for 04/05 was for 500 SFA to Standard 1 for Condition. Additional funds provided "In Year" pushed this target to 2,000 upgrades.	Target exceeded – DE Housing Directorate (HD) upgraded 2,610 SFA to Standard 1 for Condition in 04/05.
1c. Improve the condition and fitness for purpose of the defence estate by at least 10% by Apr 08 from an 03/04 baseline of 55% of assets in Grade A condition and 92% fit for purpose.	A target reflecting percentage of assets at Grade A condition focuses effort in the wrong area as certain assets may be beyond their useful life. A revised condition grading methodology was agreed with customers that reflects target condition linked to the use of the asset and its fitness-for-purpose. Pilots at nine MOD locations have been conducted to assess the feasibility of the system, verify the availability and robustness of data and the implications of implementation across the estate.	Target changed – This target now forms part of the work in developing an estate performance measurement system.
1d. 70% of Sites of Special Scientific Interest in England, Wales and Scotland in Satisfactory Condition by 31 Mar 05.	This target has been exceeded due to the injection of additional in-year funding to the programme.	Target exceeded – 75% of SSSIs in England and Wales meeting satisfaction criteria by 31 Mar 05 is subject to assessment by Statutory Bodies.
2a. Provide an estate of the right size through implementing agreed Estate Rationalisation milestones.	Business cases were presented to the Defence Estate Committee in Dec 04 and were subsequently built into the STP 05 Phase 2 programme and endorsed by the DMB.	Target achieved – Business cases were endorsed by the Defence Management Board in Jan 05 and proposals now being taken forward.
2b. Achieve Accrued Estates Disposal Receipts (Gross) of £126m.	Accrued Estates Disposal Receipts (Gross) exceeded the target of £126m by £86m.	Target exceeded – £212m receipts achieved.
3a. Decrease customer dissatisfaction with the quality of property provided by 1% from the previous year.	Extra funding provided for environmental works to improve the quality of SFA estates.	Target achieved – Performance measured against responses to the 2004 Customer Attitude Survey. DE achieved a one percentage point improvement from 18% to 17% in the level of dissatisfaction with the quality of property provided as SFA.

KEY TARGETS	EVIDENCE OF PERFORMANCE	OUTCOME
3b. Decrease customer dissatisfaction with service delivery to SFA occupants to 19%.	<p>An improvement has been seen in the levels of dissatisfaction in the quality of SFA and the service provided by DE HD.</p> <p>The number of personnel notified of address at new duty Unit, within 15 days of application for SFA, was 82.6% against a target of 80%. Similarly, the number of occupants reporting significant defects on move-in was 2.5% against a target of 3.3%, an improvement of 1.6% against performance in FY03/04.</p>	Target exceeded – Performance measured against the 2004 Customer Attitude Survey. DE achieved a 5 percentage point improvement from 22% to 17% in the level of dissatisfaction with the quality of service provided to SFA occupants.
3c. Increase customer satisfaction with DE service delivery to CEStOs.	Customer satisfaction for 2004/05 was gauged against Customer Service Agreement performance with an overall Customer Satisfaction target of $\geq 90\%$.	Target exceeded – Overall Customer Satisfaction for 2004/05 was 91%.
4a. Regional Prime Contracts – Award of SE Contract by Nov 04.	The contract for RPC South East was delayed due to the complexity of the final negotiations with the bidder, but was still awarded in-year.	Target partially achieved – The contract for the South East Regional Prime was awarded in Mar 05 against the original target of Nov 04.
4b. Defence Housing – Produce plan by Dec 04 for the full merger of DE and DHE. Housing Prime Contract award Jul 04.	<p>Plan produced and merger completed by 31 Mar 05.</p> <p>The Prime Contract for Housing in England and Wales was not awarded as planned because of the need to amend the contract from an input to an output specification.</p>	<p>Target achieved – Merger completed by 31 Mar 2005.</p> <p>Target not achieved – The revised date for the award of the Housing Prime Contract is Aug 05.</p>
5. Delivering the Sustainable Development in Government (SDiG) Strategy.	<p>SDiG strategies to be published in line with the DEFRA target.</p> <p>Establish baseline of present targets (incl. Environmental Management Systems (EMS)).</p>	Target achieved – All SDiG Framework strategies for which DE is responsible have been published in line with the DEFRA target. In respect of EMS coverage, targets were set over two years for March 04 and 06. DE met its 04 targets and is on course to meet the requirement for 80% coverage by Mar 06.
6a. Deliver 30% through-life value for money efficiencies through the introduction of Prime Contracting.	In year target to agree methodology, test and refine VFM model and integrate baseline information across Prime Contracts.	Target achieved – Methodology has been agreed by customer and stakeholder community. Baseline condition has been established for the deployed RPCs.
6b. To reduce the management margin of vacant housing to 10% by Nov 05. (i.e. the proportion of working stock that is vacant, excluding housing earmarked for disposal in the next 12 months).	<p>To reduce the management margin from 12.2% last year to an interim target of 10.7% by 31 Mar 05.</p> <p>Uncertainty over future deployments of the Armed Forces, involving estate rationalisation workstreams has restricted the opportunity for further disposals at this time.</p> <p>The rigorous programme to identify and dispose of property for which there is no long-term requirement will continue.</p>	Target not achieved – Management margin reduced from 12.2% to 11.2% against a target of 10.7%.

SECTION 3

DELIVERING TO OUR CUSTOMERS

Prime Contracting

- 3.1 The programme of Prime Contracting for both the defence estate Single Living Accommodation (SLA) and Service Families Accommodation (SFA) is at the heart of the MOD's strategy to deliver an estate of the right quality in support of Defence capability.
- 3.2 Through improvements in supply chain management and collaborative working with industry, the Regional Prime Contracts (RPCs) will meet the requirements of customers, provide value for money and improve the delivery of estate services. As part of this programme a further Regional Prime Contract for the South East region was let in 2004/05.
- 3.3 RPC (South West). The transition activities for RPC (South West) commenced on 1 June 2004 with the mobilisation of the first site by Debut Services South West in August 2004. All sites were mobilised to programme and transition activities completed by the end of March 2005. This included the installation of the underpinning Management Information Systems and Helpdesk, validation and improvement of processes, personnel transfers and the recruitment of new staff. In addition some 12 core works projects have proceeded to construction, including a major dredging programme and a new Air Traffic Control Tower at Yeovilton.
- 3.4 RPC (South East). The RPC (South East) contract was awarded to PriDE, a consortium comprising Scottish & Southern Energy plc and Interserve Defence Ltd, on 4 March 2005. PriDE will be responsible for the delivery of capital works and property maintenance at 95 major sites throughout the South East. The programme of transition activities to full prime contract services is targeted for completion by August 2005.
- 3.5 Housing Prime Contract. Prior to the merger of the DHE with DE work had begun on the Prime Contract for Housing. Following the merger the specification was amended from an input basis to an output basis. This has resulted in a delay in awarding the contract, which is now expected in August 2005. Once awarded the Housing Prime Contract will improve the quality of repairs and maintenance and ultimately lead to significant improvements in the quality of the overall housing stock.
- 3.6 Stand Alone Prime Contracts (SAPCs). There are a number of DE-managed SAPCs operating across the defence estate at sites such as Tidworth, Catterick, Andover, Thorney Island and Woodbridge. SAPCs differ from the RPCs in that they are site specific and deliver both core works and core services. During 2004/05 DE has worked in partnership with industry to deliver a high quality service and provide value for money to our customers.
- 3.7 Overseas Prime Contracts. A contract for the South Atlantic Islands was awarded during 2004/05 and went live on 1 February 2005. In addition, the intention to award an Infrastructure Service Provider (ISP) prime contract and the potential transfer of 300 posts to the private sector in Gibraltar was announced on 17 February 2005. The target for contract award is December 2005.

Project Aquatrine

- 3.8 Project Aquatrine comprises three geographical Private Finance Initiative packages covering the UK mainland, that transfer responsibility for the operation and maintenance of MOD's water and wastewater assets and infrastructure to the private sector. By working with industry, Project Aquatrine enables the MOD to deliver increased value for money, whilst mitigating risk. Brey

Utilities has been delivering Package A, covering the Midlands, South West England and Wales since 1 December 2003. The final two contracts were successfully awarded in September and October 2004. Thames Water Nevis began delivering Package B covering Scotland on 21 March 2005 and C2C began delivering to North and East England on 30 March 2005.

Single Living Accommodation

- 3.9 The improvement to SLA is high on the MOD's agenda, given its impact on morale and retention within the Armed Forces. DE has continued with its programme of providing high quality accommodation to Service Personnel through the SLAM Project.
- 3.10 HRH Duke of Edinburgh opened the first completed project at the Royal Marines Barracks Poole in May 2004. The second completed project at Dalton Barracks Oxfordshire was opened in July 2004 by the Under Secretary of State, followed in October 2004 by the formal opening of the 'SLIM Mess' at RMA Sandhurst by Viscount Slim. In 2004/05 SLAM delivered a total of 1862 en suite bedrooms, exceeding the Key target of 1640.
- 3.11 Feedback from customers and occupants has been very positive and the popularity with users is a clear endorsement of the improved living environment provided by the Project.

