

Defence Science and Technology Laboratory

# Annual Report and Accounts

2015/16





**Defence Science and Technology Laboratory**

# Annual Report and Accounts 2015/16

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



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# A taste of what we do



*Helping  
in the fight  
against Daesh*

## Striking oil

On 2 December 2015, Parliament voted in favour of extending airstrikes against Daesh into Syria. Prior to the vote, Dstl had been called upon to assess the hazards of targeting oil fields, should the strikes be carried out. The information Dstl provided enabled RAF pilots to strike the Omar oilfield within hours of the vote – the start of a sustained effort to cut off a significant source of Daesh’s revenue and therefore their ability to operate.

Assessing the possible hazards caused by these strikes required a diverse team comprising weapons experts, toxicologists, environmental scientists, and dispersion modellers. The team had to determine the likely outcome of airstrikes hitting oil pipes, wells or storage tanks, and the consequences of possible ignition. This was vital for assessing whether any resulting hazard would endanger a population – either directly through inhaling smoke or other hazardous materials, or indirectly through impacting the environment, for example, ground water.

The team led a cross-Government working group that brought together expertise from the Environment Agency, Health and Safety Laboratory, and Public Health England, as well as international partners such as the US Defense Threat Reduction Agency. Together the working group was able to develop the capability to deliver bespoke scientific advice under extremely short timescales. This provided the UK Government with sufficient information from which to inform decisions on oilfield airstrikes – a vital element in support of the fight against Daesh.



Embracing space-based capabilities

### Final frontiers

Space technology affects our daily lives in innumerable ways – transport, communications, navigation, and financial transactions, to name but a few – and it also has a huge impact on our defence and military capability. In 2014, the UK Government published its first *National Space Security Policy*, recognising the importance of space-based capabilities to our country's security.

Dstl has embraced rapid advances in space technology in the civil sector, working with industry to ensure the best technology is available for defence and security. This includes part-funding and supporting the build of an experimental microsatellite, which was launched into space in July 2015, in partnership with the UK Space Agency and Surrey Satellite Technology Ltd.

The satellite, known as Carbonite-1, was built using techniques and technologies that aimed to radically reduce the cost of defence space systems – and we succeeded. Carbonite-1 cost significantly less than similar traditional satellites. Key elements of this success included reducing the size – Carbonite-1 weighs just 91 kilograms – and manufacturing and testing in very short timescales – the satellite went from concept to launch in less than a year.

As well as the experimental manufacture of the satellite, the function of the satellite (Earth observation and imaging) was also testing new grounds for military space-based capability. A few months after the launch, Carbonite-1 successfully transmitted images back to Earth, confirming the satellite as affordable space technology of the future. The Institution of Engineering and Technology agreed: it shortlisted the work for an Innovation Award, from more than 300 entrants from 28 countries.

### Case closed

Dstl experts are frequently called upon to give support to the British Criminal Justice System, from providing advice or assistance at crime scenes to attending court to give expert witness testimony. In the past year, Dstl has supported multiple prosecutions of people involved in terrorist and criminal plots; some of these plots could have resulted in very significant casualties.

A primary example of this support is from our Forensic Explosives Laboratory (FEL), funded by the Home Office. FEL is home to some of the foremost specialists in this field, while its laboratory facilities are world-leading.

Dealing exclusively in explosives-related incidents, FEL analysed more than 1,000 items submitted by UK police forces in the past year. Support has been provided to a broad range of cases, including: what the Crown Prosecution Service called “a landmark prosecution”



Supporting the British Criminal Justice System

regarding the use of an improvised explosive device; a domestic grenade attack; a number of terror plots; and, a person attempting to recruit for Daesh.

FEL also has experts on-call 24 hours per day to support the police at crime scenes anywhere in the country, supporting the collection of crucial samples and evidence and informing

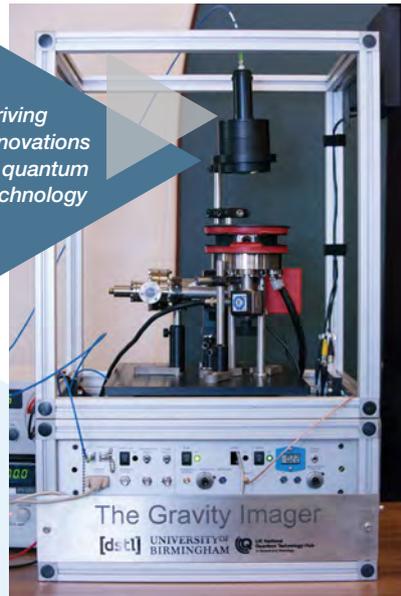
operational decisions at scenes. In addition, FEL scientists work with other Dstl experts and with colleagues from wider Government to anticipate and prepare for future explosives threats, developing tools and knowledge to help keep Britain safe.

## Quantum leap

Imagine being able to get a picture of what lay beneath a surface – perhaps a hidden bunker or tunnel system – without the need to physically explore the area or send out a detectable signal. Or imagine being able to navigate without relying on satellites or a radio link, knowing your system cannot be jammed. Quantum technology could make these ideas a reality, providing huge benefits to defence and security – and Dstl is at the forefront.

In 2013, the UK National Quantum Technology Programme was set up after the Government pledged £270 million for quantum research. Since then, our leading physicists have been working in collaboration with industry, academia and other Government bodies to deliver cutting-edge technology,

*Driving innovations in quantum technology*



not only for defence and security, but also for the civil sector in a way that supports wealth creation in the UK economy.

One of these technologies is the gravity imager, pictured left, which, as well as helping the military ‘see’ underground or underwater, can also find pipes and other hidden infrastructure, sink holes and resources. Once developed, the equipment will work by detecting differences in the density of materials and producing an image. It could even be applied to non-invasive medical research; for instance, the ability to sense changes in brain mass could further our understanding of dementia.

As we and our partners continue to make great strides with these exciting and innovative technologies, we also encourage our PhD students to think beyond their research; by teaching them business and entrepreneurial skills, we are giving them the tools to ensure that their research is viable in the real world.



*Designing the Future Soldier Vision*

## Tomorrow's troops

Dstl teamed up with industry partners to develop and promote the Future Soldier Vision – Army Headquarters’ vision for the British troops of the 2020s.

Incorporating research and expertise from Dstl and a number of companies, the Future Soldier Vision is an example of an integrated soldier system that balances military need with technological value added – part of MOD’s plan to ensure that British soldiers have high-quality equipment that utilises the latest technologies.

By showcasing emerging technologies that are maturing rapidly and by highlighting integration issues, the Future Soldier Vision gives companies an aim point for the development of similar next-generation technologies.

The component technologies of the Future Soldier Vision deliver distributed power and data, scalable and integrated protection, augmented surveillance and target acquisition, and a range of functional fabrics incorporated into the clothing. The vision also highlights the necessity for any future integrated system to be modular with

back-compatible and upgradable components, in recognition of likely financial constraints and lessons learned from past procurements.

In January 2016, we announced that a four-year contract worth up to £40 million would be made available to help develop the UK soldier, so that they continue to be a battle-winning capability. Now into this final phase, the Future Soldier Vision has demonstrated how an integrated soldier system can be delivered, moving the technologies from aspirational to achievable.



# Performance Report

“This year, we commemorate 100 years of defence science at Porton Down, in Wiltshire. The site was established in 1916 in response to the emergent threat of chemical weapons in the First World War. A century on, our essential purpose remains the same – to understand and counter threats to our Armed Forces and to UK citizens through the application of the very best science and technology.”

– Jonathan Lyle, Chief Executive, Dstl

# Chief Executive's statement



Jonathan Lyle

## I am delighted to introduce our Annual Report and Accounts for 2015/16

Over the past year we have continued to deliver successfully to our defence and security customers, in line with the Government's *National Security Strategy* and *Strategic Defence and Security Review 2015*. Working in close partnership with companies, universities and other nations, we seek to harness the very best science and technology in order to counter threats to our Armed Forces and UK citizens. In 2015/16, we were proud to do that in many spheres, including: being at the heart of the UK's contribution to tackling Ebola in Sierra Leone; providing life-saving protection for our soldiers, sailors and aircrew on operations around the globe; defending critical systems from cyber attack; and, supporting the fight against terrorism at home and overseas. Other examples can be found on pages 2 to 4 of this report.

As the *National Security Strategy* and *Strategic Defence and Security Review 2015* makes clear, the threats to our country are growing. So, in a time of great global insecurity, defence is refocussing its investment into novel 'disruptive' technologies – such as quantum, big data, directed energy and synthetic biology – that offer the potential for decisive advantage at reduced cost. Spotting and understanding these new technologies, wherever they emerge, and harnessing their potential for our customers is key to what we do.

We have also continued to transform our organisation in order to deliver more efficiently and effectively, in the context of continued pressure on public finances. We have rationalised our 12 departments into five operating Divisions, while continuing to make good progress on our Helios Project to relocate facilities and people from Fort Halstead to Porton Down. We have also taken steps to improve value for money in the support services we need to run our operations, maximising resources available for scientific innovation and delivery.

In 2016, we commemorate 100 years of defence science at Porton Down. The site was established in 1916 in response to the emergent threat of chemical weapons in the First World War. A century on and our essential purpose remains the same – to understand and counter threats through the application of science and technology. This year, a review of our Trading Fund status strongly reaffirmed our mandate to undertake that role in Government, reflecting the secure and sensitive nature of our work. This, and the Ministry of Defence's new governance arrangements for science and technology, gives us welcome clarity and confidence for the future.

As always, our success depends on the innovative skills and expertise of our workforce. I am most grateful to them for their whole-hearted dedication and commitment as public servants to keeping our nation safe in these challenging times.

Jonathan Lyle | Chief Executive  
16 June 2016

# Who we are and what we do

**Dstl (the Defence Science and Technology Laboratory) is an Executive Agency of the UK Ministry of Defence (MOD) delivering cutting-edge science and technology (S&T) for the benefit of national defence and security**

We provide sensitive and specialist S&T research, advice and analysis for MOD and wider Government. Specifically, we:

- deliver specialist scientific and technical support to military operations
- provide specialist technical advice to support counter-terrorism
- offer impartial advice and analysis in all aspects of acquisition to support The Commands (Air, Land, Maritime, and Joint Forces) and Defence Equipment and Support (DE&S)
- advise MOD on the development of defence policy and on improving the effectiveness and efficiency of MOD's business
- support the delivery of intelligence capability within MOD and wider Government
- develop and sustain critical S&T capabilities (people and facilities).

We deliver sensitive projects and those of national security from our sites at Porton Down, Wiltshire, Portsmouth West and Alverstoke, Hampshire, and Fort Halstead, Kent; we deliver other work by working in close partnership with industry, universities and international partners. By 2019, we will have transferred key capabilities from our Fort Halstead site to our Porton Down and Portsmouth West sites (our Helios Project).

Our biggest customer is MOD's Chief Scientific Adviser (CSA), who currently places approximately £380 million of work with and through us every year (the MOD S&T Programme). We also provide in-Government S&T support on highly sensitive issues of national security to: the Home Office; the Department for Transport (DfT); the Centre for the Protection of the National Infrastructure (CPNI); and, the National Cyber Programme with MOD and the Cabinet Office. We currently operate as a Trading Fund so contracts from these customers fund our activities.

Our work focuses on nine key capability areas:



**Analysis.** We use science to solve complex policy, planning and operational problems.



**C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance).** We develop S&T to improve the integration of networks, sensors and intelligence.



**CBR (Chemical, Biological and Radiological).** We provide authoritative S&T advice on CBR materials, and develop CBR countermeasures.



**Counter-terrorism and security.** We deliver S&T to respond to a diverse range of current threats, and to counter future defence and security threats.



**Cyber.** We find ways to defend against cyber-attacks and to out-smart our adversaries in the digital age.



**Human capability.** We develop S&T to benefit and enhance the contribution that humans themselves make to defence and security.



**Integrated survivability.** We use systems engineering to achieve the best chances of survival for our service personnel, and the successful and affordable completion of missions.



**Platform systems.** We enable the integration of technologies across the land, sea and air military platforms.



**Weapons.** We assess and advise on conventional and new weapons technologies and systems.

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The Centre for Defence Enterprise (CDE) is part of Dstl. CDE funds innovative research, particularly from Small to Medium Enterprises (SMEs), which could lead to cost-effective solutions for tackling important defence and security problems. During this past financial year, CDE received more than 600 proposals of ideas for research; it funded 100 of these, which were worth a total of £8.1 million. More than three-quarters of this year's CDE contracts went to SMEs and innovators within academia.

We have a duty to maximise the benefit of any new technologies and knowledge that are developed during the course of our defence work, by creating new spin-out companies for the benefit of the UK. Since 2005, our wholly owned technology transfer company, Ploughshare Innovations Ltd (PIL), has carried out this role. In that time, PIL has commercialised more than 110 technologies and spun out 11 companies; it currently manages more than 50 licensees. PIL's activities have also led to the creation of more than 550 jobs, £47 million of exports and £130 million of inward investment attracted by the spin-out companies. This financial year, we marked our first year as an Easy Access Intellectual Property (IP) organisation. Easy Access IP supports the sharing of IP free of charge with other research organisations. During 2015/16,

our portfolio grew to 11 technologies, including those relating to respiratory applications, animal-training aids, antennas, and assessing head injuries.

We also have a joint venture with New Sarum Enterprises and GWE BusinessWest – the Tetricus Business Incubator – which brings together experience and expertise to benefit new and growing science companies at its state-of-the-art laboratories at Porton Down. We are working with Wiltshire Council to realise a purpose-built science park at Porton Down.

From April 2017, following a review of our Trading Fund status, we will become an on-vote Executive Agency of MOD, reflecting the secure and sensitive nature of work that we do. The Government's 2015 *Strategic Defence and Security Review* set out the approach to the UK's economic and national security, with many challenges and opportunities that align well with the work that we do and the expertise that we provide or are developing. This, together with a new governance framework with MOD, gives us a clear mandate for the S&T we will deliver for UK defence and security – today and for future generations.



“From April 2017, following a review of our Trading Fund status, we will become an on-vote Executive Agency of MOD, reflecting the secure and sensitive nature of work that we do.”

# Our plans for the future

## Within a rapidly changing and evolving S&T landscape, our purpose remains to maximise the impact of S&T for the defence and security of the UK

During 2015/16, we delivered or contributed to high-quality S&T solutions to a number of defence problems, from advances in quantum technologies to supporting urgent military operations. Working within a constantly changing world, we use three key perspectives to help us understand the future where S&T must play an increasingly important role in securing the UK and its interests.