Service Families Accommodation

- 3.12 The merger of the former DHE and DE took place on 1 April 2004 and responsibility for the provision of SFA passed to the Housing Directorate of the newly merged organisation.
- 3.13 The provision of good quality SFA plays a key role in maintaining the morale and retention of Service personnel. Following the merger with DE additional funding was made available from the wider DE budget to increase substantially the numbers of properties at Standard 1 for Condition (S1FC). A mixture of new build, refurbishment projects and extensive quick hit programmes, raised 2,610 properties to S1FC during 2004/05 against a target to upgrade 500 properties.
- 3.14 One of DE's key principles is to focus everything we do to helping the customer and in line with this principle we have continued to work to improve customer satisfaction with both the SFA and the service that DE provides to Service Families. Customer satisfaction surveys show that during 2004/05 dissatisfaction with the accommodation provided reduced from 18% to 17% and dissatisfaction with the service provided fell from 22% to 17%.

Sustainable Development

- 3.15 DE's Sustainability Team continues to develop the strategies which address how the Department aims to meet the targets set out in the Framework for Sustainable Development in the Government Estate – part of the Sustainable Development in Government Initiative.
- 3.16 MOD is now taking forward a strategy that addresses the Government's target for 95% of Sites of Special Scientific Interest (SSSIs) to be in a satisfactory condition by 2010. This takes due account of environmental factors in managing the estate and monitoring progress towards meeting externally mandated objectives on the management and use of SSSIs. Monitoring the condition of SSSIs is the duty of English Nature, Scottish Natural Heritage, Countryside Council for Wales and Environmental and Heritage Service Northern Ireland. A number of tasks are already underway to deliver improvements including scrub clearance, drainage work, tree planting and the re-establishment of cattle grazing. Additional funding was injected into the 2004/05 programme which allowed the in year target to be exceeded raising the total number of MOD sites in a satisfactory condition to 75%.

Europe, Overseas and United States Visiting Forces Business Units

- 3.17 In FY 2004/05 Overseas Directorate has, under Project Alexander, taken on the direct estate management of the Permanent Joint Operating Bases (PJOBs) of Cyprus, South Atlantic Islands (Falklands and Ascension), Gibraltar and Diego Garcia. Furthermore, DE provides estate management services to Remote Overseas Stations (ROSs) in Belize, Brunei, Canada, Kenya, Nepal, Norway and Singapore. This has resulted in the transfer of management to DE of 34 Royal Engineer personnel, 53 UK based directly employed personnel, and 214 locally employed personnel.
- 3.18 In addition to the PJOBs and ROSs Overseas Directorate provides support to the Operational Military Works Areas of Iraq, Afghanistan and the Balkans in the form of forward deployed Defence Estates Advisors and a dedicated rear based support team.
- 3.19 During 2004/05 DE Europe has been heavily involved in developing changes to the customer/supplier relationship in Germany, in line with the principles of Smart Acquisition. It delivered £3.5m of disposal receipts from global settlement negotiations with the Host Nation and has provided advisory support to accommodation programmes.
- 3.20 Outside Germany, DE Europe has been actively engaged in providing accommodation for MOD personnel in Naples, Izmir, Valencia and Madrid.
- 3.21 During 2004/05 the United States Visiting Forces (USVF) Business Unit continued to deliver a large and varied programme of project and maintenance work. The USVF and NATO works programme amounted to some £137.6m, whilst the USVF and NATO service programme amounted to £26.9m.

Security Services Group (SSG)

- 3.22 SSG provides security solutions for government public sector and some key private sector customers. During 2004/05 the organisation has experienced steady growth resulting in the delivery of £18m of sales, which exceeded the target by 12.5%.

Support to Ministers, MOD and the Public

- 3.23 The Agency has continued to provide advice and support to Ministers and Senior MOD officials and draft responses to Parliamentary Questions. There continues to be a high level of interest in the estate, demonstrated by the large volume of parliamentary business received by DE. In 2004/05, over 1,000 Parliamentary Questions (written and oral), letters to Ministers and other items were passed to DE, of which over 900 were dealt with directly. Of the remainder, in many cases DE contributed to responses where the lead lay with other parts of MOD or other Departments Of State.
- 3.24 Issues raised by Parliamentary business in the last year included renewable energy (in particular wind farm developments), scheduled monuments and listed buildings, environmental matters and sustainable development, the disposal of surplus land, the modernisation of accommodation, foxhunting on the estate and public access to Defence land.
- 3.25 The full implementation of the Freedom of Information Act 2000 on 1 January 2005 presented a major challenge for DE. The Act gave members of the general public the right to request details of information held by Public Departments, subject to certain exemptions and provisions. In the first three months, following implementation of this new legislation, DE received 120 requests for information, which represents approximately 7% of the total number of requests received by the MOD.

SECTION 4

BEING EFFICIENT IN THE DELIVERY OF OUR OUTPUTS

Estate Rationalisation

- 4.1 A key facet of MOD's estate strategy is to provide an estate of the right size and a robust stance has been taken during the year. Joint TLB/DE teams worked hard to develop rationalisation proposals. As a result, co-location of elements of the Defence Logistics Organisation, of the Service TLBs and of Chief of Defence Intelligence organisation were approved as part of the Short Term Planning round of 2005. Also established as part of this package were the rationalisation of the Defence Medical Education and Training Agency with the Royal College of Defence Medicine and proposals for the Army Training and Recruitment Agency. In addition, there was the potential to address elements of the Defence Airfields Review and a Royal Marine Centre of Gravity ahead of the Short Term Planning round of 2007, subject to the production of satisfactory business cases. The programme to dispose of surplus estate has continued during 2004/05. Disposal receipts for this period have totalled £212m, exceeding the target by £86m.
- 4.2 Project Ministry of Defence Estate in London (MoDEL) aims to deliver major investment and restructuring of the MOD Estate in London. MoDEL is pursuing a new procurement strategy, Prime Contracting Plus, which will enable the contract to be entirely self-funding over its lifetime, utilising the value of the sites that are released as a result of consolidation to fund the construction costs. Following considerable interest from industry outline bids were received in February 2005 and the selection of the successful bidder is anticipated in 2005.

Restructuring

- 4.3 As previously mentioned, DHE and DE merged on 1 April 2004. The transition period was very successful and the merger enabled significant additional investment in housing upgrades and improvements to SFA sites. Following the creation of the Housing Directorate work is in hand to review the potential to become more efficient through further team integration and sharing of accommodation and IT systems.
- 4.4 The restructuring of the Operations Directorate has progressed during the year with the establishment of a Director General Operations overseeing three new Directorates – North, South and International. The old UK-based Regional Organisations have been merged into the new Directorates. The restructure also includes the incorporation of the Housing Technical Teams in preparation for the Housing Prime Contract, targeted for award in 2005. This has enabled efficiencies to be realised by allowing personnel resources to be pooled, minimising regional office duplication and reducing the business overhead.

Smart Acquisition

- 4.5 Smart Acquisition (SA) principles are embedded in DE methodology and projects are delivered using these principles. Personnel are participating in SA activities through the Acquisition Leadership Development Scheme and the Smart Acquisition Stream. By undertaking the SA breakthrough process, the Agency has identified a number of areas for improvement and has developed action plans to address them.

SECTION 5

EQUIPPING OUR PEOPLE TO DELIVER

- 5.1 Over the past year DE has continued with its commitment to equip its people to enable them to deliver to the customer. Given the pace of change within the Agency it is crucial that DE personnel are provided with the appropriate support, training and development.
- 5.2 DE personnel have carried out a wide range of learning and development activities to improve functional skills, core competencies and for personal development. These include Project Management and Estate Management functional skills, Acquisition Community learning and development pilot initiatives, training candidates for the Assessment and Development Centre, Fraud Awareness and a 'Learning at Work' day.
- 5.3 The Commercial Directorate instigated a Continuous Professional Development (CPD) scheme primarily aimed at commercial staff, but project staff were included where there was a business need. Given the complex commercial environment within which staff are operating, new knowledge, understanding and skills are required not only for career advancement, but to aid job retention and realise business efficiencies.

Human Resources

- 5.4 The Human Resources Directorate has continued to maintain delivery of services to DE customers alongside the implementation of the MOD People Programme and significant internal restructuring. Key achievements during the year include:
- Ongoing recruitment in support of the Regional Prime Contracts Programmes;
 - Significant HR transactional and support work to enable new Operations Directorates to be created and prepare for a new Housing Directorate structure;
 - HR support to projects across mainland UK, overseas and in Northern Ireland;
 - Launch of a DE Learning and Development (L&D) Policy and Guidance document;
 - Full integration of the former DHE and DE HR teams;
 - Further delivery of 'Get You In' training in new processes and procedures to around 1,000 estate management personnel Overseas, in Europe, Northern Ireland and within the RPCs;
 - Development of a strategy and project plan for MOD-wide Estate Management functional training;
 - Continued promotion of DE's involvement and influence in specific L&D activity as a member of the MOD Acquisition community;
 - Implementation of a new DE induction process and arrangements, including launch of a web-based Estate Management Awareness Programme;
 - Increased opportunities for professional development of Project Management expertise through participation in the Defence Procurement Agency sponsored MOD Project Management Development Programme;
 - Successful integration of overseas HR service provision to Director International under a Service Level Agreement;
 - Development of a DE Equality and Diversity Action Plan with key improvements in diversity data and results.

SECTION 6

FINANCE DIRECTOR'S REPORT

- 6.1 This was another year of significant change within the Agency following the merger with the Defence Housing Executive and additional responsibility taken on for the estate. In particular this included the transfer of responsibility to *Defence Estates* for the overseas estate in Cyprus, Gibraltar and the Falkland Islands. *Defence Estates* delivered a sound financial performance and contained both its resource costs and its net capital expenditure within the budget agreed with the Department and significantly exceeded its disposal target.
- 6.2 The increased responsibility for the delivery of the estate improvement programme, including the Regional Prime Contracts in Scotland and the South West, the full year impact of the first package of the Aquatrine project and the investment in SLAM has led to a significant increase in some operating costs and capital expenditure of the Agency. These costs will increase in future years as further Regional Prime Contracts go live or are awarded and the financial impact of the award of the further two Aquatrine contracts are reflected in the accounts having "gone live" in March 2005. From 1 April 2005 *Defence Estates* also took responsibility for the estate in Northern Ireland and in Germany. In addition as the principles of Project Alexander become more embedded in the agency, *Defence Estates* is responsible for the delivery of an increasing number of capital projects as agreed with its customers.
- 6.3 During the year the Agency has further strengthened its corporate governance. Risk management has been further embedded in *Defence Estates'* processes and the Audit Committee continues to take an active role with the Chair of the Audit Committee a non-executive director to the Management Board.
- 6.4 The decision by the Department to move *Defence Estates* to a Top Level Budget is not expected to have any significant impact on the financial position of the business. It will provide a greater level of visibility of the financial performance to the Department and allow the estate to be represented at the highest level within the MOD.
- 6.5 The development of the MOD's Finance Director's "Simplify and Improve" agenda will have a major impact on the Agency during the coming years. It has been agreed that *Defence Estates* will take responsibility for all Land and Building fixed assets and their financial management and reporting from April 2006. This is part of a much bigger change across the Department as there is a consolidation of fixed asset management and transactional accounting.
- 6.6 The Agency is expected to deliver a contribution to the Department's overall efficiency programme agreed as part of the Spending Review 2004. These efficiency targets, measured in both input and output terms, have been embedded within the 2005 Corporate Plan and, where appropriate, within 2005/06 Budgets.
- 6.7 As agreed with our auditors, the merger of the Agency and the Defence Housing Executive was undertaken in line with Financial Reporting Standard 6. There was no material change in accounting policy or disclosure requirements.

SECTION 7

DEFENCE ESTATES ACCOUNTS

Foreword to the Accounts

- 7.1 The accounts that follow cover the period 1 April 2004 to 31 March 2005 and have been prepared in accordance with a direction given by the Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000.

History

- 7.2 *Defence Estates* was re-launched on 1 April 2003. The primary aim of the agency is to assist the Ministry of Defence to manage the optimum estate of land, buildings and installations to meet the operating needs of the Department.
- 7.3 On 1 April 2004 *Defence Estates* took responsibility for the activities previously carried out by the Defence Housing Executive (DHE), an agency of the Ministry of Defence (MOD). DHE ceased to be an agency with effect from that date and the combined operation was re-launched as a single agency.

Statutory Background

- 7.4 *Defence Estates* is an agency of the Ministry of Defence. Its owner, until 31 March 2005, was the 2nd Permanent Under-Secretary (2nd PUS), Mr I C F Andrews, and it operated until that date in accordance with a Service Level Agreement with the Department. The owner receives advice from the Defence Estate Committee on the standards of service supplied by the Agency. The composition of the Committee as at 31 March 2005 was as follows:

Mr I C F Andrews (Chairman)	2nd Permanent Under-Secretary
Air Chief Marshal Sir Anthony Bagnall	Vice-Chief of the Defence Staff
General Sir Richard Dannatt	Commander-in-Chief Land
General Sir Kevin O'Donoghue	Chief of Defence Logistics
Air Chief Marshal Sir Brian Burridge	Commander-in-Chief Strike Command
Vice Admiral Sir James Burnell-Nugent	2nd Sea Lord and Commander-in-Chief Naval Home Command
Air Marshal Sir Glen Torpy	Chief of Joint Operations
Mr T A Woolley	Finance Director
Mr S Barter	External Member
Mr R Spray	External Member

Principal Activities

- 7.5 *Defence Estates* has responsibility for ensuring that the MOD estate is managed efficiently and effectively as a corporate asset to support the delivery of defence capability. From April 1999 all property scheduled for disposal in the United Kingdom and North West Europe has become the responsibility of *Defence Estates*, up to the point of sale, as soon as it ceases to be used by the former occupier and all formal requirements of the site closure procedure have been met. All proceeds from such sales are reflected in the Agency Accounts.
- 7.6 A full review of the activities undertaken by the Agency is included in the foregoing Report.

Financial Performance

- 7.7 The net operating cost for the year of £626.889m has been charged to the General Fund (see Note 16). The movement on other reserves is shown in Note 17.

Business Development and Review of Activities

7.8 These are fully described in the foregoing report.

Equal Opportunities Policy and Employment and Training Disabled Persons

7.9 The Agency is committed to the MOD programme on equal opportunities and the employment of disabled persons and has produced its own equal opportunities statement.

Management of the Agency

7.10 The day-to-day management of the Agency is carried out by the Agency's Management Board, which at 31 March 2005 consisted of:

Vice Admiral P A Dunt	Chief Executive
Mr D I Olney	Director General Operations
Air Commodore N J E Kurth	Director Programming
Air Commodore K Pellatt	Director Housing (appointed to the Board 5 July 2004)
Mr A R Baillie	Director Estate Strategy and Policy
Mr W C Clark	Agency Secretary
Mr R Jones	Director Projects (appointed to the Board 1 June 2004)
Mr M E Martindale	Finance Director
Mrs C Nicholson	Non Executive Director
Mr M W Pengelly	Director Commercial

7.11 Other persons who held office during the year were:

Air Vice-Marshal G E Willis	Director Projects (resigned from the Board 31 May 2004)
Mrs E Northen	Director Human Resources (resigned from the Board 6 June 2004)
Mr J Wilson	Director Housing (resigned from the Board 16 July 2004)

7.12 With the exception of Mrs C Nicholson, all the members of the Board hold substantive civil service contracts or are in the Armed Forces. Appointments may be terminated in accordance with the Civil Service Management Code or Single Service Military Appointment procedures. Mrs C Nicholson receives a fee for attending meetings based on an agreed daily rate.

7.13 Salaries of the Board are determined through the Senior Civil Service Salaries Review Body, the Armed Forces Pay Review Body, the Senior Salaries Review Body or as part of the Departmental pay award, as appropriate. The only exception to standard salary levels being Mrs C Nicholson who was subject to separate negotiation. Details of the Board members' remuneration are given at Note 2c to the accounts.

Policy on the Payment of Creditors

7.14 The majority of bills are paid on behalf of *Defence Estates* by the Defence Bills Agency (DBA), who are committed to ensuring compliance with the Government-wide standard on bill paying. Following implementation of the Late Payment of Commercial Debt (Interest) Act 1998, DBA aim to ensure that 99.9% of correctly presented bills are paid within 11 calendar days. In 2004/05, actual performance achieved was 99.98% paid within 11 calendar days. No liabilities were incurred under the Late Payment of Commercial Debt (Interest) Act 1998 and no interest payments arose.

Pension Arrangements

7.15 These are covered in notes 1 and 2 to the accounts.

Staff Involvement

- 7.16 The Agency maintains systems for the provision of information to, and consultation with, employees, and for the dissemination of necessary information regarding health, safety and welfare at work.

Auditors

- 7.17 The accounts of the Agency are audited by the Comptroller and Auditor General under section 7(3)(b) of the Government Resources and Accounts Act 2000. The notional cost of the statutory audit is £125,000 (2003/04 £130,000).

A handwritten signature in black ink, appearing to read 'P A Dunt', with a long horizontal line underneath it.

Vice Admiral P A Dunt CB
Chief Executive

24 June 2005

STATEMENT OF THE AGENCY'S AND ACCOUNTING OFFICER'S RESPONSIBILITIES

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

In preparing the accounts the Agency is required to:

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

The Departmental Accounting Officer for the Ministry of Defence has designated the Chief Executive of *Defence Estates* as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in 'Government Accounting'.

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the *Defence Estates* policies, aims and objectives. The Permanent Under Secretary (PUS), as the Department's Principal Accounting Officer, is responsible for the overall organisation, management and staffing of the Department and for ensuring that there is a high standard of management in the Department as a whole. I am accountable directly to the PUS for safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. In exercising this responsibility, I report to the 2nd Permanent Under Secretary who has delegated responsibility for the *Defence Estates* from PUS.

Following the proposals arising from Project Alexander, in April 2003 *Defence Estates* moved from being largely an advisory body to that of a major delivery arm of the Department in respect of the Defence estate. Following a Business Process Review, the decision was taken to merge the Defence Housing Executive Agency with *Defence Estates* and, in April 2004, a separate Housing Directorate was created to take responsibility for the former Agency's business.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control adopted is based on an ongoing process designed to identify and prioritise the risks to the achievement of *Defence Estates* policies, aims and objectives. Through the risk regime *Defence Estates* is able to evaluate the likelihood of risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically. There are some elements within the system of internal control that have not been fully embedded during FY 2004/05 but generally *Defence Estates* has been working towards full compliance with Treasury Guidance since FY 2001/02 and up to the date of approval of this Annual Report and Accounts.