### 1. The strategic context

The past year saw a significant change to the external environment in which Dstl operates – the new Government delivered a *Comprehensive Spending Review* and a *Strategic Defence and Security Review* (SDSR), and there were changes to the governance of S&T within MOD following the *Science Capability Review* (SCR), led by Government Chief Scientific Adviser Sir Mark Walport. Finally, the quinquennial review of our Trading Fund status was carried out.

The uncertainty and instability across the world continues to pose new and evolving threats to the UK. The rapid pace of innovation and the development of emerging technologies in the global civilian market continue to result in the need for future defence and security solutions.

### 2. The customer requirement

In addition to continued support to operations around the world, our key customer drivers are: cost reduction (by more effective use of capability and better use of people); robust analysis to support key decisions; and, ensuring the delivery of solutions across all the Defence Lines of Development (Training, Equipment, Personnel, Information, Doctrine and Concepts, Organisation, Infrastructure and Logistics).

There also continues to be a requirement for more of the core research programme to address longer-term disruptive capabilities. We continue to provide a coherent set of S&T solutions across defence and security, ensuring that we deliver value for the UK taxpayer.

### 3. The emerging technological landscape

We outlined the future technological landscape for defence and security in our *Corporate Plan 2014 – 2019*. The 19 disruptive technologies that we listed have continued to advance, and they present opportunities for new solutions to defence and security problems. Our list aligns with similar assessments from other UK Government departments and from our allies, and jointly we continue to investigate their potential in many instances.

Key to our success in providing a UK defence and security capability that is fit for the future is ensuring that we enable our customers to harness advances in these emerging areas. We must also ensure that we exploit commercial investment wherever possible, and make sure that new areas are not ignored.

## Our strategic framework

Last year, we worked to three strategic objectives that focussed our efforts on delivering our purpose. **Positioning** provided a focus on our interactions with the outside world and how our interfaces needed to adapt; **Delivery** was our means of providing high-impact fit-for-purpose solutions to our customers' problems; and **Capability** provided our understanding of the resources we needed to access now and in the future.

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### Dstl's strategic framework

<b>Purpose</b>	<b>To maximise the impact of S&amp;T for the defence and security of the UK</b>		
<b>Strategic Objectives</b>	<b>Positioning</b> Acting as an S&T hub for defence and security	<b>Capability</b> Sustaining S&T capabilities for the future	<b>Delivery</b> Providing effective solutions to the most critical problems
<b>Critical Enablers</b>	Delivering our purpose and ensuring we operate efficiently, effectively and safely		

In addition to these objectives, we maintained a focus on our **Critical Enablers**, which included the crucial element of our people. Our people form the lifeblood of our work, and the core of our knowledge and our networks. They are essential for delivering our purpose effectively, and for achieving success. We commit to supporting our people in pursuing fulfilling careers and enabling them to work efficiently, effectively and, above all, safely.

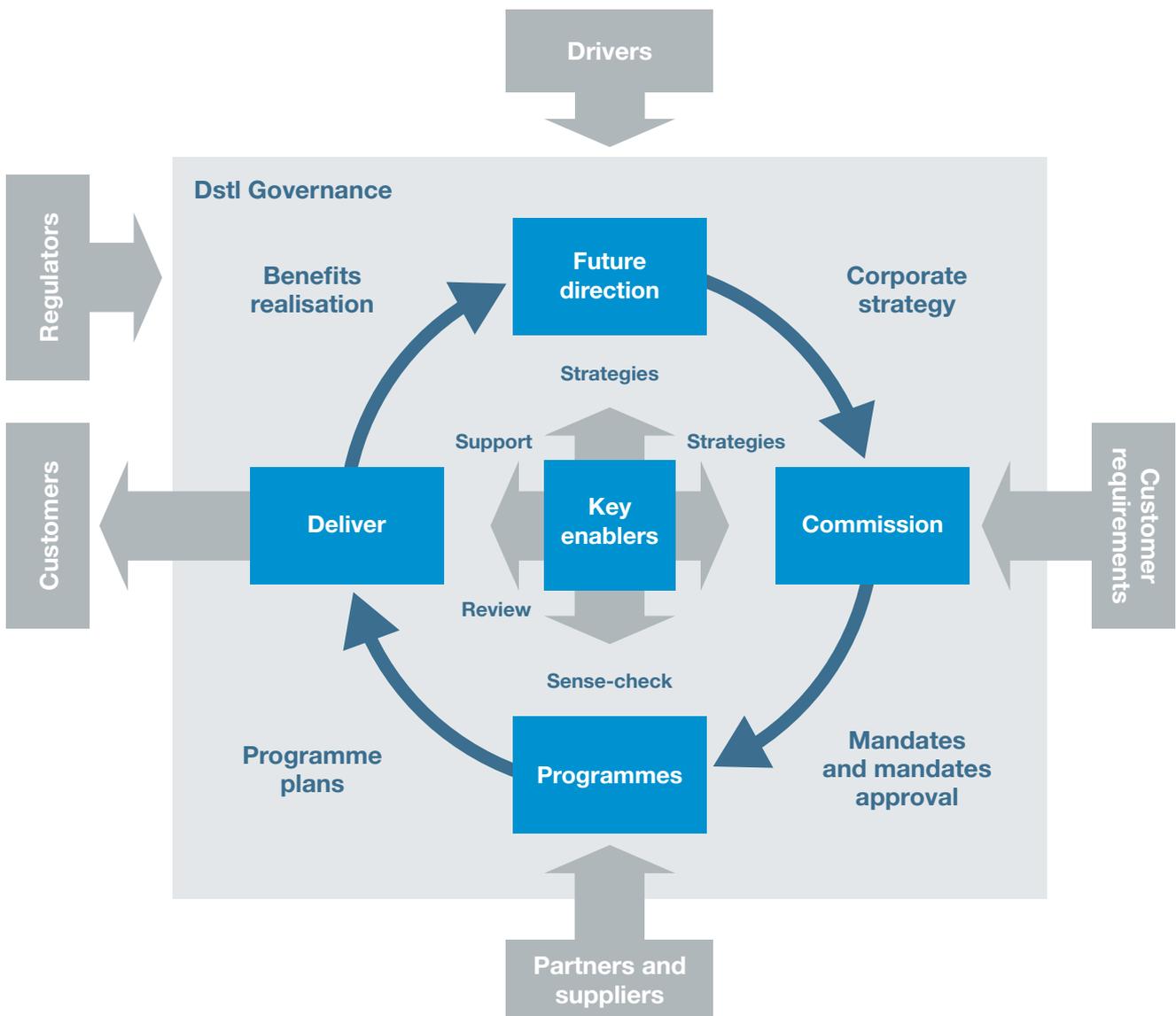
## Our business model

Our business model ensures that we are able to respond appropriately to our customers within MOD, across Government and internationally, in the light of the ever-changing environment in which they operate. Our commitment to deliver what our customers value

is managed within the S&T portfolio lifecycle. By integrating all aspects of decision-making into our model, we reflect the way we do business, and ensure stakeholder support. Being inclusive, transparent and accountable assures the efficient use of resources in delivering the right outcomes for our customers.

Having well-defined relationships to support our internal and external stakeholders is critical to achieving success in a dynamic and challenging environment. Both our customers and our suppliers rely on our ability to communicate and prioritise the demands of supporting defence and security challenges and of sustaining S&T capability. We do this by ensuring timely and meaningful dialogue with relevant parties. We make it clear to ourselves and to others what we need to do and why we need to do it. As we look to the future, we will continue to require strong and vibrant relationships wherever solutions are needed and from wherever they originate.

### Our business model



## Looking forward: our future strategy

The key priority areas for defence and security as articulated in the SDSR 2015 are those in which we have consistently delivered **high-impact S&T solutions** and we will do so in the future under a new strategy to be set by MOD's Defence Science and Technology (DST). The uncertainty in the global economy, the continuing rebalancing of the UK economy and the efficiency reforms across defence all lead to the need to continue to **improve our productivity**. Underpinning all this, we continue our commitment to our staff as the core of our business and to making Dstl a **great place to work** for current and future employees.

Sir Mark Walport's SCR changed our role from April 2016. Since this date, we have continued to be responsible for the delivery of the S&T portfolio, but it is now commissioned by a new DST Portfolio Management function. We remain stewards of the S&T capabilities that will be detailed in the new *DST S&T Strategy* while transitioning over the next year to an on-vote Executive Agency as a result of our quinquennial *Trading Fund Review*. While we will not be a Trading Fund after 1 April 2017, we expect to remain in business as a going concern for the foreseeable future.



“Having well-defined relationships to support our internal and external stakeholders is critical to achieving success in a dynamic and challenging environment.”



# What could stop us achieving our objectives

**We continue to develop our risk management system to drive the effective delivery of our business. Risk discussions are a key component of Board and Executive business, with members regularly reviewing our Corporate Risk Register (CRR) to ensure it captures the threats and opportunities we face as an organisation and that sufficient and appropriate management action is in-hand**

Our corporate risks are those that capture the effect of uncertainty on the achievement of our strategic objectives and our critical enablers; or those that have serious legal, financial viability or reputational implications for Dstl; or those that have serious impact across the business and require Dstl Executive team oversight for effective control.

Our CRR currently identifies 17 threats that may prevent us achieving our objectives. During the year, we also tracked three opportunities (that is, events that should be exploited to our advantage to help us achieve our objectives) related to our **Positioning** that were pursued through the *Trading Fund Review (TFR)* and the *Science Capability Review (SCR)*.

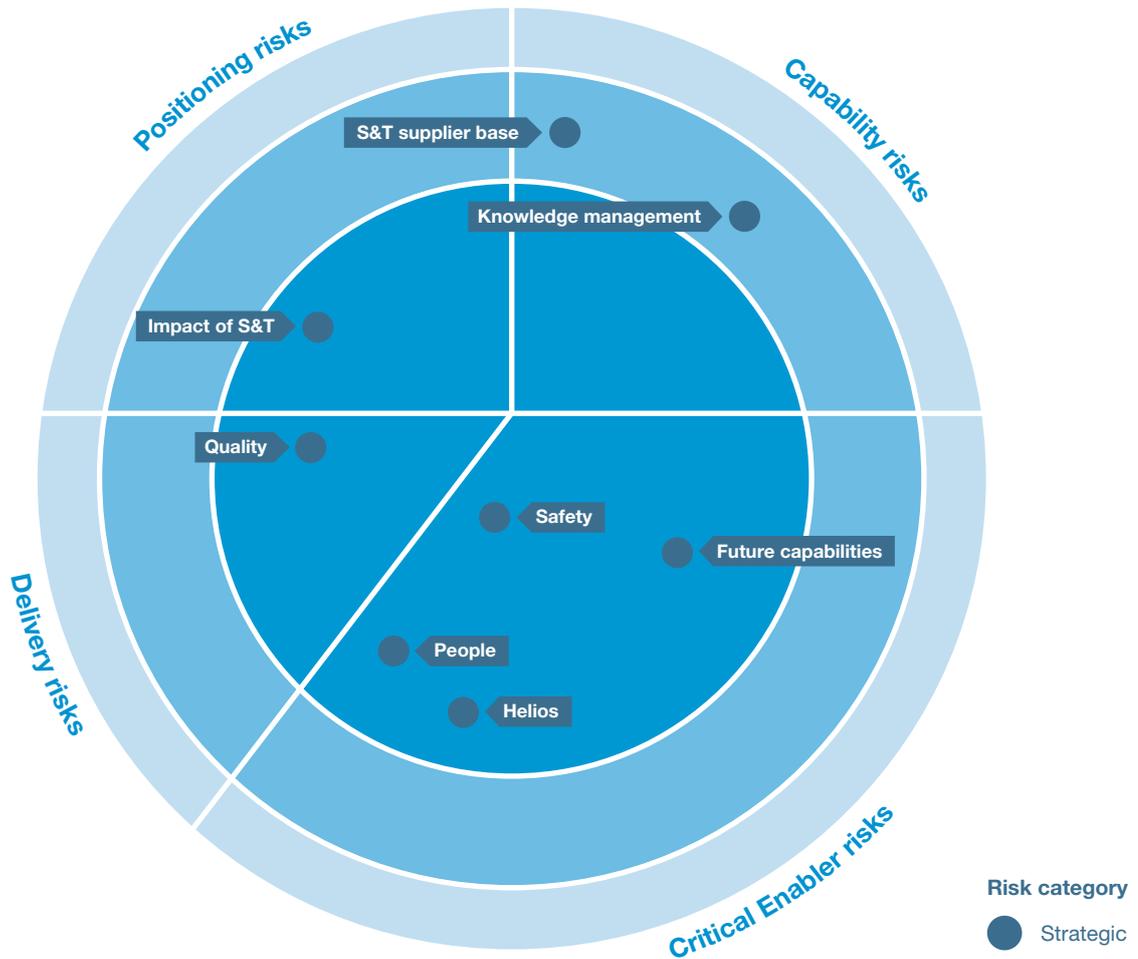
To facilitate the management of our CRR, each corporate risk has a lead Executive Director who is responsible for the risk and its treatments. Our Corporate Affairs Function holds quarterly one-to-one meetings with each lead Director to ensure that the risk treatments are appropriate, effective and on-track.

Our CRR is presented to the Dstl Board annually to facilitate the Board's governance and oversight and to obtain Board members' inputs in relation to our strategic direction, and is discussed quarterly with the Dstl Audit Committee.

Many of our corporate risks (such as those related to cash flow, and to fraud and bribery) naturally fall across all aspects of our business, while there are certain risks that directly align with our strategic objectives:

Our strategic risks  
at 31 March 2016

- Risk status**
- High
  - Medium
  - Low



- **Positioning: acting as an S&T hub for defence and security.** We must continue our focus on the **impact of S&T**. This means that we must be able to articulate the benefits of S&T and maintain effective relationships with MOD and wider Government customer communities in order to ensure that there is impact and exploitation of our delivery outputs.
- **Capability: sustaining S&T capabilities for the future.** Here the key concern is to ensure effective supplier engagement through our **S&T supplier base**. Effective engagement with our key strategic suppliers and partners, and effective contract management, sustains our capability and our ability to deliver defence and security outcomes – we address this through our key supplier management and procurement optimisation programmes. To enable exploitation of the S&T knowledge base, we must maintain appropriate expertise and relationships with partners and suppliers (**knowledge management**).
- **Delivery: providing effective solutions to the most critical problems.** Here it is critical to ensure that we maintain our focus on the **quality** of our outputs – we must continue to deliver fit-for-purpose products that address priority defence and security needs.