3. Capacity to handle risk

Overall responsibility for Corporate Governance, including risk management, at *Defence Estates* lies with me through the Management Board with advice from the Audit Committee. The Agency Secretariat and *Defence Estates* Internal Control Audit Team provide assurance to the Management Board on the integrity of corporate governance processes within the Agency, with responsibility for business and project level risk management residing with the Regional Business Units and Integrated Project Teams (IPTs), under the Operations and Projects Directorates.

4. The risk and control framework

An underpinning Risk Strategy supplemented by a Risk Mitigation Planning Strategy, Risk Implementation Plan and simplified Business Risk Management guidance document detail the processes by which *Defence Estates* identifies, evaluates and controls risk. This policy is in line with Government best practice. *Defence Estates* staffs have been equipped to manage risk through a programme of project management training and risk workshops, and to ensure risk remains focused Risk Co-ordinators have been established at all levels within the Agency. The Finance Director is the nominated Risk Champion at Management Board level. Assistant Director Internal Control is the nominated senior level Risk Implementation Manager to champion risk, disseminate guidance, facilitate workshops and provide an independent review of risk management.

Defence Estates' process for gaining assurance on any given risk is to identify a risk owner for each risk, then determine the various ways the risk may be realised and subsequently managed with an action plan being used to address any gaps in controls. The Risk Co-ordinators and *Defence Estates* Internal Control Audit Team are utilised to provide assurance that the controls in place are adequate for the purpose.

Involvement of stakeholders is an integral part of the *Defence Estates* project management principles. All our major projects conduct regular review meetings to discuss risk and issues affecting both parties.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. In line with Departmental Guidance I have established the following procedures:

- A Management Board that sits regularly, at least once a month, to review the performance of the business and the risks to it, take corrective action as necessary and to consider plans and strategic direction for *Defence Estates*. The Management Board currently comprises of myself, eight Directors and since March 2004, a non-executive Director (NED).
- An Audit Committee chaired since March 2004 by my Management Board NED and supported by other independent members, exists to provide advice on the adequacy of audit arrangements (both internal and external) and on the implications of assurances provided in respect of corporate governance, risk management and internal control systems within *Defence Estates*.
- Internal audits conducted on behalf of *Defence Estates* by Defence Internal Audit (DIA) use a risk-based approach. The *Defence Estates* Internal Control Audit Team has adopted a cross section of compliance and risk based auditing techniques to provide a full range of assurances. All risk audits are linked to the Corporate Risk Register and Strategic Objectives contained within the Balanced Scorecard. A more robust system has been embedded since October 2004 to ensure that all audit recommendations are monitored and actioned with lessons learned being realised and recorded. Audit activity reports are presented to the Management Board and Audit Committee at least three times a year. Our audit processes have been further improved by the completion of compliance checks using 'Control Self Assessment' with Functional Directors/Regional Managers/Integrated Project Team Leaders completing annual business statements on internal controls within their areas of responsibility. 'Control Self Assessment' was implemented in June 2004.
- A series of Peer Reviews, in line with Office of Government Commerce best practise, have been undertaken providing valuable assurance of governance issues for high profile projects.
- Risk has been intrinsically linked, managed and reported through the performance management system that fully complies with Departmental requirements.
- There has been steady progress in establishing Business Continuity plans across the Agency; issues have been proactively identified and addressed to ensure that critical business functions can continue to operate in the event of a disruptive event. Further work needs to be undertaken to allay concerns regarding MOD's IT provider preparation and to further develop Business Continuity plans and establish programmes to test these plans. The Audit Committee and Management Board will review progress in the Autumn of this year.
- There has been significant progress in reorganizing the Safety, Health, Environment and Fire Management (SHEF) section to strengthen its ability to provide professional advice and assurance. It has produced a Directive on Safety Health & Environmental Protection, and a revised Organisation and Arrangements Statement. Within these documents there are clear objectives, a commitment to continuous improvement and recognition that risks should not be avoided, but managed sensibly. Within 2004 the Agency has reviewed its separate SHEF related action plans and produced a single comprehensive plan, which is now being implemented.

6. No significant internal control problems

Whilst I cannot state that *Defence Estates* has had a full system of internal control in place for the full twelve months, I would like to stress that this is due to the continuing expansion of the responsibilities of the business rather than a lack of focus on control issues. I have identified no significant internal control weaknesses.

My review of the effectiveness of the system of internal control is informed by the work of Defence Internal Audit, the *Defence Estates* Internal Control Audit Team, my Directors and other senior managers within *Defence Estates* who have responsibility for the development and maintenance of the internal control framework. In addition, my review is also informed by 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 Management Board and Audit Committee and plan to address any weaknesses should they occur and ensure continuous improvement of the systems in place.

A handwritten signature in black ink, appearing to read 'Peter Dunt', with a long horizontal line underneath it.

Vice Admiral P A Dunt CB
Chief Executive

24 June 2005

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

I certify that I have audited the financial statements on pages 20 to 40 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24 to 26.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 14, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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

I review whether the statement on pages 15 to 17 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

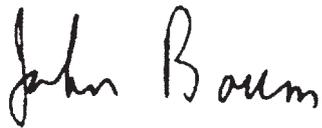
I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Defence Estates at 31 March 2005 and of the net operating cost, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



John Bourn
Comptroller and Auditor General

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

Date: 29 June 2005

OPERATING COST STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

	Note	2004/05	Restated 2003/04
		£'000	£'000
OPERATING COSTS			
Staff costs	2	102,195	87,534
Accommodation costs	3a	644,956	435,384
Other operating costs	3c	115,014	138,080
GROSS OPERATING COSTS		862,165	660,998
OPERATING INCOME			
Proceeds from the sale of property	5	(211,629)	(207,029)
Transfer of assets to the Private Sector	6	(97,001)	(93,085)
Open Market Value of property disposals		255,798	227,608
Share of Proceeds to third parties		3,001	4,777
Surplus on sale of property		(49,831)	(67,729)
Income from United States Forces (USF)	5	(144,436)	(166,576)
Cost of services provided to USF		139,979	166,659
(Surplus)/Cost from providing services to USF		(4,457)	83
Income from NATO	5	(20,017)	(20,944)
Cost of services provided to NATO		19,207	16,822
(Surplus) from providing services to NATO		(810)	(4,122)
Rental Income	5	(138,889)	(136,376)
Other operating income	5	(41,289)	(53,030)
TOTAL NET OPERATING INCOME		(235,276)	(261,174)
NET OPERATING COST		626,889	399,824

All activities undertaken during the year are continuing.

The notes on pages 24 to 40 form part of these accounts.

The figures for 2003/04 have been restated to include the activities of the Defence Housing Executive following the merger that took place on 1 April 2004.

STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2005

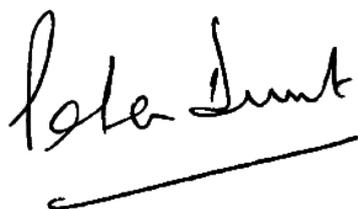
	Note	2004/05	Restated 2003/04
		£'000	£'000
Revaluation of assets credited to Revaluation Reserve	17	242,653	103,777
RECOGNISED GAINS DURING THE YEAR		242,653	103,777

The notes on pages 24 to 40 form part of these accounts.

The figures for 2003/04 have been restated to include the activities of the Defence Housing Executive following the merger that took place on 1 April 2004.

BALANCE SHEET AS AT 31 MARCH 2005

	Note	2005 £'000	Restated 2004 £'000
TANGIBLE FIXED ASSETS			
Land and Buildings	8	1,063,939	700,482
Other Fixed Assets	8	3,308	4,991
		<u>1,067,247</u>	<u>705,473</u>
DEBTORS receivable in more than one year	11	<u>232,870</u>	<u>145,077</u>
CURRENT ASSETS			
Assets held for resale	9	262,677	268,058
Stock and Work in Progress	10	6,278	4,443
Debtors	11	182,041	139,675
Cash at Bank and in hand	12	3,761	4,508
		<u>454,757</u>	<u>416,684</u>
CURRENT LIABILITIES: DUE WITHIN ONE YEAR			
Creditors	13	<u>(282,410)</u>	<u>(205,303)</u>
NET CURRENT ASSETS		<u>172,347</u>	<u>211,381</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,472,464</u>	<u>1,061,931</u>
Creditors: amounts due after one year	13	(72,172)	(74,438)
Provisions for liabilities and charges	15	(68,919)	(83,513)
NET ASSETS		<u>1,331,373</u>	<u>903,980</u>
TAXPAYERS' EQUITY			
General Fund	16	760,683	510,721
Revaluation Reserve	17	570,690	393,259
		<u>1,331,373</u>	<u>903,980</u>



Vice Admiral P A Dunt CB
Chief Executive

24 June 2005

The notes on pages 24 to 40 form part of these accounts.