- **Critical Enablers: delivering our purpose and ensuring we operate efficiently, effectively and safely.** The key areas that we must always keep under control are the threats associated with need for us to retain the appropriate workforce skills, tools and infrastructure to meet future customer requirements (**future capabilities**), along with the need to recruit and retain the right balance of skills required to deliver our portfolio (**people**). **Safety** will always remain a priority, particularly given the hazardous materials that our research involves, while we continue our focus on the progress of our **Helios** Project to ensure the future delivery of our unique services in a more coherent and cost-effective way, in modern facilities that meet modern standards.

Our strategic and high-impact operational risks are presented in the risk radar above. Further information on our other operational and transitional risks, and about our risk management process, is provided in our Governance statement on page 33.

# Our finances



Finance Director  
David English

## Our financial position remains healthy and a year of strong performance ensures that we can continue to meet future financial challenges

### Sales

Sales for the year were £612 million (2014/15: £653 million), a decrease of 6.3 per cent. A breakdown by key customer grouping is set out in the table below:

	2015/16 £ million	2014/15 £ million
<b>MOD</b>		
Chief Scientific Adviser	382	407
Other	182	200
	<b>564</b>	<b>607</b>
<b>Non-MOD</b>		
Wider Government	31	30
Non-Exchequer	10	10
Estates	5	5
Intellectual Property	2	1
<b>Total</b>	<b>612</b>	<b>653</b>

MOD accounted for 92 per cent of sales (2014/15: 93 per cent). The majority of MOD sales are attributable to the Chief Scientific Adviser's Programme, which decreased by £25 million to £382 million (2014/15: £407 million). This continued to represent 62 per cent of total sales.

Within other MOD sales, Defence Equipment and Support (DE&S) sales decreased slightly to £110 million (2014/15: £112 million) but continued to represent strong demand for work that needs to remain within Government. Sales to Joint Forces Command decreased significantly to £31 million (2014/15: £43 million) though the work continues to be of high profile and priority to respond to emerging and ever-changing threats. Business with the rest of MOD decreased slightly to £41 million (2014/15: £45 million) reflecting a general tightening of customer budgets.

Non-MOD sales increased to £48 million (2014/15: £46 million) due to an increase in intellectual property income associated with the conclusion of a major licensing arrangement for telecommunications technology through the Group's subsidiary (Ploughshare Innovations Ltd). Our other UK Government programmes are related to initiatives such as homeland security and cyber defence, which continue to receive prioritised funding within constrained public sector expenditure budgets.

### Cost of sales

Cost of sales decreased by £33 million to £275 million (2014/15: £308 million), representing 47 per cent of all work delivered in the year (2014/15: 49 per cent). The decrease largely reflects the reduction in sales and the shape of the in-year programme, but with a continuing desire to place work externally where appropriate.

### Operating expenses

Operating expenses decreased by £8 million to £307 million (2014/15: £315 million). Staff costs have decreased by £1 million to £201 million (2014/15: £202 million) and account for 65 per cent of total operating expenses (2014/15: 64 per cent). This results from a higher average staff cost, applied to an average total workforce 2.7 per cent lower than last year. Non-permanent staff at year-end accounted for 8 per cent of total headcount (2014/15: 10 per cent), with much of the in-year reduction in total staff achieved through the non-renewal of contractors and fixed term appointments. The recovery of costs for Dstl staff seconded to other Government departments both in the UK and overseas (£5 million) is offset within staff costs.

	2015/16 £ million	2014/15 £ million
Staff costs	201	202
Non-staff costs	98	100
Depreciation and amortisation	19	16
Other operating income	(11)	(3)
<b>Total</b>	<b>307</b>	<b>315</b>

Non-staff costs decreased to £98 million (2014/15: £100 million). This arose principally from a £3 million decrease in underlying estates infrastructure operating costs accompanied by other one-off reductions in cost. This is offset by increases in IT costs, funding the voluntary staff exit scheme and the non-capital design and relocation costs relating to the Helios Project and its associated enabling works. The £3 million increase in depreciation resulted from the continuing high level of capital investment.

Other operating income is offset against operating expenses and increased to £11 million (2014/15: £3 million). This principally comprises a cash contribution towards the cost of a specialist scientific facility from an MOD customer (£8 million). A further £1 million relates to the favourable settlement of a long-running rates dispute relating to prior years' expenditure.

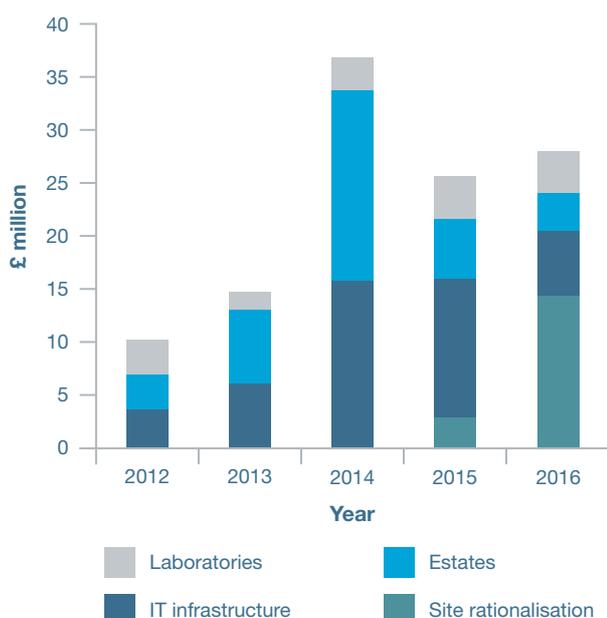
### Group operating profit

Group operating profit increased to £31 million (2014/15: £30 million). The sales decrease of £41 million was offset by a £33 million reduction in cost of sales and the £8 million positive impact of net operating cost decreases (as explained in the previous paragraphs).

### Capital investment

Capital investment was £28 million (2014/15: £25 million). The Helios Project accounted for £15 million, with the majority of Helios expenditure related to the creation of new energetic materials facilities (£13 million) to accommodate activities transferring from Fort Halstead. Other estates projects included a life extension for biology laboratories, and the relocation of several trials capabilities and office accommodation at Porton Down to make space for future Helios construction activity. IT investment included £2 million on the hardware to support future internet-based telephony and £1 million on a procurement portal for research.

### Capital investment



### Funding and treasury management

We have been funded by a loan from MOD of £32 million, which was fully drawn down in 2009/10. Repayment of the loan commenced in 2010/11 and will be fully repaid over 10 years. The average interest rate on the loan is fixed at 3.9 per cent and the outstanding year-end balance was £13 million. We ended the year with cash and short-term investments of £78 million (2014/15: £80 million). Working capital excluding cash and short-term investments, increased by £9 million, driven in part by faster settlement of supplier invoices at the year end.

### Supplier payments

During the year, we paid 91 per cent of approved invoices within five days (2014/15: 94 per cent), against the target set by Government of 80 per cent.

### Dividend

A dividend of £13.2 million will be paid in respect of 2015/16 (2014/15: £12.7 million), based on Dstl's Return on Capital Employed (ROCE) target of 3.5 per cent.

### Events after the reporting date

The result of the referendum held on 23 June 2016 was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made. There have been no other significant events that affect the results for the year or the year-end financial position.

### Accounting policies

These accounts have been prepared under *International Financial Reporting Standards* (IFRS), as adapted for the public sector in the *Government Financial Reporting Manual* (FRoM), issued by Her Majesty's Treasury. There have been no new accounting standards, amendments or interpretations that affect the financial statements and no significant changes in accounting policy.

### Outlook

From April 2017, Dstl will become an on-vote Executive Agency within the MOD and will cease to be a Trading Fund. Our funding model and governance will change, but our core public sector purpose endures. We will continue to operate in specialist areas where there are often few private sector suppliers or no effective commercial market.

An ability to engage with the wider supplier base, in both academia and industry, remains important to us. We anticipate continued growth in collaboration, including the possibility of sharing our specialist S&T facilities with other Government and private sector organisations. The construction phase of the Helios Project is well under way at our Porton Down site, and remains within its agreed funding and schedule limits. New facilities will be commissioned before we transfer capabilities from Fort Halstead to ensure no break in capability.

Our internal Sustainable Value for Money programme continues to identify cost reduction opportunities and process improvements to generate enduring savings in our running costs and overall efficiency. Our reorganisation into five operating Divisions, each centred around our key capabilities and major programmes, is also realising productivity improvements in the delivery of our S&T services.

We remain financially robust with affordable plans for future investment to sustain our nationally critical and highly specialised capabilities.

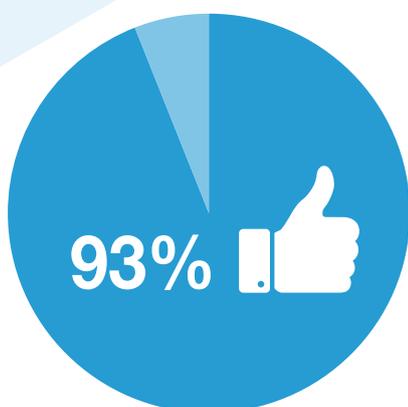
# How we have performed

**Dstl monitors its performance on a monthly basis to advise the Dstl Executive and Board on current and future performance so that appropriate and timely action can be taken to ensure Dstl is on track to deliver its strategic objectives**

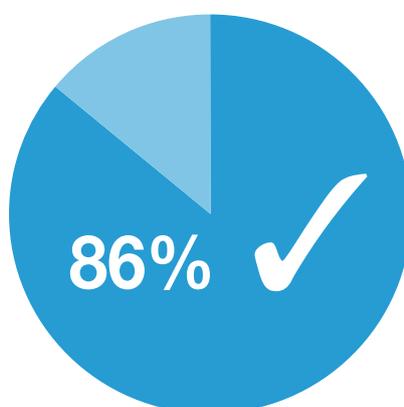
Despite a challenging year and a great degree of uncertainty (due to various reviews and a head count reduction target), the demand for our unique science and technology expertise

has remained high. The following two pages are a summary of our performance; this is followed by more detailed analysis on pages 18 to 20.

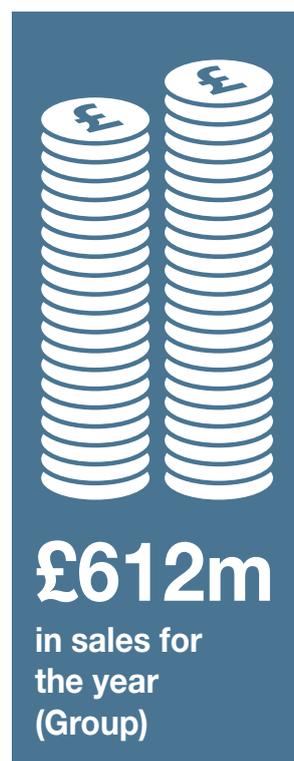
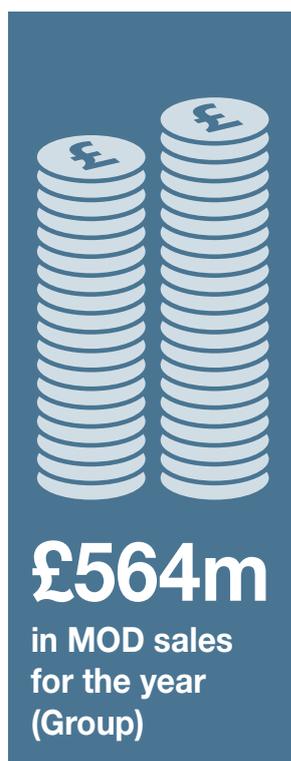
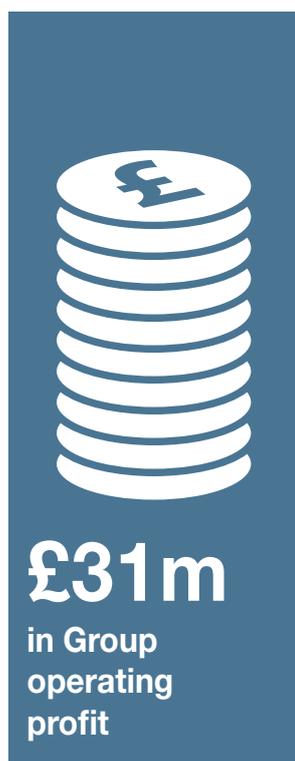
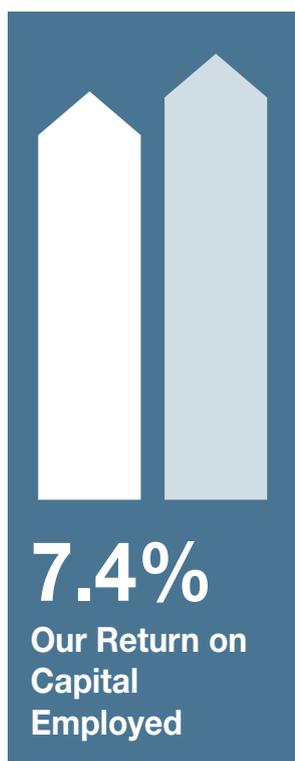
## Customer satisfaction



## Projects completed to cost



## Products delivered to time



*Unless stated, all figures quoted in this section are for Trading Fund only.*

**2.4%**

of hours have been lost to sickness absence. This is a 0.1 per cent increase on last year but it remains below our threshold



**0.13**

Our Health and Safety reportable injuries per 100,000 hours worked was 0.13. We remain under the best-practice average in a similar industry, which is 0.16



**8.5%**

Our permanent staff turnover has increased this year. This is a result of the effects of corporate headcount reduction initiatives



Our employee engagement index was 54 per cent. This has reduced 10 per cent over the past five years, and we are now below the Civil Service median score



**313**

The number of non-permanent staff we employed at 31 March 2016



**3,738**



the number of Full-Time Equivalent staff at 31 March 2016

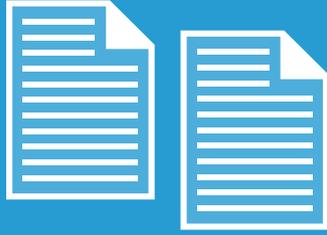
**£9,626**

raised by our staff for the SSAFA charity



**100%**

of official correspondence was answered on time



**57.6%**

Chargeable Utilisation was 57.6 per cent at 31 March 2016. It has followed the same pattern as 2014/15



## How we measure our performance

**Business performance management and reporting has evolved this year to reflect major organisational changes to our Delivery Directorate and changes to our governance. The changes have improved accountability for business performance across the organisation**

Our performance is measured against our strategic objectives (see page 9), and business performance targets agreed with our Owner (MOD). The performance assessment framework consists of monthly reviews of our key performance indicators and detailed business performance reviews every quarter, both conducted by our Executive. The business performance reviews are used to produce a business performance report, which is reviewed quarterly by our Board.