The figures for 2003/04 have been restated to include the activities of the Defence Housing Executive following the merger that took place on 1 April 2004.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

	Note	2004/05	Restated 2003/04
		£'000	£'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(418,018)	(274,566)
Cash Payments to acquire tangible fixed assets	8	(247,213)	(108,293)
Proceeds from disposal of fixed assets		–	5,000
Repayments of principal under finance leases		(502)	(450)
Repayments of principal under loans		(1,599)	(1,510)
NET CASH OUTFLOW BEFORE FINANCING		(667,332)	(379,819)
FINANCING			
Payments and Receipts on Defence Resource Account	16	666,585	383,724
NET FINANCING FROM THE DEFENCE RESOURCE ACCOUNT		666,585	383,724
(DECREASE)/INCREASE IN CASH		(747)	3,905

RECONCILIATION OF NET OPERATING COST TO OPERATING COST CASH FLOWS

	Note	2004/05	Restated 2003/04
		£'000	£'000
NET OPERATING COST		626,889	399,824
Adjustments for non-cash items			
Depreciation	8	(24,954)	(21,565)
Loss on disposal of fixed assets	3	(1,896)	(3,206)
Impairment arising from a fall in value of fixed assets	3	(3,577)	(13,962)
Reversal of prior year permanent diminution	3	25,189	15,052
Diminution in value of assets held for resale	3b	(27,853)	(12,042)
Diminution in value of assets transferred and sold	3b	(84,742)	(22,438)
Open market value of property sold		(255,798)	(227,608)
Notional charges (excluding early retirement)	7	93,013	112,550
Movements in working capital			
Increase in debtors	11	130,159	118,902
(Increase) in creditors	13	(74,841)	(84,951)
Increase in stock and work in progress	10	1,835	1,806
Movement in provisions for liabilities & charges			
Decrease in provisions	15	14,594	12,204
NET CASH OUTFLOW/(INFLOW) FROM OPERATING ACTIVITIES		418,018	274,566

The notes on pages 24 to 40 form part of these accounts.

The figures for 2003/04 have been restated to include the activities of the Defence Housing Executive following the merger that took place on 1 April 2004.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

NOTE 1 Statement of Principal Accounting Policies

A. Basis of Accounts

The accounts have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material to the accounts.

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, and stocks where material, at their value to the business by reference to their current cost.

B. Taxation and Social Security

As the Ministry of Defence charges the Agency during the year with the gross payments, inclusive of PAYE and National Insurance contributions, due to agency employees, the Department is liable for the payment of any liabilities that may be due to the Inland Revenue or Department of Works and Pensions at the balance sheet date, and these are not disclosed in the Agency's balance sheet.

C. Value Added Tax

Whilst the Agency is not separately registered for Value Added Tax (VAT), Security Services Group has a VAT registration and accounts for its own VAT. VAT collected on other activities is accounted for centrally by the Ministry of Defence. The Agency's accounts include irrecoverable VAT attributable to its activities.

Input VAT on certain contracted out services is recoverable by the Agency through the MOD registration under specific HM Treasury direction. Since 1 April 2003, Contracted-Out Services VAT has been accounted for centrally by the MOD and therefore no VAT debtor is included in the agency accounts as at 31 March 2005.

D. Income

Income represents the invoiced value of transactions with the Private Sector, the Public Sector and Government Departments. In particular, income derives from:

- (a) The sale of MOD properties held by *Defence Estates* for disposal;
- (b) The provision of estate services to United States forces based in the United Kingdom. These services are charged out on the basis of cost plus an agreed management fee;
- (c) The provision of estate services to NATO forces based in the United Kingdom. These services are charged out on the basis of cost plus an agreed management fee;
- (d) The collection of rental for Services Family Accommodation. Services Family Accommodation charges are determined annually for each of the Services as part of Armed Forces Pay Review. Rents are collected from Service tenants by direct deduction from salary by the relevant Service payroll authorities. The remaining income relates to damages for trespass and is collected directly by the Agency. All income is VAT exempt;
- (e) Profit sharing receipts from Annington Homes Limited. Profit sharing payments made by Annington Homes Limited are accounted for as and when received. Profit share receipts accrue to the Treasury and not *Defence Estates* or the Ministry of Defence;
- (f) Sales made by the Security Services Group;
- (g) Rent for land and buildings, and other miscellaneous income.

Income is accounted for and recognised in the Operating Cost Statement net of VAT.

E. Notional Charges

Notional amounts are included in the operating costs for charges in respect of services provided from other areas of the Ministry of Defence. The amounts charged are calculated to reflect the full cost of providing these services to the Agency.

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

A notional charge for interest on capital is included in the operating costs. This is calculated as 3.5% of the average value of the net assets employed during each accounting period of the financial year. Interest on capital charges on the revaluation of assets for resale are accounted for within the financial period that the information is made available.

Notional charges for *Defence Estates* are analysed within Note 7 of these accounts.

F. Pension Arrangements

On 1 October 2002 new Civil Service pensions arrangements came into effect. From that date all new non-military entrants to the Department have the option to join either the new defined benefits (DB) scheme, known as 'Premium' or to join the new defined contributions (DC) scheme known as the 'Partnership Pension Account'.

Under the new arrangements, new entrants are not able to join the current Principal Civil Service Pension Scheme (PCSPS), which has now been renamed the 'Classic' and has become a closed scheme. Existing members of the PCSPS have been given the option of remaining within the Classic, electing to transfer to the Premium, or choosing 'Classic Plus' whereby they transfer to Premium but only in respect of service after 1 October 2002.

Military personnel serving in *Defence Estates* are part of the Armed Forces Pension Scheme (AFPS). This is non-contributory and unfunded.

The Department makes regular payments of Accruing Superannuation Liability Charge (ASLC) into the relevant pension schemes at rates determined by the Government Actuary. Liability for payment of future pension benefits to members is a charge on the schemes and not a liability of the Department.

Early Retirement Costs:

The Agency is required to meet the additional cost of benefits beyond the normal pension benefits in respect of civilian employees who retire early. The Agency provides in full for this cost when the early retirement programme has been announced and is binding on the Agency. The Agency may, in certain circumstances, settle some or all of its liabilities in advance by making a payment to Paymaster's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments.

G. Tangible Fixed Assets

All purchases of fixed assets, excluding housing, over £2,500 are capitalised in the accounts. The costs of refurbishment/upgrade of housing in excess of £75,000 on an individual property are capitalised. The values of fixed assets are revised annually, between formal revaluation, using indices provided by the Department.

Increases arising on revaluation of fixed assets, including adjustments to previous depreciation provisions (backlog depreciation), are taken to a revaluation reserve except to the extent that they represent a reversal of a previous impairment. That element is credited to the Operating Cost Statement. Permanent diminutions in value are charged to the operating cost statement except where they represent a reversal of a previous increased revaluation. That element is offset against the revaluation reserve.

Freehold land and buildings are revalued by qualified valuers every five years or at shorter intervals if it is considered that values have changed materially.

Plant, Machinery, Vehicles and Computers are valued at their depreciated replacement cost.

H. Depreciation

Fixed Assets, other than land, are depreciated to a nil value on a straight-line basis over their estimated useful lives. The following estimated lives are used in accordance with MOD resource accounting policy.

	Life in years
(a) Buildings	50
(b) Housing	50
(c) Plant & Machinery	15
(d) Office Equipment	5
(e) Motor Cars	5
(f) Computers	3-7

I. Assets held for resale

Assets held for resale comprise MOD land and buildings identified for future disposal, which are transferred to *Defence Estates* at their net book value, having satisfied the requirements of the site closure guide. Upon receipt by *Defence Estates* these properties are subsequently valued at their open market value, by professionally qualified *Defence Estates* staff, in accordance with the RICS 'Appraisal and Valuation' manual. The open market value of sites transferred to *Defence Estates* and not disposed of during a financial year are re-valued on an annual basis at the year-end. The last such valuation was conducted on 31 March 2005. Revaluation losses are written off to the Operating Cost Statement, revaluation gains are held against the revaluation reserve in the Balance Sheet and released to the General Fund upon disposal.

J. Leases

Operating Leases

Annington Homes Limited lease agreement determined at the time of sale that the properties leased from the company should not be on-Balance Sheet. The agreement is treated as an operating lease and the lease payments are charged to the Operating Cost Statement. Rentals payable under other operating leases are charged to the Operating Cost Statement over the term of the lease.

Finance Leases

Assets Constructed under PFI/PPP arrangements are reviewed on a case-by-case basis to determine the appropriate balance sheet treatment. Only the PFI properties at RAF Lossiemouth have been included on-Balance Sheet. The lease payment consists of three elements – Principal, Interest and service charges. Interest and service charges are charged to the Operating Cost Statement. The principal payment reduces the Long Term Creditor on the Balance Sheet.

K. Stocks and Work in Progress

Stocks comprise equipment and components on hand for resale in connection with the work carried out by Security Services Group. Stock is valued at the lower of cost and net realisable value. Work in Progress represents the value of contracts, stated at cost, which had not been invoiced at the year end.

L. Cash at Bank and in hand

Cash at bank represents the sums held by Security Services Group with their own account held by Paymaster. A reconciliation of operating costs to cash flows is given in the Cash Flow Statement on page 23.