### Positioning

Acting as an S&T hub for defence and security, we continued to place a significant proportion of our entire portfolio with partners and suppliers. With the agreement of MOD, the proportion of work delivered externally this year was 46.5 per cent, which is a small decrease compared to last year (2014/15: 48.9 per cent).

	Performance	Threshold
External cost of sales (%)	46.5	> 50

### Delivery

As in previous years, we have maintained high delivery performance based on delivering to time, to cost and to customer satisfaction, consistently exceeding the performance targets agreed with MOD. We continued to experience high demand for our expertise, although at £621 million there was a shortfall in total budgeted sales and a decrease in sales compared to £653 million last year.

We have continued to deliver successfully, while also implementing change, including supporting the *Science Capability Review (SCR)* Implementation Programme within Defence Science and Technology.

	Performance	Threshold
Overall customer satisfaction with delivery (%)	93	≥ 93
Net Promoter Score (Customers who would recommend Dstl to others) (%)	47	> 55
Products delivered to time (%)	90	> 85
Projects completed to cost (%)	86	> 85

*RAG (Red, Amber, Green) status reflects the divergence from tolerance. All figures quoted in this section are for Trading Fund only.*

## Capability

In the context of the changing defence and security landscape and new technology opportunities, we need to ensure that we have the right capabilities for the future while recognising the importance of the cost reduction emphasised in our *Corporate Plan 2015 – 2019*. To support these aims, targeted Voluntary Early Exit schemes were initiated this year to reshape ourselves in line with future customer requirements and to ensure our Corporate Plan remains financially viable; this is reflected in a higher permanent staff turnover for the year and a small decrease in the ratio of non-permanent staff (2014/15: 9.5).

	Performance	Threshold
Total staff (Full-Time Equivalent at 31 March 2016)	3,738	3,681
Non-permanent staff (%)	8.4	> 12
Permanent staff turnover	8.5	< 7

## Critical Enablers

This year, our staff engagement index fell to 54 per cent (2014/15: 57 per cent; 2013/14: 60 per cent), reflecting the external context that we face and the uncertainty of the various external reviews (*Strategic Defence and Security Review*, SCR and *Trading Fund Review*) that got under way during the year.

Our staff sickness absence remained below the public sector average and within the threshold of the target set by our Owner.

Operating safely continued to be our highest priority and recognising this we have created a Safety Improvement Programme to enhance our safety performance across the business. Our Health and Safety reportable injuries per 100,000 hours worked remained low compared to other (comparable) organisations.

	Performance	Target/Threshold
Employee Engagement Index	54	> 60
Hours lost to sickness absence (%)	2.4	< 2.5
Health and Safety reportable injuries per 100,000 hours worked	0.13	As low as reasonably practicable
Greenhouse gas emissions (Greening Government Commitment)	17.5% reduction from a 2009/10 baseline	25% reduction from a 2009/10 baseline

## Our key corporate financial target

The Return on Capital Employed (ROCE) target set by MOD is to achieve a 5-year average of 3.5 per cent during the period from 1 April 2012 to 31 March 2017.

We define our ROCE as:

- Return – modified historical cost profit on ordinary activities before interest and dividends.
- Capital employed – average capital and reserves, being public dividend capital, long-term loans, and reserves.

	Group	Trading Fund
ROCE 2016 – 4-year average 1 April 2012 to 31 March 2016 (%)	7.5	7.4
ROCE 2015 – 3-year average 1 April 2012 to 31 March 2015 (%)	7.5	7.5

Based on the cumulative average ROCE achieved since 1 April 2012, we are on target to exceed the average threshold for the five-year period to 31 March 2017.

## Trend analysis

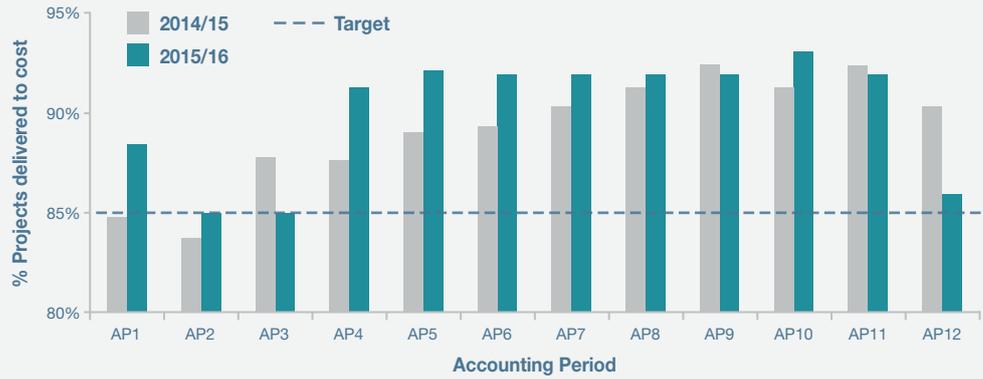
### 93% overall customer satisfaction with product delivery

During 2014/15, the percentage of customers scoring us above our satisfaction target (93 per cent) was increasing. This has seen a change over 2015/16 with this rate decreasing slightly, although Dstl remains above target.



## 86% of products were delivered to cost

Compared to 2014/15, we have delivered fewer products to cost by year end but remain above the set threshold.



## 54% was our Employee Engagement Index

Our Employee Engagement Index has reduced 10 per cent over the past five years. This is in contrast to the Civil Service median, which has been increasing.



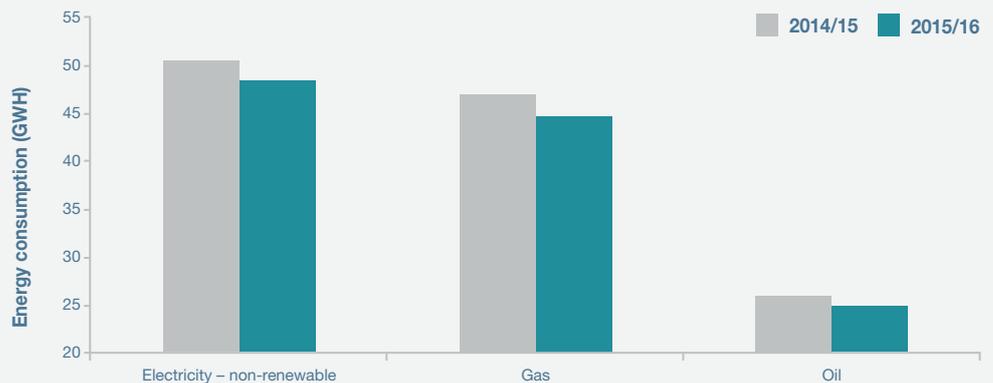
## 8.5% Permanent staff turnover

Turnover has seen flux over the past two years. As a result of corporate headcount reduction initiatives, such as Voluntary Early Exit schemes, there was an increase in our permanent staff turnover. It is expected our percentage of permanent staff turnover will reduce in 2016/17.



## 12% decrease in our consumption of non-renewable electricity, oil and gas

During 2015/16, we continued with a programme to reduce our reliance on fossil fuels. This has resulted in a reduction in our total energy consumption.



# How we manage the impact of our activities

## At Dstl, we are committed to building a sustainable future for our environment, each other, and our community

This year, we continued to run a comprehensive sustainability programme that included environmental management, procurement, green travel, charitable giving and education outreach, while maintaining the necessary capability and infrastructure for the efficient and effective delivery of S&T. Our sustainability policy supports the wider environment and sustainability aspirations of the UK Government and MOD. We recognise that our activities can have both negative and positive impact on the environment, people and wider communities, and we consider environmental, social and economic impacts when making decisions. In line with MOD environmental sustainability priorities, we embed environmental and sustainability thinking into our everyday activities and we require the same of our partners and suppliers.

### Environmental management

Following the retender of our third-party certification contract, we transferred our ISO 14001 (Environmental Management) certification from Lloyds Register of Quality Assurance to the United Kingdom division of Association Française de Normalisation (AFNOR UK). In October 2015, AFNOR UK conducted its first audit, which verified that our integrated approach to environmental management is satisfactory.

We have been working hard to achieve the Greening Government target to reduce greenhouse gas emissions by 25 per cent, from a 2009/10 baseline, from the whole estate and business-related transport. Improved energy monitoring and tracking, and our Helios Project, which will transfer our key capabilities from our Fort Halstead site to our Porton Down and Portsdown West sites, will all help to ensure greater energy efficiency per head both now and in the future. This year, we did not achieve the Greening Government target reduction but we will achieve it when our Helios Project completes in 2018.

Greening Government Commitment	2016 Government reduction target	Our position at 31 March 2016
 Greenhouse gas emissions	25% reduction from a 2009/10 baseline	17.5%
 Waste	25% reduction from a 2009/10 baseline	27%
 Water	No official target set	Achieved a 1.9% water saving from base year
 Paper	10%	41%*
 Domestic flights	20%	20.5%

\* Paper usage relates to supplies procured via Government contracts. Our strategic supply chain partners also use additional paper but this is not included as the volumetric data is not available.



Our main direct impacts of electricity and fossil fuel consumption on the environment are due to our specialist laboratory work that requires a significant level of electricity consumption. However, we continue to focus on replacing our older less efficient plants.

Greenhouse gas emissions		2012/13	2013/14	2014/15	2015/16
Non-financial indicators (tCO <sub>2</sub> e)	Gross emissions for scopes 1 and 2 energy				
	Oil <sup>1</sup>	6,287	5,904	6,978	6,580
	Electricity consumed	23,669	22,317	22,468	21,670
	Gas	8,423	7,753	8,686	8,258
	LPG	61	123	121	84
	Diesel <sup>2</sup>	549	320	372	604
	Fugitive gases	705	879	872	959
	Electricity transmission and distribution	1,870	1,908	1,921	1,853
	<b>Total gross emissions for scopes 1 and 2 energy</b>	<b>41,564</b>	<b>39,204</b>	<b>41,418</b>	<b>40,008</b>
	Gross emissions scope 3				
	Business travel <sup>3</sup>	7,870	9,302	9,080	9,961
	Water <sup>4</sup>	489	546	535	436
	<b>Total gross emissions for scope 3 energy</b>	<b>8,359</b>	<b>9,848</b>	<b>9,615</b>	<b>10,397</b>
	<b>Total gross emissions for scopes 1, 2 and 3</b>	<b>49,922</b>	<b>49,052</b>	<b>51,033</b>	<b>50,405</b>
Financial indicators (£'000)	Expenditure on energy <sup>5</sup>	7,363	6,621	6,517	6,373
	Expenditure on official business travel	7,727	9,555	9,942	10,583
	<b>Total expenditure on energy and business travel</b>	<b>15,090</b>	<b>16,176</b>	<b>16,459</b>	<b>16,959</b>

<sup>1</sup> Oil for the current and previous reporting years has been split between heavy and light types.

<sup>2</sup> Diesel usage has increased this year due to the availability of new data, which now includes red and white diesel, which is used by vehicles for on-site activities. Previous years have not been restated.

<sup>3</sup> Since 2014/15, new data capturing processes have recorded greater accuracy on flight miles travelled. Our air travel carbon conversion factors now include radiative forcing, which is a measure of the additional environmental impact of aviation. This includes emissions of nitrous oxides and water vapour at high altitude.

<sup>4</sup> Since 2013/14, carbon emissions for supplied abstracted water at one of our sites have been included in the total figure for water. We have restated the figures for 2012/13 accordingly.

<sup>5</sup> Energy spend figures differ to the prior-year signed accounts due to improved reporting for diesel costs. Prior years have been restated.

During the year, we made improvements to the processes for managing waste and to the way we conduct management review; we also made a full review of internal auditor competencies. We have started planning the transition to ISO 14001:2015, which will conclude by October 2017. Our energy emissions data relates to our operations from our three core sites in the UK; emissions from our tenanted site at Alverstoke are reported as part of wider MOD's sustainability report. Emissions relating to our strategic partners or their supply chains are not included.

This year, 63 per cent of our waste was recycled, reused or sent for energy recovery. However, due to a large one-off consignment of waste for external disposal, we did not meet our own targets nor those set by MOD and wider Government. We will continue to deliver further improvements wherever possible, and to encourage our workforce to minimise waste wherever possible.

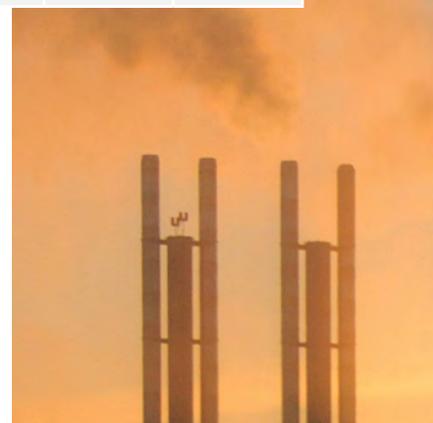
We produce quantities of hazardous waste that are either incinerated on site in accordance with Environment Agency approved standards, or disposed of via approved external suppliers. In parallel, we ensure that an efficient and effective waste disposal process operates across our sites, which is based on sorting at destination rather than at source.

Waste		2012/13	2013/14	2014/15	2015/16	
Non-financial indicators (t) (tonnes)	Hazardous waste incineration solid	162	207	126	121	
	Hazardous waste incineration wet	34	8	20	32	
	Hazardous waste – external disposal <sup>6</sup>	71	61	162	468	
	<b>Total hazardous waste</b>	<b>267</b>	<b>276</b>	<b>308</b>	<b>621</b>	
	Non-hazardous waste	Landfill	127	106	118	87
		Reused/recycled	1,005	1,078	849	727
		Incinerated/energy from waste	243	242	204	182
		Composted	0	0	0	0
	IT equipment <sup>7</sup>	0	0	0	0	
	<b>Total waste</b>	<b>1,642</b>	<b>1,702</b>	<b>1,479</b>	<b>1,617</b>	
Financial indicators (£'000)	Total disposal cost	309	347	395	437	
	Hazardous waste – total disposal cost	244	190	289	252	

<sup>6</sup> The figure for 2015/16 increased due to a large one-off consignment of waste sent for external disposal.

<sup>7</sup> Dstl disposes all of its IT equipment via MOD's Defence Disposals Agency. This information is collated by MOD and is excluded.

We have continued with a programme to reduce the consumption of utilities that lessens our reliance on fossil fuels, electric, gas and water. Campaigns are running across our three main sites, focussed on staff operational running costs and total carbon footprint. We continue to install LED lighting, water-saving devices and adjustments of heating and ventilation systems. We have also been identifying opportunities for recovering wasted energy and heat recovery, and will be moving towards feasibility studies in the next year.



Finite resource consumption – energy			2012/13	2013/14	2014/15	2015/16
Non-financial indicators	Energy consumption (kWh)	Electricity – non-renewable	51,451,762	50,096,086	50,434,508	48,643,192
		Electricity – renewable	4,145	4,385	3,343	4,821
		Gas	45,775,057	42,134,973	47,197,533	44,872,873
		LPG	8,764	17,696	17,379	12,091
		Oil	23,550,447	22,092,749	26,128,486	25,402,163
Financial indicators (£'000)	Total energy expenditure	7,363	6,621	6,517	6,373	

Our major impact in terms of water consumption is the reliance on local abstraction at one of our sites, which is controlled by Environment Agency licences. Water consumption is closely monitored to ensure that current and future requirements are sustained and that water is used efficiently and effectively as part of ongoing operations.

Finite resource consumption – water			2012/13	2013/14	2014/15	2015/16
Non-financial indicators	Water consumption (m <sup>3</sup> )	Supplied	191,291	188,716	165,954	167,933
		Abstracted	217,711	230,665	254,774	241,593
Financial indicators (£'000)	Water supply costs	1,113	1,316	1,876	1,040	

We work closely with Natural England to achieve 'Favourable Condition' status for our Site of Special Scientific Interest (SSSI) at Porton Down, as part of Government biodiversity 2020 targets. Porton Down constitutes one of the largest uninterrupted tracts of semi-natural chalk grassland in Britain. The SSSI, which comprises 1,519 hectares, supports rare grassland and scrub communities, together with significant populations of nationally rare plants, invertebrates and birds. We are also leading a major conservation project for the rare stone curlew bird – for the second year running, Porton Down was the most successful breeding site in the Wessex region, due to continued improved species surveillance, innovative ecological research and implementation of sound practical methodologies. Historic interests on our estate are addressed with a long-term programme designed to halt any deterioration of ancient monuments caused by natural events.

## Travel

This year, we adopted a new travel policy that required staff to consider using public transport or working flexibly, before travelling by single-occupancy car. Owing to grant funding from the Office Of Low Emission Vehicles, a small fleet of Nissan Leaf electric cars were secured on two-year leases for use on both local journeys and journeys between our Porton Down and Portsdown West sites. Ten employees have taken advantage of a scheme to allow them to recharge their own electric cars while at work using our on-site electric vehicle charging pillars. This year, we also changed our travel supplier, which has introduced a self-booking tool aligned to our travel policy, and which provides staff with sustainable travel alternatives.

Significant national and international travel is required to support our operations. High customer-driven demand and improved data collection in respect of low-cost air fares have both contributed to higher reported emissions since 2012/13 (see greenhouse gas emissions table on page 22).

State-of-the-art video conferencing continues to be used widely across the business, which helps to reduce the amount of travel for routine inter-site meetings. This year, use of our teleconferencing facilities has saved 21,000 hours of travel time.

We run a dedicated car-share matching scheme with more than 800 registered members. Our staff can also purchase and collect train tickets on site and make savings on advance ticket prices. Additionally, more than 550 of our staff have taken part in Dstl's cycle-to-work scheme and we continue to work closely with the local authorities to improve the cycle infrastructure around our sites.

Three of our four sites are located in rural locations, with limited public transport services. In order for us to meet the needs and interests of our staff, we have commissioned selected bus services to provide transport links to our sites from key transport hubs in the areas where significant numbers of our staff live.

## Sustainable procurement

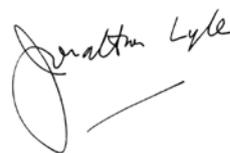
We apply MOD's Joint Service Publication (JSP) 418 (*Management of Environmental Protection in Defence*) and MOD's Sustainable Procurement Commercial Policy Statement, which details MOD's commercial policy and guidance on sustainable procurement, to our activities. In line with our ISO 14001 (Environmental Management) accreditation action-planning, we are seeking to further our approach to sustainable procurement across the business starting with a clear internal strategy; MOD policy provides the baseline for our approach. We will adapt MOD's approach, which works well when running the business (tangible goods), to our business where we are procuring significant S&T intellectual effort and research (intangible goods). Our strategy is intended to create a culture of sustainable procurement across the whole business including our suppliers.

## Community

As a defence organisation, we are keen to support charities that help military personnel and their families. This financial year, we continued our corporate commitment to raising funds for SSAFA (Soldiers, Sailors, Airmen and Families Association), and raised £9,626. Each November we also raise funds for the Royal British Legion poppy appeal, which raised a further £2,387.

We encourage staff to undertake community volunteering. This delivers many benefits in terms of building closer community links and helping staff to develop team working and leadership skills. We also encourage and support members of staff who are Reservists in the Armed Forces. This year, we received a Defence Employer Recognition Scheme silver award for the support we give to our Reservist employees; this includes an additional 15 days' special paid leave for annual training commitments.

More than 120 of our employees are directly supporting the Government's Science, Technology, Engineering and Maths (STEM) agenda by volunteering to work in schools local to our sites as STEM Ambassadors. Helping to encourage young people to take up STEM careers, our Ambassadors lead hands-on activities and make STEM subjects fun; they also share their career experiences and advise on STEM professions. In 2015/16, our Ambassadors supported more than 85 events in schools and colleges close to our sites. We also continue to provide support to the specialist STEM schools, the South Wiltshire University Technical College (UTC) and UTC Portsmouth.



Jonathan Lyle | Chief Executive  
16 June 2016



# Accountability Report

“The Dstl Board continues to be deeply impressed by the quality and value of Dstl’s output, and by the commitment and professionalism of its staff at all levels”.

– Sir David Pepper KCMG, Chair of the Dstl Board



# Directors' report



Sir David Pepper

**The Dstl Board provides strategic leadership for Dstl in delivering its objectives through scrutiny, advice and constructive challenge**

## Chairman's introduction

The Board's non-executives bring a wide range of experience, covering industry, academia, consulting, defence and finance, and have worked in both private and public sectors; we all engage in activities within Dstl other than simply attending Board meetings, giving us a broader and deeper insight into the organisation. As a Board, we achieve effective interaction between executive and non-executive members, allowing detailed probing and constructive dialogue.

We regularly review Dstl's performance against its Business Plan and objectives, and monitor its major risks. We are supported by an active Audit Committee, chaired by one of the non-executive members, which is able to probe risks and performance issues in more depth.

Our work this year has been dominated by the two major reviews relevant to Dstl: MOD's *Science Capability Review* (SCR) led by the Government Chief Scientific Adviser, and the *Dstl Trading Fund Review* (TFR). We helped to shape Dstl's input to the TFR, and advised the Chief Executive on Dstl's response to the SCR. We have also given advice to the Minister for Defence Procurement (Min(DP)) on risks arising from the SCR. These reviews have led Dstl to suspend some aspects of its transformation programme, which is now being reshaped in response to their conclusions. We have monitored this in order to support the Chief Executive in his leadership of the organisation.

Other major issues this year have included the Helios Project (see page 7) working towards the closure of the Fort Halstead site, and relationships with some of Dstl's strategic contracting partners. On all of these, we have monitored the major risks, assisted the Chief Executive in his decision-making, and advised the Minister of our judgements.

Because of the uncertainty over future governance arrangements, we decided to delay our planned independent Board evaluation. Work on it began at the end of the financial year, and it reported recently; we are now developing a plan to implement its recommendations.

The reviews have created a turbulent environment for Dstl, and the prolonged uncertainty has had effects on morale and forward planning. Dstl is now having to adjust to a change in responsibilities but we are pleased with the way it has emerged, and with the prospects for its future work. The Government's *Strategic Defence and Security Review 2015* made clear the need for better and more focussed S&T research and development; the SCR, once its conclusions are fully implemented, should lead to better strategic guidance for Dstl's work.

We have been very pleased to observe that Dstl's continuing work and output has not been seriously affected by the uncertainty over planning and governance. We continue to be deeply impressed by the quality and value of its output, and by the commitment and professionalism of its staff at all levels.

Sir David Pepper KCMG | Chair of the Dstl Board  
16 June 2016

## Our Leadership

### The Dstl Board and Executive (for the financial year 2015/16)

Our Board provides strategic leadership in delivering our objectives. It provides a forum for independent, non-executive, support and constructive challenge to our Chief Executive and our Executive Directors.

Members of the Dstl Board as at 31 March 2016		
<b>Sir David Pepper KCMG</b>	Non-Executive Chairman	-
<b>Elisabeth Astall</b>	Independent Non-Executive Director	-
<b>Gerard Connell</b>	Independent Non-Executive Director	-
<b>David Grant</b>	Independent Non-Executive Director	-
<b>Dame Wendy Hall</b>	Independent Non-Executive Director	-
<b>David Marsh</b>	Non-Executive Director (MOD)	With effect from 1 January 2016
<b>Jonathan Lyle</b>	Chief Executive (CE)	-
<b>David English</b>	Finance Director	Appointed 1 January 2016
<b>Bryn Hughes</b>	Technical Director	Appointed 1 October 2015
<b>Joanne Peel</b>	People and Business Services Director	Appointed 25 January 2016
Former members of the Dstl Board who have served during financial year 2015/16		
<b>Carole Tolley</b>	Non-Executive Director (MOD)	Retired 29 May 2015
<b>David English</b>	Non-Executive Director (MOD)	From 30 May 2015 to 31 December 2015
<b>Peter Thompson</b>	Deputy CE, Technical and Strategy Director	Resigned 31 August 2015
<b>Mark Alexander</b>	Finance Director	Transferred within MOD 30 November 2015
<b>Richard Brooks</b>	Delivery Director	Resigned 12 February 2016
<b>Paul Fox</b>	Acting Finance Director	From 1 to 31 December 2015
<b>Christine Hewitt</b>	People and Business Services Director	Completed secondment 12 October 2015

Our Executive provides day-to-day leadership and management to ensure that our business strategy is appropriate to meet the scientific requirements of our customers. It ensures that we operate safely and securely by reviewing performance and managing risks, and monitoring business delivery and financial performance.

Members of the Dstl Executive as at 31 March 2016		
<b>Jonathan Lyle</b>	CE	-
<b>Graham Balmer</b>	Infrastructure Director	-
<b>David English</b>	Finance Director	Appointed 1 January 2016
<b>Jennifer Henderson</b>	Transformation Director (job share)	Appointed 1 April 2015
<b>Bryn Hughes</b>	Technical Director	Appointed 1 October 2015
<b>Alexander Lambert</b>	Transformation Director (job share)	Appointed 1 April 2015
<b>Joanne Peel</b>	People and Business Services Director	Appointed 25 January 2016
Former members of the Dstl Executive who have served during financial year 2015/16		
<b>Peter Thompson</b>	Deputy CE, Technical and Strategy Director	Resigned 31 August 2015
<b>Mark Alexander</b>	Finance Director	Transferred within MOD 30 November 2015
<b>Richard Brooks</b>	Delivery Director	Resigned 12 February 2016
<b>Paul Fox</b>	Acting Finance Director	From 1 to 31 December 2015
<b>Christine Hewitt</b>	People and Business Services Director	Completed secondment 12 October 2015

## Our Board: Non-Executive Directors (as at 31 March 2016)



**David Marsh**  
MOD Non-Executive Director

**Dr David Grant CBE**  
Non-Executive Director

**Professor Dame Wendy Hall**  
Non-Executive Director

Appointed to the Board  
on 1 January 2016

Appointed to the Board  
on 1 June 2012

Appointed to the Board  
on 1 June 2012

### Key strengths

Leadership; programme and project delivery; commercial; scientific.

### Experience

David has more than 25 years' experience in the delivery of defence science and technology, and equipment programmes and projects. His previous roles include leadership of integrated delivery teams responsible for communications, weapons, aircraft and army vehicle systems. He is a Chartered Chemist and Registered Project Professional. Since 2005, he has been MOD's Head of Profession for Portfolio, Programme and Project Management.

### Declarations of interest – other appointments and memberships

Non-Executive Director for the Oil and Pipelines Agency; MOD's Director of Commissioning Services.

### Key strengths

Leadership in public and private sector organisations; research and innovation management; education and skills development.

### Experience

David has held technical and general management roles in international technology businesses in electronics, telecommunications, aerospace and defence. He was Technical Director of GEC plc from 1991 to 2001, and was appointed Vice Chancellor of Cardiff University from 2001 to 2012. David has served as a vice-president of the Institution of Engineering and Technology, and from 2007 to 2012 he was a vice-president of the Royal Academy of Engineering.

### Declarations of interest – other appointments and memberships

Chair of the National Physical Laboratory; Chair of STEMNET – the charity that works with schools to encourage youngsters to choose STEM (Science, Technology, Engineering and Mathematics) careers; Senior Independent Director of Renishaw plc and IQE plc; Fellow of the Royal Academy of Engineering.

### Key strengths

Scientific; leadership; strategic overview; Government relations; innovation and start-up experience.

### Experience

Dame Wendy is a Professor of Computer Science at the University of Southampton where she started her career as a lecturer in 1984. She was Dean of the Faculty of Physical Sciences and Engineering from 2010 to 2014, and is currently the Executive Director of the Web Science Institute. During her career, Dame Wendy has been involved in several start-up and spin-out companies.

### Declarations of interest – other appointments and memberships

Director of the Web Science Institute; Fellow of the Royal Society; Fellow of the Royal Academy of Engineering. Non-Executive Director of the Digital Catapult, Idox Group plc and Seme4 Ltd.



**Sir David Pepper KCMG**  
Chair

**Elisabeth Astall**  
Non-Executive Director

**Gerard Connell**  
Non-Executive Director

Sir David took up the post of Chair on 1 August 2014

Appointed to the Board on 1 September 2009

Appointed to the Board on 1 October 2011

**Key strengths**

Strategic leadership and delivery management at Board level; stakeholder management; change management; science and technology; corporate governance.

**Experience**

Sir David worked for Government Communications Headquarters (GCHQ) for 36 years; his final appointment there was as Director GCHQ from 2003 to 2008, when he led the organisation through a period of exceptional change. Other roles within GCHQ included Director of Policy and Resources, and Director of Administration. He was also Director of Corporate Development at the Home Office. Sir David was educated at St John's College, Oxford, where he obtained a doctorate in Theoretical Physics.