NOTE 2 Staff Costs and Numbers

A. The average number of employees during the year was:

	2004/05	Restated 2003/04
	No.	No.
Service Personnel	69	33
Non-Industrial civilian	2,899	2,801
Industrial civilian	162	108
	<u>3,130</u>	<u>2,942</u>

B. Staff costs incurred during the year were:

	2004/05			Restated 2003/04		
	Service £'000	Civilian £'000	Total £'000	Service £'000	Civilian £'000	Total £'000
Salaries & Wages	3,814	81,701	85,515	1,862	70,722	72,584
Social Security Costs	324	5,553	5,877	194	4,929	5,123
Other Pension Costs	949	8,952	9,901	557	7,998	8,555
Early Retirement Costs	–	817	817	–	1,103	1,103
Unwinding of Discount on Early Retirement Provision	–	85	85	–	169	169
	<u>5,087</u>	<u>97,108</u>	<u>102,195</u>	<u>2,613</u>	<u>84,921</u>	<u>87,534</u>

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Pension

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

(a) Classic Scheme

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

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80th's of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme

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

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

(d) Partnership Pension Account

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

The PCSPS is an unfunded multi-employer defined benefit scheme but the Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (<http://www.civilservice-pensions.gov.uk/>).

For 2004/05 employers' contributions of £8,651,486 were payable to the PCSPS (2003/04 £7,709,893) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will increase from 2005/06. Employer contributions of £949,432 were payable to the AFPS (2003/04 £553,527) at rates of 33.8 per cent of pensionable pay for Officers and 18.2 per cent of pensionable pay for other ranks. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. The last actuarial valuation was carried out as at 31 March 2001.

Civilian employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution.

Employers' contributions of £257,406 (2003/04 £246,912) 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 per cent of pensionable pay. In addition, employer contributions of £42,557 (2003/04 £40,823), 0.8 per cent 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.

Salary costs also include taxable payments attributable to a special bonus scheme whereby civilian staff are paid a bonus in recognition of a well performed one-off task. Currently, there is no limit on the number of awards which can be made within a financial year, although the total value of these bonus payments should not exceed 0.4% of the overall civilian payroll.

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

	Year	Salary including Performance Pay £'000	Real increase in pension 2005 £'000	Accrued pension at 31 March £'000	Lump sum at 31 March 2005 £'000	Real increase in lump sum £'000	CETV* at 31 March 2005 £'000	Real increase in CETV £'000	
Vice Admiral P A Dunt Chief Executive	2004/05 2003/04	105 – 110 100 – 105	(0 – 2.5) 0 – 2.5	50 – 55 55 – 60	160 – 165 155 – 160	(0 – 2.5) 2.5 – 5.0	1,028 1,036	(5 – 10) (20 – 25)	
Mr D I Olney Director General Operations	2004/05 2003/04	80 – 85 60 – 65	2.5 – 5.0 0 – 2.5	20 – 25 15 – 20	65 – 70 50 – 55	12.5 – 15.0 2.5 – 5.0	356 275	70 – 75 15 – 20	
Air Commodore N J E Kurth Director Programming	2004/05 2003/04	75 – 80 75 – 80	2.5 – 5.0 0 – 2.5	30 – 35 30 – 35	100 – 105 90 – 95	7.5 – 10.0 5.0 – 7.5	787 713	60 – 65 55 – 60	
Air Commodore K Pellatt Director Housing (Appointed 5/7/04)	2004/05 2003/04	80 – 85 75 – 80	2.5 – 5.0 0 – 2.5	35 – 40 30 – 35	110 – 115 100 – 105	12.5 – 15.0 5.0 – 7.5	820 742	95 – 100 50 – 55	
Mr A R Baillie Director Estate Strategy & Policy	2004/05 2003/04	60 – 65 60 – 65	0 – 2.5 0 – 2.5	25 – 30 20 – 25	75 – 80 70 – 75	2.5 – 5.0 5.0 – 7.5	420 398	10 – 15 20 – 25	
Mr W C Clark Agency Secretary	2004/05 2003/04	65 – 70 10 – 15	0 – 2.5 0 – 2.5	25 – 30 25 – 30	80 – 85 75 – 80	2.5 – 5.0 2.5 – 5.0	471 429	10 – 15 20 – 25	
Mr M E Martindale Finance Director	2004/05 2003/04	100 – 105 100 – 105	2.5 – 5.0 0 – 2.5	0 – 5 0 – 5	5 – 10 5 – 10	7.5 – 10.0 2.5 – 5.0	50 30	20 – 25 15 – 20	
Mr R Jones Director Projects (Appointed 1/6/04)	2004/05 2003/04	60 – 65 N/A	0 – 2.5 N/A	5 – 10 N/A	– N/A	– N/A	99 N/A	10 – 15 N/A	
Mr M W Pengelly Director Commercial	2004/05 2003/04	65 – 70 60 – 65	0 – 2.5 0 – 2.5	20 – 25 20 – 25	65 – 70 60 – 65	2.5 – 5.0 2.5 – 5.0	367 339	10 – 15 15 – 20	
Mrs E Northen Director Human Resources (Resigned 6/6/04)	2004/05 2003/04	5 – 10 40 – 45	0 – 2.5 0 – 2.5	15 – 20 15 – 20	– –	– –	177 161	5 – 10 10 – 15	
Air Vice-Marshal G E Willis Director Projects (Resigned 31/5/04)	2004/05 2003/04	10 – 15 85 – 90	0 – 2.5 0 – 2.5	40 – 45 40 – 45	120 – 125 120 – 125	0 – 2.5 N/A	855 870	5 – 10 35 – 40	
Mr J Wilson Director Housing (Resigned 16/7/04)	2004/05 2003/04	Consent to disclosure withheld			85 – 90 40 – 45	120 – 125 120 – 125	5.0 – 7.5 7.5 – 10.0	721 721	45 – 50 45 – 50

* CETV – Cash Equivalent Transfer Value. Note that the comparatives for military personnel have been restated based on information provided by AFPAA.

No lump sum is shown in respect of **Premium** members.

The note above reflects the relevant remuneration appropriate to the period of tenure as members of the Management Board. Mrs C Nicholson received fees of £12,000 in the year to 31 March 2005 (2003/04 £2,000).

The disclosure note has been drawn up in accordance with DAO(GEN)12/00 dated 21 December 2000 whereby written consent has been obtained from all the members of the Management Board prior to the publication of their salary details.

NOTE 3

A. Accommodation Costs

Accommodation Costs comprise the following cash and non-cash costs:

	2004/05	Restated 2003/04
	£'000	£'000
Depreciation on buildings	23,337	20,918
Impairment arising from a fall in market value of fixed assets	2,825	13,962
Reversal of prior year permanent diminution	(25,189)	(15,052)
Diminution in value of assets held for resale (See 3B i)	27,853	12,042
Diminution in value of assets transferred & sold in year (See 3B ii)	84,742	22,438
Rent and Rates	63,059	56,767
Rent – Annington Homes Limited	130,882	130,344
Dilapidation costs	3,007	2,628
Payments in respect of housing PFI contracts	19,333	17,385
Accommodation stores	6,163	5,056
Fuel & utilities	7,005	8,463
Accommodation costs on other MoD sites	2,216	2,336
Aquatrine Public Private Partnership	33,141	9,948
Works services – housing	83,757	99,891
Regional Prime Contracting Core Services	119,921	17,297
Estate expenditure – overseas	43,224	–
Other Estate maintenance and service costs	16,181	16,503
Disposal and remediation costs in respect of Estate disposals	4,578	4,643
Provision for environmental liabilities	152	9,815
Provision for other Estate liabilities	(1,231)	–
	644,956	435,384

B. Permanent Diminution

	2004/05	2003/04
	£'000	£'000
(i) Diminution in value of assets held for resale		
Net Book Value	51,303	33,997
Open Market Value	(23,450)	(21,955)
	27,853	12,042
(ii) Diminution in value of assets transferred and sold in year		
Net Book Value	97,859	35,955
Open Market Value	(13,117)	(13,517)
	84,742	22,438

C. Other Operating Costs

Other Operating Costs comprise the following cash and non-cash costs:

	2004/05	Restated 2003/04
	£'000	£'000
Depreciation	1,617	647
Impairment of other fixed assets	752	–
Travel and Subsistence	6,129	5,489
Post and telecommunications	2,812	2,580
Loss on disposal of fixed assets	1,896	3,206
Contracted-out professional and technical services	36,936	49,277
IT Services – Payments in respect of PFI Contract	7,253	7,454
Other Computer and IT costs	1,500	7,231
Entertainment & Hospitality	195	144
Miscellaneous administration expenses	1,954	1,925
Consumable materials & stores	1,445	895
Office machinery	288	170
Training & Recruitment	1,367	1,226
Provision for Bad debts	769	71
Bad debts written off	349	407
Other Provisions	(11,562)	(116)
Interest Paid – Loans	3,417	3,536
Interest Paid – On-Balance Sheet PFI Contract	2,972	3,034
Whitefleet – Payment in respect of PFI Contract	416	405
Bought in Materials and Services by Security Services Group	10,922	9,662
Headquarter charges	4,601	5,346
Audit fee	125	130
Unwinding of Discount on Provision for Environmental/Other Liabilities	2,595	7,398
Interest on capital	36,266	27,963
	115,014	138,080

NOTE 4 Interest on Capital

A charge, reflecting the cost of capital utilised by *Defence Estates*, is included in Other Operating Costs (Note 3c). The charge is calculated at the Government standard rate of 3.5% in real terms on average net assets held during the year.

NOTE 5 Operating Income

Income is derived from sales of properties held for disposal, recovery of costs and management fees for services provided to United States Forces and NATO, charges made in respect of Services Family Accommodation, profit share sales made by Security Services Group and rental and other miscellaneous charges.