**Declarations of interest – other appointments and memberships**

Trustee of Gloucestershire Wildlife Trust.

**Key strengths**

Defining strategy and vision; leading and managing consulting businesses/projects; technology innovation and systems implementation; programme and commercial management; working with Governments and private sectors.

**Experience**

Elisabeth (Lis) worked for Accenture for 27 years with a series of roles – most recently from 2006 to 2009 as the Managing Director (MD) for Public Service in Europe, Middle East, Africa and Latin America. Prior to this, Lis was UK Managing Director across all the private and public sector work in Accenture. She has also been Global MD of Accenture's Strategic Services business in Government. Lis has worked in consulting and outsourcing businesses, in manufacturing, financial services and Government.

**Declarations of interest – other appointments and memberships**

Non-Executive Director for UK Sport and Joint Forces Command; on the Board of Digital Jersey; Trustee of the Social Mobility Foundation; Chair of the PPR Foundation.

**Key strengths**

Strategic advisory; organisational efficiency; risk assessment and audit; stakeholder communications.

**Experience**

Gerard trained as a Chartered Accountant with Price Waterhouse. He spent the first half of his executive career in strategic advisory work in London, including roles as a Managing Director of Bankers Trust Company and as a Regional Director of Hill Samuel Bank Limited. He subsequently moved into strategic, financial and operational roles in industry, latterly as Group Finance Director and Managing Director Western Europe of a FTSE-250 business services group.

**Declarations of interest – other appointments and memberships**

Independent Director of the Nuclear Decommissioning Fund Company Limited; Non-Executive Director (NED) at the Land Registry; NED and Chair of Audit at the Financial Ombudsman Service; Chair of the Remuneration Committee and council member at the Science and Technology Facilities Council.

## Our Board: Executive Directors (as at 31 March 2016)



**Bryn Hughes**  
Technical Director

Appointed to the Dstl Executive on 1 October 2015

### Key strengths

Leadership; science and technology; research and development strategy; security and defence; central Government.

### Experience

Bryn has had a long career in MOD. He has recently returned to Dstl from a posting in the Foreign and Commonwealth Office where he provided senior S&T advice. He has held various roles within MOD, including Director S&T Capability. He was a member of the senior leadership team at the formation of Dstl in 2001 and has worked with various central Government departments. He is a Fellow of the Institution of Engineering and Technology, and the British Computer Society, and is a Chartered Biologist.

### Declarations of interest – other appointments and memberships

None declared.



**Jonathan Lyle**  
Chief Executive

Appointed Chief Executive on 5 March 2012. He joined the Board on 1 March 2010 when he was appointed Director Programme Office

### Key strengths

Leadership; engineering; strategic overview; Government relations.

### Experience

Prior to his appointment as Chief Executive, Jonathan was Dstl's Director Programme Office. Previous roles in MOD have included Director Helicopters at Defence Equipment and Support, Director of the College of Management and Technology at the Defence Academy, and Operations Director at the Defence Procurement Agency. Earlier in his career, he worked in the Cabinet Office and the Department of Trade and Industry on cross-Government S&T policy and its implementation. He is a Chartered Engineer and a Fellow of the Royal Academy of Engineering and of the Institution of Engineering and Technology.

### Declarations of interest – other appointments and memberships

Membership of the trade union Prospect.



**David English**  
Finance Director

Appointed to the Dstl Executive on 1 January 2016

### Key strengths

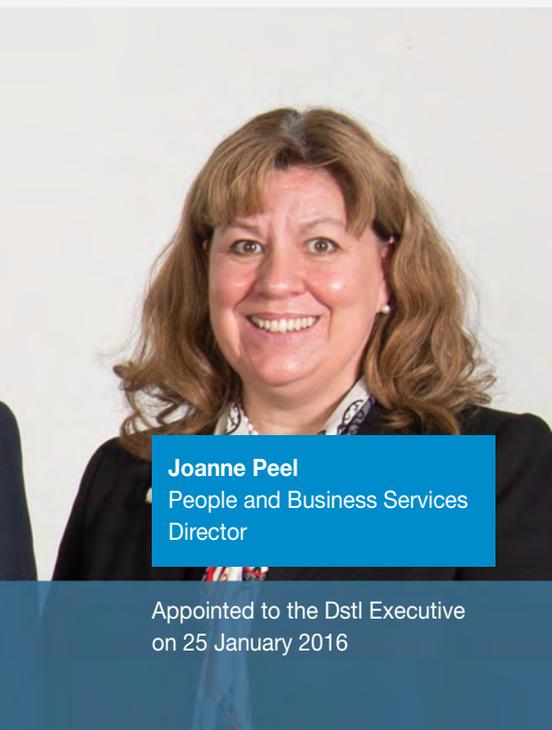
Finance; Government relations; governance.

### Experience

Before joining Dstl, David was the Head of Business Strategy and Governance in MOD. He joined MOD in 1996 having completed a BEng in Avionic Systems and some hands-on engineering in industry. During his MOD career, David has worked in Defence Equipment and Support, and has been a Private Secretary to the Defence Secretary. During summer 2011, David was Head of Libya Operations Policy until the conclusion of the NATO-led operation.

### Declarations of interest – other appointments and memberships

Non-Executive Director of Ploughshare Innovations Ltd, a subsidiary of the Dstl Group; Dstl Representative on the Board of Tetricus Ltd, a business incubator and associate company of Dstl.



**Joanne Peel**  
People and Business Services  
Director

Appointed to the Dstl Executive  
on 25 January 2016

### Key strengths

Strategy; talent management;  
coaching; human resources (HR).

### Experience

Joanne joined Dstl from the Judicial Office where she was the HR Director for the Judiciary of England and Wales. She has held a number of roles across Government including three in the Cabinet Office where she was Head of Senior Executive Talent Management, Head of the Government Fast Stream Programme and a member of the Prime Minister's Delivery Unit. Prior to this she worked in other Government departments and the private sector in a variety of HR, organisational development and corporate service functions. Joanne is a Chartered Fellow of the Institute of Personnel and Development; she has a MSc in Training and a Post-graduate Certificate in Coaching, in Personal and Business Coaching.

### Declarations of interest – other appointments and memberships

None declared.

### Total length of service by the Board's Non-Executive Directors at 31 March 2016

	Total length of service	Date of most recent appointment	Date of expiry
Sir David Pepper *	1 year, 7 months	1 August 2014	31 July 2016
Elisabeth Astall **	6 years, 7 months	1 September 2015	31 March 2016
Gerard Connell *	4 years, 6 months	1 October 2014	30 September 2016
David Grant *	3 years, 10 months	1 June 2015	31 July 2016
Dame Wendy Hall *	3 years, 10 months	1 June 2015	31 July 2016
David Marsh	3 months	1 January 2016	N/A

\* As at 16 June 2016, the process to extend Sir David Pepper, Gerard Connell, David Grant and Dame Wendy Hall's appointments is in progress. The extensions are to see Dstl through the implementation of its on-vote Executive Agency status, and they will be subject to Min(DP)'s approval.

\*\* Elisabeth Astall's tenure as a Non-Executive Director concluded on 31 March 2016, after serving the maximum term of six years to 31 August 2015, and a further exceptional extension for seven months to 31 March 2016. The exceptional extension was approved by the then Minister for Defence Equipment Support and Technology (now Min(DP)) to see Dstl through its TFR.

**“The Dstl Executive provides the appropriate leadership to enable Dstl to achieve its long-term plan, and to allow the delivery of impactful S&T for our customers.”**

# Statement of the Accounting Officer's responsibilities

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

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

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

HM Treasury has appointed the Chief Executive as Accounting Officer of Dstl. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Dstl's assets, are set out in *Managing Public Money* published by HM Treasury.

“The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Dstl and of its profit, changes in taxpayers' equity and cash flows for the financial year.”

# Governance statement

As Accounting Officer, I, Jonathan Lyle, the Chief Executive of Dstl, have responsibility for maintaining a sound system of corporate governance and internal control that supports the achievement of Dstl's purpose, role and strategic objectives, while safeguarding the public funds and MOD assets for which I am personally responsible. Our corporate governance and control arrangements are explained in more detail below, with the headings broadly aligned to the key components of the Internal Control Integrated Framework developed in 2013 by the Committee of Sponsoring Organisations of the Treadway Commission

## Corporate governance

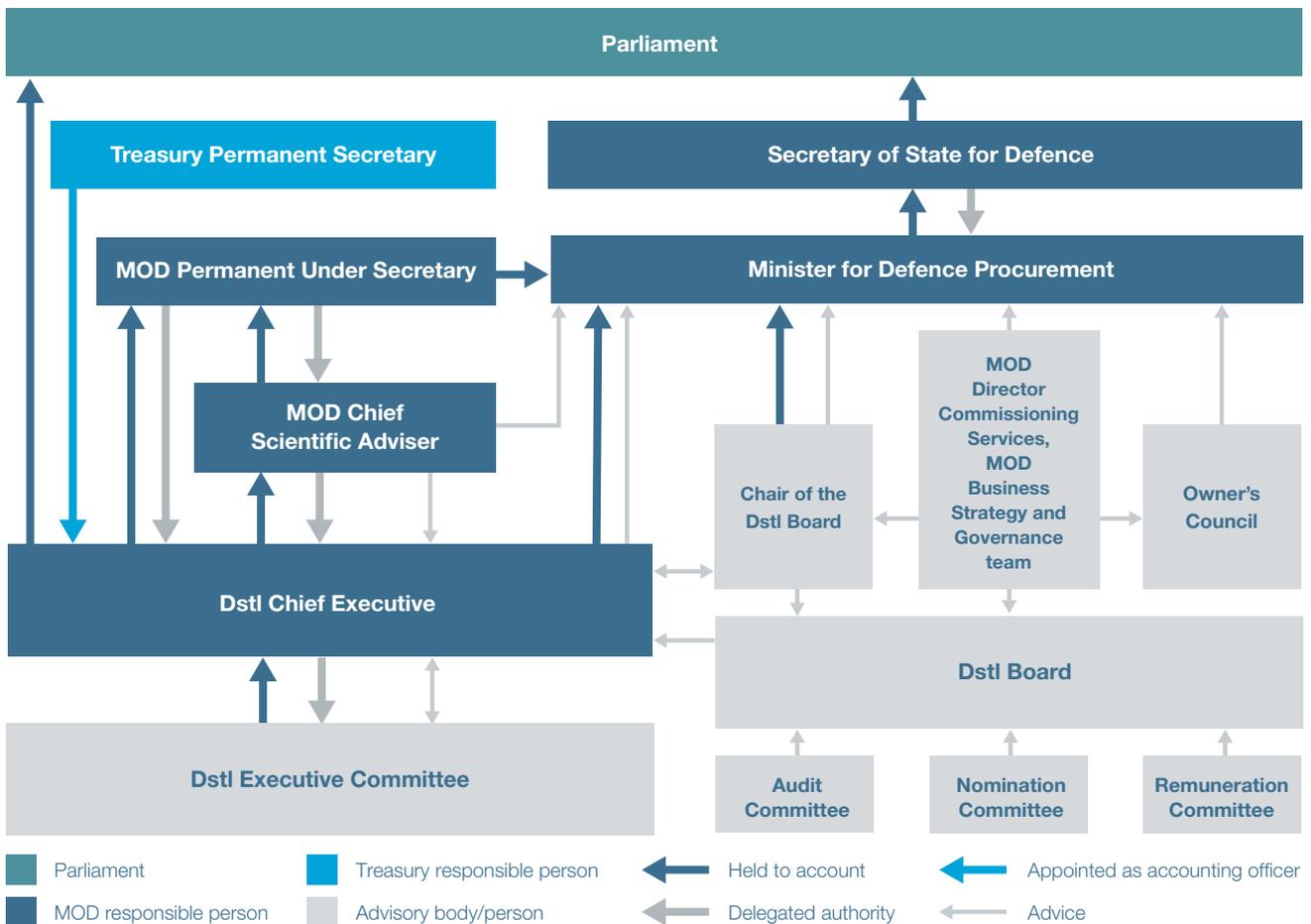
Our governance arrangements comply with HM Treasury's *Code of Good Practice on Corporate Governance in Central Government Departments* (2011) and, where appropriate, the Financial Reporting Council's *UK Corporate Governance Code* (2014).

## Dstl's governance framework as at 31 March 2016

We were established as an Executive Agency of MOD in 2001. We operate as a Trading Fund, following both Government and commercial best practice, for which the Secretary of State for Defence – our Owner – has ultimate responsibility. This is in accordance with our extant Trading Fund Order (updated May 2011).

continued over page ►

Dstl governance framework (as at 31 March 2016)



The Secretary of State for Defence delegates our day-to-day ownership responsibilities to the Minister for Defence Procurement (Min(DP)) but remains accountable to Parliament for our overall performance. As such, Min(DP) is responsible for the majority of our Owner's obligations, including:

- defining our policy and financial framework
- approving our strategy and financial objectives
- approving our Corporate Plan
- reviewing our performance and intervening to address under-performance
- being satisfied that the Dstl Board is working effectively
- approving plans, programmes and projects that exceed delegated powers.

To assist with these duties, Min(DP) receives advice from the Dstl Owner's Council, which comprises senior stakeholders from across MOD under his chairmanship, and from MOD's Business Strategy and Governance Team.

As Chief Executive, I am accountable to Min(DP), and ultimately to Parliament and the Public Accounts Committee, for Dstl's performance. To discharge these duties, I receive delegated authority from MOD's Permanent Under Secretary to manage the financial, audit, fraud, commercial, pay and personnel matters of the Trading Fund. I must also ensure that we adhere to MOD's policies on safety, health and environment protection, sustainable development and security. I am supported by a team of Executive Directors (my Executive team).

The Dstl Board provides a forum for independent, non-executive, support and constructive challenge for me and members of my Executive team, and has decision-making and advisory powers defined under the *Dstl Framework Document*.

The Board's responsibilities include ensuring our strategy and plans reflect our agreed purpose, and the policy and commercial constraints set by MOD and HM Treasury, and that within this framework we adopt relevant best practice from across Government and the private sector. Other responsibilities are as listed in our existing *Framework Document*, which is available at [www.gov.uk/government/publications/defence-science-and-technology-laboratory-framework-document](http://www.gov.uk/government/publications/defence-science-and-technology-laboratory-framework-document)

The Board is supported by Audit, Nomination and Remuneration committees.