An analysis of the proceeds from the sale of property is set out below. Clawback is a term that applies to a contractual clause within a property disposal sale agreement that entitles the agency to a share of any future increases in land value derived from changes in local authority planning consents.

	2004/05	2003/04
	£'000	£'000
Disposal Receipts	193,672	192,675
Clawback & Other Income	17,681	14,040
Interest on Deposits	276	314
Proceeds from Sale of Property	211,629	207,029

Costs relating to property disposals are included within Accommodation Costs and Other Operating Costs at Note 3.

An analysis of rental and other income is set out below:

	2004/05	Restated 2003/04
	£'000	£'000
Rental Income		
Accommodation charges – Housing	123,496	120,880
Damages for Trespass – Housing	5,881	5,911
Other rental income from land and buildings	9,512	9,585
	138,889	136,376
Other Income		
Profit sharing	15,220	29,883
Sales made by Security Services Group	18,313	15,325
Other Income	7,756	7,822
	41,289	53,030

NOTE 6 Project Aquatrine

Project Aquatrine is the department-wide Public Private Partnership (PPP) to transfer responsibility for the operation and maintenance of all MOD water and wastewater systems in England, Wales and Scotland. Package A (the first of three packages covering the Midlands, Wales and the South West) commenced operation in 2003/04 with Packages B (covering Scotland) and C (covering the remainder of England) commencing in March 2005. The fair value of the assets of Packages B and C (taken to be the net book values) at the time of transfer to the contractors was £97.001m. This formed the basis for the prepayments against the unitary charges of the contracts and these amounts will be amortised over the terms of the contracts of 25 years. The amount of the prepayments has been credited to the operating cost statement with a corresponding charge included in Open Market Value of property sold. Details of the unamortised elements of the prepayments in respect of all three packages are included in note 11.

NOTE 7 Notional Charges (Communicated and Non-Cash Costs)

The MOD does not charge for services provided by other parts of the Department. The cost of services provided are communicated and included in the Accounts as non-cash costs. These costs, and other notional charges and income, are included in Note 3 Other Operating Costs or Note 5 Operating Income shown above:

	2004/05	Restated 2003/04
	£'000	£'000
Income received by other parts of the MoD on behalf of the Agency	(123,496)	(120,880)
Income received by HM Treasury on behalf of the Agency	(15,220)	(29,883)
Headquarters Charges	4,601	5,346
Audit Fee	125	130
Interest on Capital	36,266	27,963
Fuel & utilities	757	653
Post and telecommunications	981	261
Administration charges	741	449
Accommodation costs	2,216	3,396
Hospitality	16	15
Early Retirement costs in Year	817	1,103
Unwinding of Discount on Early Retirement Provision	85	169
	(92,111)	(111,278)

NOTE 8 Fixed Assets

An analysis of the balances and movements of the cost and depreciation on the main categories of fixed assets is shown below. Fixed Assets are valued on the basis of existing use:

a. Land and Buildings

	Land & Buildings Non-Dwellings	Land & Buildings Dwellings	Assets under Construction (AUC)	Total
	£'000	£'000	£'000	£'000
Cost or Valuation:				
Restated at 1 April 2004	184,660	454,105	99,565	738,330
Additions	35	10	246,641	246,686
Transfers from AUC	4,238	29,697	(34,068)	(133)
Revaluations	50,515	86,128	4,471	141,114
Transfers from other parts of MOD	37,896	(603)	(22,822)	14,471
Disposals	(13,094)	(14,130)	–	(27,224)
Impairment reversal	1,593	23,596	–	25,189
Permanent Diminution	(2,455)	(370)	–	(2,825)
Reclassifications	(3,956)	2,232	71	(1,653)
At 31 March 2005	259,432	580,665	293,858	1,133,955
Depreciation:				
Restated at 1 April 2004	15,823	22,025	–	37,848
Charged in Year	11,085	12,252	–	23,337
Transfers from other parts of MOD	4,304	(62)	–	4,242
Disposals	(1,328)	(1,199)	–	(2,527)
Backlog Depreciation	6,653	2,116	–	8,769
Reclassifications	(1,696)	43	–	(1,653)
At 31 March 2005	34,841	35,175	–	70,016
Net Book Value:				
At 31 March 2005	224,591	545,490	293,858	1,063,939
Restated at 1 April 2004	168,837	432,080	99,565	700,482

b. Other Fixed Assets

	Plant & Machinery	Transport	Computer Equipment	Total
	£'000	£'000	£'000	£'000
Cost or Valuation:				
Restated at 1 April 2004	1,291	–	5,144	6,435
Additions	112	347	68	527
Transfers from AUC	133	–	–	133
Revaluations	8	6	2	16
Transfers from other parts of MOD	12	–	–	12
Disposals	(19)	–	–	(19)
Permanent Diminution	–	–	(752)	(752)
Reclassifications	(349)	358	–	9
At 31 March 2005	1,188	711	4,462	6,361
Depreciation:				
Restated at 1 April 2004	641	–	803	1,444
Charged in Year	163	165	1,289	1,617
Disposals	(19)	–	–	(19)
Backlog Depreciation	1	2	(10)	(7)
Transfers from other parts of MOD	9	–	–	9
Reclassifications	(86)	94	1	9
At 31 March 2005	709	261	2,083	3,053
Net Book Value:				
At 31 March 2005	479	450	2,379	3,308
Restated at 1 April 2004	650	–	4,341	4,991

All fixed assets are subject to a quinquennial review by external professional valuers in accordance with FRS15. The properties owned by the Agency were valued by the Valuation Office Agency, as at 31 March 2005 in accordance with the revaluation timetable and these values are reflected in the above figures. The values of fixed assets are revised annually, between formal revaluation, using indices provided by the Department.

NOTE 9 Assets held for Resale

The following analysis is intended to reflect the timing of future disposals and the current valuation of properties identified for disposal:

	<u>2005</u>	<u>2004</u>
	£'000	£'000
Land and Buildings held for disposal:		
Within One Year	175,000	187,800
Between Two to Five Years	87,677	80,258
Over 5 Years	–	–
	<u>262,677</u>	<u>268,058</u>

NOTE 10 Stock and Work in Progress

	<u>2005</u>	<u>2004</u>
	£'000	£'000
Stock	844	655
Work in Progress	5,434	3,788
	<u>6,278</u>	<u>4,443</u>

NOTE 11 Debtors, Prepayments and Accrued Income

	<u>2005</u>	<u>Restated 2004</u>
	£'000	£'000
Due in greater than one year:		
Trade debtors	49,073	50,000
Prepayments relating to Aquatrine Private Finance Initiative	177,194	88,120
Prepayments relating to other Private Finance Initiative	6,603	6,957
	<u>232,870</u>	<u>145,077</u>
Due within one year:		
Trade debtors	91,544	67,616
Accrued Income	52,822	39,329
Sundry Debtors	759	232
Prepayments	32,373	31,777
Prepayments relating to Aquatrine Private Finance Initiative	7,427	3,723
Provision for Bad Debts	(2,884)	(3,002)
	<u>182,041</u>	<u>139,675</u>

NOTE 12 Cash at Bank in Hand

	<u>2005</u>	<u>Restated 2004</u>
	£'000	£'000
Cash held at Bank – Security Services Group	3,756	4,504
Cash in hand	5	4
	<u>3,761</u>	<u>4,508</u>

NOTE 13 Creditors, Accruals and Deferred Income

	2005	Restated 2004
	£'000	£'000
Amounts falling due within one year:		
Trade creditors	79,904	45,576
Loans	1,695	1,599
Current part of imputed finance lease element of PFI contract	571	502
Deferred Income	11,613	8,596
Accruals	187,948	148,504
Sundry creditors	679	526
	282,410	205,303
Amounts falling due after more than one year:		
Loans		
Amount payable in 1 – 2 years	1,797	1,695
Amount payable in 2 – 5 years	6,064	5,720
Amount payable after 5 years	42,271	44,412
	50,132	51,827
<u>Imputed finance lease element of on-Balance Sheet PFI contract</u>		
Amount payable in 1 – 2 years	649	571
Amount payable in 2 – 5 years	2,550	2,241
Amount payable after 5 years	18,841	19,799
	22,040	22,611
	72,172	74,438

Under the Armed Forces (Housing Loans) Acts 1949, 1958, & 1965, the Ministry borrowed £94m from the National Loans Funds for the construction of married quarters over the period 1950/1951 to 1967/1968. These loans are fully repayable between 2012 and 2028, with the last instalment due on 20th February 2028. Interest on the loans is payable at rates ranging from 4.25% to 7% per annum.

NOTE 14 Intra-Government Balances

	Debtors due within 1 year	Debtors due after 1 year	Creditors due within 1 year	Creditors due after 1 year
	£'000	£'000	£'000	£'000
Balances with central government bodies	23,747	42,000	1,695	50,132
Balances with MOD Trading Funds/QinetiQ	134	–	1,061	–
Balances with overseas governments	62,594	–	–	–
Other balances	95,566	190,870	279,654	22,040
At 31 March 2005	182,041	232,870	282,410	72,172
Balances with central government bodies	15,015	50,000	1,599	51,827
Balances with MOD Trading Funds/QinetiQ	825	–	–	–
Balances with overseas governments	61,298	–	–	–
Other balances	62,537	95,077	203,704	22,611
At 31 March 2004	139,675	145,077	205,303	74,438

NOTE 15 Provisions for Liabilities and Charges

Environmental liabilities

During the year *Defence Estates* made specific provisions for future environmental and other remediation works. These provisions were on properties held for disposal and other approved remediation expenditure for which *Defence Estates* is responsible. The provision is based on the Agency's current assessment against contractual and legal obligations that satisfy the requirements of FRS12: Provisions, Contingent Liabilities and Contingent Assets.