The governance arrangements described above are documented in our current *Framework Document* and are depicted in the diagram on page 33. Overall, I am confident that we have an extremely robust corporate governance framework in place to ensure that we continue to deliver against our purpose, role and strategic objectives. This framework will require modification in light of the outcomes from our 2015 *Trading Fund Review* (TFR), and a study is under way by the Defence Academy, sponsored by MOD's Head Office Commissioning Services, to address this. Changes to our *Framework Document* will be reflected in next year's Governance statement.

## Dstl Board members

During this financial year, the Dstl Board comprised a Chair, four Non-Executive Directors (NEDs) with external experience relevant to our work, a NED from MOD, me as Chief Executive and up to four senior members of my Executive team.

Sir David Pepper, as Chair, is of the view that, collectively, Board members have the appropriate balance of skills, experience and qualities to discharge the Board's role and responsibilities, and that, as currently constituted, the Board has strong independent and diverse characteristics. He is satisfied that no individual, or group of individuals, is or has been in a position to dominate the Board's decision-making. A summary of members' key strengths and experiences was provided on pages 28 to 31.

This year, Board members have been closer to Dstl's business obtaining a broader and deeper insight into the organisation. They have attended presentations from our five Divisions and were involved in safety inspections at a practical level.

## Dstl Board activity for 2015/16

The Board held six scheduled meetings this year. In addition, it convened for a special strategy-setting session in September, at which strategy, external factors and the broad direction of business was discussed in depth. This was also attended by those of my Executive team who are not on the Board. The majority of Board meetings were held at Dstl's headquarters at Porton Down but we also met at our sites at Portsdown West and Fort Halstead. The Chair and I were present at all meetings and there were high levels of attendance by other Non-Executive and Executive Directors.

### Attendance at Board meetings for 2015/16

Sir David Pepper	7 (7)
Elisabeth Astall	6 (7)
Gerard Connell	6 (7)
David Grant	7 (7)
Dame Wendy Hall	6 (7)
David English	7 (7)
David Marsh	2 (2)
Jonathan Lyle	7 (7)
Peter Thompson	2 (2)
Mark Alexander	5 (5)
Richard Brooks	6 (6)
Christine Hewitt	3 (3)
Bryn Hughes	5 (5)
Joanne Peel	2 (2)

Figures in brackets denote the total number of meetings that could have been attended.

### Key business at Dstl Board meetings throughout the year

The business taken at our Board meetings reflects the responsibilities of the Dstl Board, as set out in our *Framework Document*. It also reflects the implementation of our strategic objectives. Recognising that our plans to transfer key capabilities from our Fort Halstead site to our Portsmouth West and Porton Down sites (our Helios Project) is not only a critical component of our Corporate Plan but also one of our key corporate risks, we tabled a standing item on the project for every meeting.

Following the Audit Committee's observations on the contractual arrangements with both our facilities management (FM) and our IT strategic partners at the end of 2014/15, we have had an update on progress in addressing the changes required to those contractual arrangements at every Board meeting.

Following an audit on safety arrangements reported to the Audit Committee in September, we have progressed work to refresh our safety processes to ensure our safety responsibilities and procedures are appropriate in the context of our new organisational structure.

A Safety, Health, Environment and Fire (SHEF) improvement programme has been established, which includes the recruitment of a Head of Safety, introduction of Safety Technical Authorities and the establishment of Limited Notice Inspections across Dstl. All have the aim of improving the safety management system and safety culture within Dstl. The Board has received updates on our SHEF improvement programme at every Board meeting since November 2015.

June 2015 (Porton Down)	July 2015 (Fort Halstead)	October 2015 (Portsmouth West)	November 2015 (Porton Down)	February 2016 (Porton Down)	March 2016 (Portsmouth West)
<ul style="list-style-type: none"> <li>End-of-year finance report</li> <li>Approve <i>Dstl Annual Report and Accounts 2014/15</i></li> <li>Presentation from Division Head Platform Systems</li> <li>Quarter (Q) 4 Business Performance Report</li> <li>Update on <i>Science Capability Review (SCR)</i></li> <li>Update on: Helios Project, strategic partners</li> <li><i>Out of Committee papers:</i> Dstl Security Annual Report to MOD; Dstl Health, Safety and Environmental Protection end-of-year report to MOD</li> </ul>	<ul style="list-style-type: none"> <li>Annual review of Capital Plan</li> <li>Review of business performance approach</li> <li>Presentation from Division Head Counter-terrorism and Security</li> <li>Dstl strategic direction and context: TFR and SCR</li> <li>Update on: Helios Project, strategic partners</li> <li><i>Out of Committee papers:</i> None</li> <li><i>Visit to Fort Halstead to observe work undertaken on the site</i></li> </ul>	<ul style="list-style-type: none"> <li>Approve Executive Plan for SHEF Improvement Programme</li> <li>Corporate risk workshop</li> <li>Presentation from Division Head Defence and Security Analysis</li> <li>Update on: Dstl's TFR and SCR</li> <li>Update on: Helios Project, strategic partners</li> <li><i>Out of Committee papers:</i> Q1 Business Performance Report</li> <li><i>Presentation on Cyber Defence Capability Assessment Tool (CDCAT)</i></li> </ul>	<ul style="list-style-type: none"> <li>Review of the <i>Dstl Financial Plan 2016 – 2021</i></li> <li>Update on SHEF Improvement Programme</li> <li>Presentation from Division Head Cyber and Information Systems</li> <li>Annual review of Corporate Risk Register (CRR)</li> <li>Q2 Business Performance Report</li> <li>Update on: Dstl's TFR and SCR</li> <li>Update on: Helios Project, strategic partners</li> <li><i>Out of Committee papers:</i> Update from Dstl's Chief Information Officer (CIO)/Senior Information Risk Owner (SIRO); Ploughshare Innovations Limited (PIL) six-monthly update</li> </ul>	<ul style="list-style-type: none"> <li>Endorse <i>PIL Business Plan 2016/17</i></li> <li>Approve employee engagement proposals</li> <li>Presentation from Division Head Chemical, Biological and Radiological</li> <li>Budget 2015/16 – verbal update</li> <li>Update from Dstl's CIO/SIRO</li> <li>Update on: Dstl's TFR and SCR</li> <li>Update on: Helios Project, strategic partners</li> <li>Update on SHEF Improvement Programme</li> </ul>	<ul style="list-style-type: none"> <li>Workshop on Dstl's strategic direction following SCR implementation</li> <li>Q3 Business Performance Report</li> <li>Declare Dstl Dividend for 2014/15</li> <li>Approve <i>Dstl's Corporate Plan 2016 – 2021 and Business Plan 2016 – 2021</i></li> <li>Approve Dstl Budget 2015/16</li> <li>Update on: Dstl's TFR and SCR</li> <li>Update on: Helios Project, strategic partners</li> <li>Update on SHEF Improvement Programme</li> </ul>



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Financial  
Statements  
begin on  
page 59

### Board processes

The Dstl Corporate Affairs Function maintains and operates all processes and procedures affecting the Board. A key process is around information flow – Board members receive a regular and controlled flow of information relevant to the fulfilment of their duties. A number of the NEDs also work with my Executive team on specific issues, such as the Helios Project or our annual technical capability benchmarking exercise, sitting on in-house project boards as necessary.

Board meetings encompass regular written reports from the Chief Executive, Audit Committee Chair and a forward-look of the business that is expected to be taken throughout the year. We adopt the principles of evidence-based decision-making when preparing all our papers, particularly when presenting options to the Board for approval.

Formal minutes of all meetings are circulated to Board members promptly. Between Board meetings, other information is circulated as necessary to keep Board members informed on relevant issues, such as policy changes within MOD. Board members have access to up-to-date corporate information.

Where the size of the agendas permits, afternoon programmes after the formal meetings keep our NEDs up-to-date with different aspects of our technical work.

### Liability

Board members are indemnified against any personal civil liability that is incurred in proper execution of the Board functions provided that Board members have acted honestly, reasonably, in good faith and without negligence. The Corporate Affairs Function holds a central database of NEDs' Declarations of Interest, of which responsibility for updating these rests with the NEDs.

### Annual review of effectiveness

Last year, the annual review of Board effectiveness was deferred due to the commencement of the TFR. This year an independent review of Board effectiveness has been conducted, which formally reported to the Chair in May 2016. The output from this review will support and inform the work on future Board arrangements commissioned by the Trading Fund Implementation team with the Defence Academy, and will be reported in next year's Governance statement.

## Board committees

In discharging its role and responsibilities, the Dstl Board delegates some activities to Audit, Nomination and Remuneration committees.

### Audit Committee

The role of the Dstl Audit Committee is to support the Dstl Board and me, as Accounting Officer, in monitoring the organisation's corporate governance and control systems, and in reviewing the financial statements. The Audit Committee's responsibilities are listed in our *Framework Document*, which is available at the web address provided on page 34.

The Audit Committee is chaired by NED Gerard Connell and during this financial year has comprised NEDs Elisabeth Astall, David Grant, Carole Tolley, David English, and David Marsh. I attend by invitation, as do my Finance Director, my Head of Internal Audit, and representatives from the National Audit Office or its subcontracted partner. This year, my Technical and Strategy Director, Infrastructure Director, Head of Finance, and Head of Corporate Affairs also attended meetings, as did representatives from Defence Internal Audit, who attended as observers. We have met four times this financial year.

Members' attendance at Audit Committee meetings	Number
Gerard Connell (Chair)	4 (4)
Elisabeth Astall	3 (4)
David Grant	2 (4)
David English (MOD NED from 30 May 2015 to 31 December 2015)	3 (3)
David Marsh (MOD NED from 1 January 2016)	1 (1)

*Figures in brackets denote the total number of meetings that could have been attended.*

This year, the Audit Committee has continued to oversee the improvement of our audit activities. We use our CRR to build a comprehensive audit plan and this is regularly reviewed throughout the year. Other subjects of focus have included: reviewing value for money in terms of our strategic partnerships; information technology risk; Dstl's counter-fraud and resilience planning; health and safety arrangements; and, security.

Following the Audit Committee focus on our strategic partnerships, and subsequent further work with the Board and Crown Commercial Services, we announced in February 2016 that we and FM provider Serco were, by mutual agreement, terminating the contract for delivery by Serco of all FM and related services.

Commenting on the work of the committee over the past year, the Chair of the Audit Committee Gerard Connell said:

"The committee has continued to review Dstl's systems and controls to seek to ensure the robust and effective management of Dstl's business during a period of significant and ongoing organisational change. The Finance Director reports to each meeting as does Dstl's Head of Internal Audit. Driven by our regular review of the Dstl CRR, our committee agendas have remained focussed on high-risk areas, such as our strategic partnerships and value for money, which has resulted in Dstl's agreement to terminate the current FM arrangements and re-compete the contract, in consultation with Crown Commercial Services. We are also undertaking a mid-term review of our Sopra Steria IT contract. We take Dstl's commitment to working safely, securely and sustainably very seriously, and regularly review our treatments in respect of operational high-risk areas, and challenge the progress of any internal investigations. Our priorities are to seek to ensure that Dstl's audit and assurance activities form the basis of continuing business improvement and that our processes and systems of internal control keep pace with strategic and operational change."

**Review of Effectiveness.** During 2014/15, we postponed the annual Review of Effectiveness of the Dstl Board and, in line with this, the chairman of the Audit Committee also agreed to postpone the Audit Committee Review of Effectiveness until 2015/16. This year, the review is being undertaken by independent audit as opposed to self-assessment and is currently ongoing as at year-end. We will report the full results of this review and the actions against its findings in next year's Governance statement.

**Audit Programme.** Since 1 April 2015, as well as our regulatory security audit programme and SHEF audit programme, we carried out 20 internal audits, which were completed by our contracted internal audit provider and by our in-house assurance team. The majority of these internal audits were reviewed by my Executive team and the Audit Committee.

### Remuneration and Nomination Committees

This year, there has been one meeting of our Remuneration Committee. This met on 4 June 2015 to discuss the performance of our Level 9 staff, the decisions being reflected in pay outcomes. Members also noted the recommendations made for our Senior Civil Service (SCS) members of staff, for subsequent decision within MOD. Members present were Chair Sir David Pepper, NEDs Elisabeth Astall, Gerard Connell and David Grant, and me.

Although individual Executive Directors on the Board and Executive changed during 2015/16, there were no changes to the composition of roles on both committees. This, together with there being no new independent NED appointments, meant that a meeting of our Nomination Committee was not required this year.

## Control environment

We aim to establish an environment where people feel trusted and empowered to deliver their work while acting responsibly and safely at all times. This environment is built from: a combination of the policies, processes and guidance in our Management System (MS); the responsibilities set out in standard role profiles and letters of delegation; and, the central role of review in our programme and project governance. All this is underpinned by the provision of sound ethical advice.

### Dstl policies

We have a suite of overarching policies published on the MS, comprising eight corporate policies each sponsored by one of my Executive team, and a number of supporting operational policies owned by a Head of Function or other senior manager. The corporate policies were reviewed and updated in early 2015 in preparation for the introduction of five new Divisions on 1 April 2015; this work clarified where the responsibilities for discharging the policies lay. This clarification of responsibility has been written into new Division Agreements, which provide a clearer framework for governance, delegation and control.

### Key processes

In September 2015, following observations by the Head of Internal Audit on the effectiveness of current process controls observed in several audits, we initiated a project within the Corporate Affairs Function. The project reviewed our process governance arrangements, and reviewed and re-established the role of Process Owners, who are responsible for working together to develop a refreshed set of integrated business processes. The new Process Owners work across business units to establish end-to-end business processes with improved internal controls. They will ensure processes have measurable key performance indicators to support holding-to-account arrangements and to enable them to deliver effective performance and improvement.

Until the process governance work confirms the revised way forward for process ownership, we have focussed effort on updating the MS to reflect legislative and external policy requirements, and the changes required to embed the new approaches that underpin the operations of the Divisions and the implementation of the SCR. For example, streamlining and integrating our customer work in an efficient end-to-end delivery process.

### Key accountabilities and delegations

In year, key accountabilities continued to be established through role and responsibility definitions provided through an agreed set of corporate role profiles (for example, Division Head, Capability Leader, Business Manager, Project Manager, and Process Owner). These are supplemented by letters of delegation and performance management objectives to reflect the specifics of the business, capability or delivery area. Each individual is held to account by their line manager, or by other functional chains of command. Following the implementation of the SCR and the need to deconflict new Divisional roles from existing Functional roles, some role profiles and responsibilities are currently under review.

Our Division Agreements also include criteria for delegation of decision-making.