Other Liabilities

Provisions for other liabilities have been established under the criteria of FRS12 and are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations that exist at the Balance Sheet date. It is not considered appropriate to disclose details of the purpose of provisions made on the grounds that such disclosure would be prejudicial to the Agency's legal position.

Early Retirement Costs

A provision has been set up to represent the future liability to pay early pensions and lump sum payments. The provision has been charged to the Operating Cost Statement for the year.

The full cost of early retirements provided during the year was £816,940 of which £301,966 has been paid, and the balance carried forward as a long-term provision.

A summary of the provisions for liabilities and charges is as follows:

	Environmental Liabilities	Other Liabilities	Early Retirement	Total
	£'000	£'000	£'000	£'000
Restated balance at 1 April 2004	48,943	32,884	1,686	83,513
Provided in year	5,734	5,005	817	11,556
Transfers	145	–	–	145
Release of provision	(5,581)	(14,792)	–	(20,373)
Unwound Discount	1,528	1,067	85	2,680
Paid in year	(3,080)	(4,704)	(818)	(8,602)
Balance at 31 March 2005	47,689	19,460	1,770	68,919

The table below analyses total costs still to be incurred at current prices, and discounted to the Balance Sheet date. The discount rate applied is 3.5%.

	31 March 2005	Restated 31 March 2004
	£'000	£'000
<u>Environmental Liabilities</u>		
– Undiscounted	52,672	51,047
– Discounted	47,689	48,943
<u>Other Liabilities</u>		
– Undiscounted	20,904	33,955
– Discounted	19,460	32,884
<u>Early Retirement Costs</u>		
– Undiscounted	2,461	2,312
– Discounted	1,770	1,686

NOTE 16 Statement of Movement on General Fund

		2005	Restated 2004
		£'000	£'000
General Fund brought forward as at 1 April		510,721	390,552
Net Financing from Defence Resource Account	Page 23	666,585	383,724
Communicated and non-cash costs	Note 7	(93,013)	(112,550)
Transfers of assets from/to other parts of MOD and other Non-cash transactions		211,823	153,319
Released from Revaluation Reserves in Year	Note 17	91,456	95,500
Net operating cost	Page 20	(626,889)	(399,824)
General Fund Carried Forward as at 31 March		760,683	510,721

NOTE 17 Movement on Revaluation Reserve

	Assets for Resale	Fixed Assets	Total
	£000	£000	£000
Restated Revaluation Reserve at 1 April 2004	131,606	261,653	393,259
In Year Movement			
Transferred In Revaluation	28,727	6,269	34,996
In Year Revaluation	8,611	–	8,611
End of Year Revaluation	92,912	141,130	234,042
Released to General Fund	261,856	409,052	670,908
Backlog depreciation	(89,701)	(1,755)	(91,456)
	–	(8,762)	(8,762)
Revaluation Reserve at 31 March 2005	172,155	398,535	570,690

NOTE 18 Movement on Donated Asset Reserve

	2005	2004
	£'000	£'000
Donated Asset Reserve as at 1 April	–	–
Transfer from other part of MOD	12,978	–
Released to the Operating Cost Statement	(12,978)	–
Donated Asset Reserve as at 31 March	–	–

NOTE 19 Related Party Transactions

Defence Estates is an Agency of the Ministry of Defence. The MOD is regarded as a related party. During the year *Defence Estates* had various material transactions with the MOD and with other entities for which the MOD is regarded as the parent Department. These included QinetiQ (the former Defence Evaluation and Research Agency), the Meteorological Office, the Defence Aviation Repair Agency, the Defence Science and Technology Laboratory and the Hydrographic Office.

In addition, *Defence Estates* had a number of transactions with other Government Departments and Central Government bodies.

None of the Management Board, key managerial staff or other related parties has undertaken any material transactions with the Agency during the year.

NOTE 20 Capital Commitments

On 4 March 2005 *Defence Estates* appointed PriDE as the Regional Prime Contractor for the South East of England with responsibility for Core Works and Core Services at MOD establishments in the South East. The Regional Prime Contract awarded in Scotland in March 2003 includes capital projects with outstanding commitments of £99.9m.

In December 2002 Debut Services Limited were awarded the contract for Defence Estates' Single Living Accommodation Modernisation project valued at over £0.5 billion. At 31 March 2005 there were outstanding capital commitments to Debut Services Limited of £114.8m in respect of individual projects within the overall programme.

At 31 March 2005 there were additional capital commitments of £17.5m in respect of Glencorse Services Family Accommodation, £58.7m in respect of Woodbridge Barracks and other commitments totalling around £13m.

NOTE 21 Commitments under PFI Contracts and Operating Leases

At 31 March 2005, *Defence Estates* was committed to making the following payments in 2005/06 under non-cancellable PFI contracts and operating leases. These were in respect of buildings and equipment for Annington Homes Limited rental, Project Aquatrine PFI, Housing PFIs and other office equipment and vehicles.

	2004/05	Restated 2003/04
	£'000	£'000
PFI Commitments		
<u>Land and Buildings</u>		
Expiring within one year	–	–
Expiring within one and twenty years	3,906	4,144
Expiring between twenty and twenty five years	90,029	48,006
<u>IT</u>		
Expiring within one year	–	–
Expiring within two and five years	–	–
Expiring between six and ten years	6,840	6,840
<u>Plant and Machinery</u>		
Expiring within one year	–	–
Expiring within one and twenty years	–	–
Expiring between twenty and twenty five years	315	313
Operating leases		
<u>Land & Buildings</u>		
Expiring within one year	–	–
Expiring within one and twenty years	–	–
Expiring in more than 20 years	134,613	130,897
<u>Other</u>		
Expiring within one year	313	393
Expiring between two to five years	306	1,229
Expiring between six and ten years	54	488
	<u>236,376</u>	<u>192,310</u>

The total amount charged in the Operating Cost Statement in respect of off-Balance Sheet PFI transactions and the service element of the on-Balance Sheet PFI transactions was £59,726,913 (2003/04 £35,191,678). The RAF Lossiemouth Family Quarters project is treated as on-Balance Sheet.

The following information is in respect of all PFI schemes (except White Fleet, which is a MoD-wide contract from which *Defence Estates* values are not separated).

Description of Scheme	Estimated capital value	Contract signature date	Contract end date
	£'000		
<u>Land and Buildings</u>			
Project Aquatrine Package A	154,032	Apr 2003	Nov 2028
Project Aquatrine Package B	86,440	Sep 2004	Mar 2030
Project Aquatrine Package C	363,604	Oct 2004	Mar 2030
Family Quarters at RAF Lossiemouth	24,745	Jun 1998	Aug 2020
Family Quarters at Yeovilton	8,200	Jul 1998	Jul 2028
Family Quarters in Central Scotland	24,713	Aug 1999	Jan 2021
Family Quarters at RAF Cosford/RAF Shawbury	15,083	Mar 1999	Jun 2025
Family Quarters at Wattisham	34,200	May 2001	Mar 2028
Family Quarters at Bristol/Bath/Portsmouth	78,010	Nov 2001	Sep 2028
<u>IT Equipment</u>			
Provision of IT services in the Housing Directorate	11,600	Oct 2001	Sep 2010

NOTE 22 Contingent Liabilities

Within the transfer of legal title on disposal sites, clauses exist that provide for potential future claims and liabilities against the Agency, in the event of additional remediation works being required above those determined at the point of sale.

Defence Estates hold a number of sites where it may be necessary to carry out remediation work in respect of contamination. It is not cost effective or practicable to identify all levels of contamination at individual sites nor to assess the likely cost of any remediation work necessary. As any liability cannot, therefore, be quantified it is not appropriate to include a provision in accordance with FRS 12.

Defence Estates has no other specific contingent liabilities as at 31 March 2005. There are, however, contingent liabilities to the Ministry of Defence estimated at £17.796m (2003/04 £18.103m) relating to potential claims in respect of the cost of providing utilities as a result of the sale of the Married Quarters Estate to Annington Homes Limited.

NOTE 23 Gifts and Write Offs

In December 2004 the MOD gained Parliamentary approval to gift some surplus land in Aldershot to the English Churches Housing Group to provide short-term accommodation units for Service leavers considered at risk of social exclusion immediately after discharge. The value of the land is £350k and the gifting will take place in 2005/06.

During the year bad debts totalling £723k were written off as it had been concluded that no recovery could be made. Full provision had been made against these amounts in previous years.

NOTE 24 Financial Instruments

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

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

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

Interest rate risk

All the Agency's financial assets carry nil rates of interest. All the Agency's financial liabilities carry nil or fixed rates of interest and *Defence Estates* is not, therefore, exposed to significant interest rate risk.

Currency risk

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

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

Liquidity risk

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

NOTE 25 Post Balance Sheet Events

There were no Post Balance Sheet events that required disclosure or restatement of amounts contained in the accounts as at 31 March 2005.

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