### External accreditation

Our Quality Management System is externally certified to the international standard ISO 9001:2008, and our Environmental Management System is certified to ISO 14001:2004. The requirements of these standards are applied to all our business processes and activities. During this year, as part of our contract management process, our certification body changed from Lloyds Registered Quality Assurance (LRQA) to the Association Française de Normalisation's UK partner AFNOR UK. Independent external review by AFNOR UK confirmed the effectiveness of our MS controls through our ISO 9001, TickITplus and ISO 14001 certifications. Continued certification for all three standards was recommended. Both ISO 9001 and TickITplus certificates continue to December 2017; the ISO 14001 certificate expires in October 2017.

## Risk management

### Strategy

The implementation of our Risk Management Strategy, which was agreed with my Executive team and our Audit Committee last year, is progressing well. This has the aim of embedding a risk management culture throughout our business over the next two years. This requirement for risk management forms a core part of our Division Agreements.

### The Risk Management Process (JSP 892)



### Process

**Identification.** Any uncertain future event that could affect the achievement of an objective, partly or completely, should be identified as a risk if it is credible and foreseeable.

**Assessment.** A consistent basis for assessing risk allows reliable measurement and comparison of risks, informs our focus on the most significant risks, and prioritises our investment in resources for their management. It also helps determine who needs to be notified of the existence of a risk and the approach needed to monitor it.

**Response.** The purpose of risk response is to establish which risks require new or further management action by comparing the residual-risk position against the target-risk position. Where the two assessment positions are not aligned, appropriate actions will need to be selected and implemented to bring the residual (current) risk position in line with the target-risk position.

**Monitoring, reporting and escalating.** Capturing, monitoring and reviewing of risk information identifies changes to risks, notifies management of those changes and supports understanding and decisions on response.

### Corporate Risk Register

Each of our corporate risks is documented in our CRR. This enables the risk owner – a member of my Executive team – to provide more information against each of the treatments and progress, in terms of managing the risk rating.

My Executive team has reviewed our CRR against the likelihood and impact thresholds in MOD's Joint Services Publication (JSP) 892 *Risk Management*, and determined that our Safety risk is the only one in the D (Severe) or E (Critical) residual impact categories.

The risk table and risk-radar diagram (see pages 40 to 41) present our corporate-level risks as at 31 March 2016. The likelihood ratings relate to the five-year timescale of our *Corporate Plan 2015 – 2020*.

At the start of 2015/16, our CRR identified a number of opportunities that related to positioning ourselves to deliver S&T with impact both in MOD and across Government. My Executive team and staff engaged with this year's TFR and SCR to help shape the reviews' outcomes, and to set the context for our delivery and capability. We are now working with our Board and with MOD Defence Science and Technology (DST) to identify opportunities for the newly termed S&T Enterprise.

In light of the outcomes of the SCR and TFR, there will be an extensive review of our CRR in the first quarter of 2016/17 to reflect our changed relationships and responsibilities in this transitional year.

During 2016/17, following the outcomes of the SCR, we will focus on the delivery of MOD's S&T programmes and on the stewardship of defence and security S&T capabilities, and DST will be responsible for MOD's S&T strategy and the commissioning of MOD's S&T programmes. Consequently, we are now applying a new perspective to reflect these SCR outcomes and are better identifying our strategic risks, routine operational risks, and transitional risks:

- strategic – potentially impacting our role
- operational – potentially impacting our effective governance
- transitional – potentially impacting agility in embedding new ways of working.

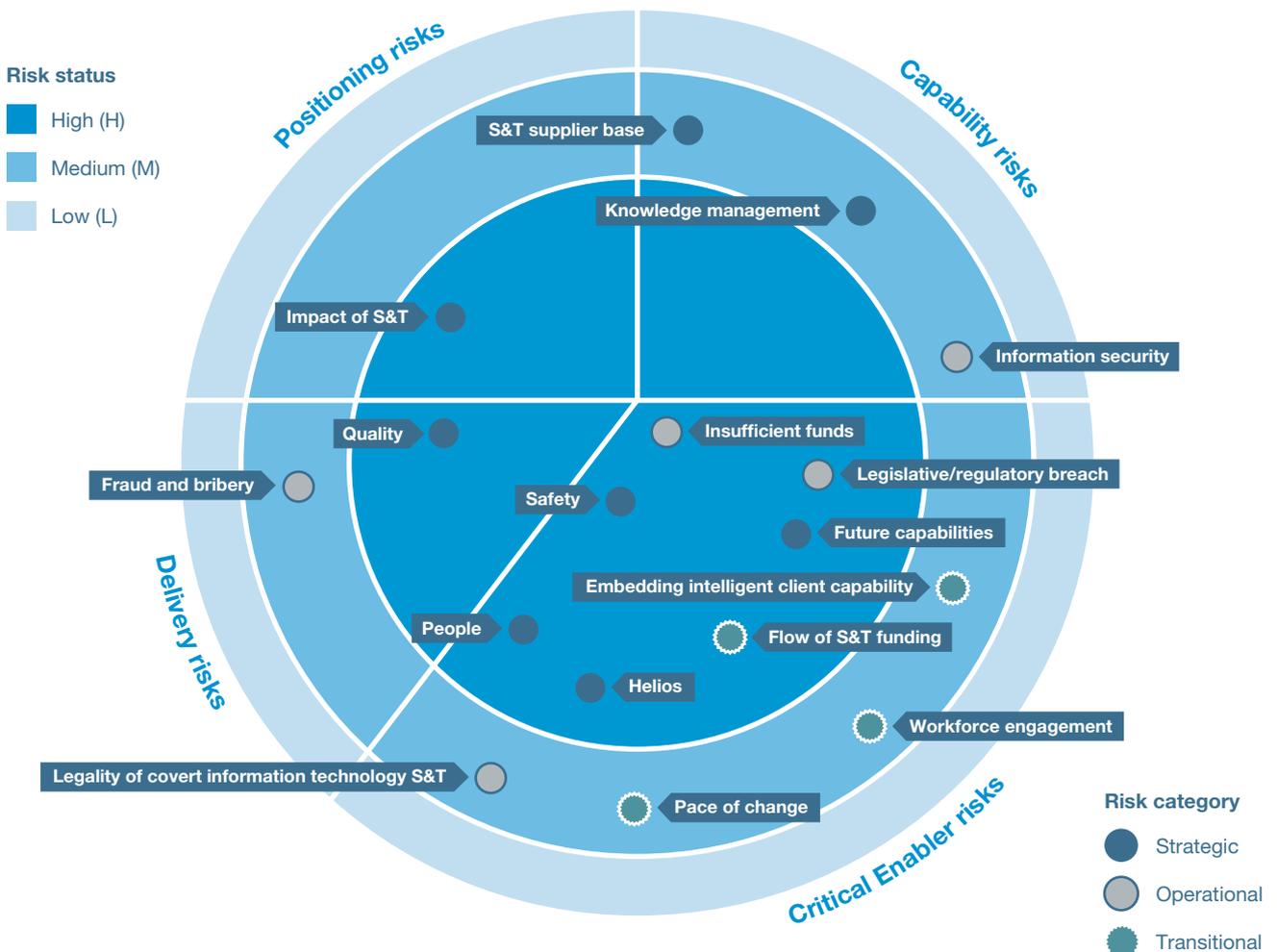
Risk	Owner	Rating (Likelihood/Impact)	
		Current	Target
<b>STRATEGIC</b>			
<b>Impact of S&amp;T</b> – Failure to articulate the benefits of S&T and maintain effective relationships with MOD and wider Government customer communities results in delivery outputs that are not fully exploited to impact defence and security outcomes	Technical Director	HH	MM
<b>S&amp;T supplier base</b> – Ineffective engagement with key strategic suppliers and partners or poor contract management result in failure to sustain capability and to exploit the most appropriate S&T expertise to deliver defence and security outcomes	Delivery Director	MM	LL
<b>Knowledge management</b> – Failure to maintain appropriate expertise, relationships with partners and suppliers, and information stores, undermines Dstl's management and exploitation of the S&T knowledge base	Infrastructure Director	MM	LM
<b>Future capabilities</b> – Failure to maintain skills, tools and infrastructure adversely affects productivity, and constrains our ability to match capability to future requirements	Technical Director	MH	LL
<b>Helios</b> – Failure to deliver the Helios Project to time, cost and quality, with appropriate support to affected staff, impacts on the sustainment of core MOD capability into the future	Infrastructure Director	MH	MM
<b>Safety</b> – Failure to apply adequate control to Dstl's operations results in safety failures that lead to serious injury, loss of life or environmental impact	Chief Executive	MH	LM
<b>People</b> – Dstl is unable to attract, develop, motivate and retain the balance of skills required to deliver our portfolio	People and Business Services Director	MH	LL
<b>Quality</b> – Failure of the S&T Enterprise to assure and deliver fit-for-purpose products that address priority defence and security needs leads to loss of life and erosion of our reputation and position	Technical Director	MH	LH
<b>OPERATIONAL</b>			
<b>Information security</b> – A significant, avoidable security/information assurance incident occurs	Infrastructure Director	MM	LM
<b>Legislative/regulatory breach</b> – We suffer a significant breach in legislative or policy compliance, a prohibition/improvement notice is imposed, or we are challenged on the ethics of our work	Chief Executive	MH	LH
<b>Insufficient funds</b> – There are insufficient funds for the planned investment programme	Finance Director	HH	LH
<b>Legality of covert information technology S&amp;T</b> – Dstl attempts to deliver covert information technology research themes with a legal or regulatory shortfall, causing staff (Dstl or others acting on our behalf) to either conduct unlawful action or to avoid delivery	Delivery Director	MM	LM
<b>Fraud and bribery</b> – Financial loss and reputational damage due to fraud or bribery	Finance Director	MM	LM

H = High M = Medium L = Low

Risk	Owner	Rating (Likelihood/Impact)	
		Current	Target
<b>TRANSITIONAL</b>			
<b>Workforce engagement</b> – Insufficient workforce engagement puts delivering our long-term plan at risk	Transformation Director	MM	LL
<b>Pace of change</b> – The pace and volume of change affects core delivery	Transformation Director	MM	LL
<b>Flow of S&amp;T funding</b> – Risk to the flow of funding to Dstl at the start of the new financial year while the new commissioning arrangements embed	Finance Director	HH	LM
<b>Embedding intelligent client capability</b> – Ineffective supplier management capability leads to poor value for money from strategic suppliers	Infrastructure Director	MM	LL

H = High M = Medium L = Low

### Our corporate level risks at 31 March 2016



### Fraud management

During 2015/16, we continued to improve fraud awareness among staff via internal communications and workshops run by the Fraud Defence team. The focus on fraud risk reduction was improved control and monitoring of the procurement

process, and encouragement of disclosure via existing channels for whistle-blowing and incident reporting. We received two reports of unusual activity from the Fraud Incident and Irregularity Reporting Unit. We investigated both using our investigation process and they were satisfactorily resolved.

## Control activities

Our control activities aim to ensure that the policies and procedures governing the organisation and our governance arrangements are efficient and effective.

Our overall assurance in the effectiveness of our controls is built from a combination of: design and built-in process control; roles and responsibilities; management supervision; risk management; management information; and, accountability for decision-making.

Control and supervision of day-to-day activities lies with the Divisions (sometimes referred to as the 'first line of control'). Division and Functional specialists provide oversight and use Management Information to ensure conformance and address issues of non-conformance (second line of control). Internal Audit (third line of control) provides an independent assessment of the effectiveness of the first- and second-line controls.

## Incident investigations

We actively promote the reporting of near misses and incidents. Incidents are investigated proportionately, based on the potential the incident could have had and not just proportionate to the actual harm or damage caused. The local responsible business unit investigates all incidents classified as 'medium', and incidents classified as 'high' are subject to an independent, corporate investigation. As part of the SHEF improvement programme, we carried out a review of our incident-reporting approach. We put revised arrangements in place to improve the consistency of the investigations and to communicate the lessons identified from incidents more widely.

This year, 38 high-level incidents (security: four; reputation: eight; SHEF: 26) resulted in corporate investigations, three of which were reported through the Public Interest Disclosure Act 1998 (PIDA) route (see below). All corporate investigations result in an agreed management action plan, which we actively manage through to completion.

## Whistle-blowing

We are committed to achieving the highest possible standards of service and ethics in public life. Our whistle-blowing process, written in line with PIDA, the Fraud Act 2006, and the Bribery Act 2010, demonstrates this. This year, we have had three incidents raised via our whistle-blowing process. We take such incidents extremely seriously, and, in each instance, we undertook an assessment of the issues, followed by a local management investigation or an independent corporate investigation. Two incidents concluded satisfactorily, which we reported to the Chair of the Audit Committee, while the third is still under investigation.

## Information Assurance incidents

We continue to maintain focus on effective risk management across the physical security, defensive cyber and information assurance domains. This is achieved by our Dstl SIRO using a range of capabilities, both internal and external to Dstl. From next year, we will also be using the Dstl-derived Cyber Defence Capability Assessment Tool (CDCAT) to support this work. We are acutely aware of the range of cyber threats and we take proportional and risk-balanced measures to manage this as effectively as we can. SIRO has the full support of my Executive team and Board, and targets our Information Assurance (IA) in a risk-balanced manner within a climate of tight headcount and financial constraint.

We coordinate with MOD Joint Security Coordination Centre and report all IA incidents in accordance with MOD requirements, and we investigate and assess all incidents in accordance with our process. This year, we had 18 reportable incidents, which included no MOD-categorised 'critical' incidents and one 'serious' incident, which, on investigation, highlighted a weakness in administrative controls and record-keeping relating to legacy records, which have now been remediated and strengthened. The remainder of the incidents have been of a 'low' nature.

We have significantly strengthened our governance around the management of highly sensitive classified material through oversight and controls under SIRO that monitor and assure compliance.

## Protected personal data-related incidents

There have been no incidents where personal data has been exposed to risk within the reporting period, or reports of loss or compromise of protected personal data.

## Quality assurance of analytical models

Every six months, we declare business-critical models – as defined following the Macpherson Review in 2013 – to MOD. Our Modelling and Simulation Strategy Group manages the coherence and governance of our modelling and we continue to interface and share best practice with MOD and wider Government.

## Official correspondence from members of the public

During 2015/16, Dstl received 161 letters direct from members of the public, to which Dstl responded in 100 per cent of cases within the mandated 20 working-day timescales. We answered or contributed to 60 Freedom of Information (FOI) requests during the financial year, on time, in accordance with the FOI Act. Dstl responded to six ministerial correspondence requests to time, and handled 14 Subject Access Requests under the Data Protection Act, all of which we answered on time bar one, where we required information from a third party. Additionally, we completed 13 enquiries to the Porton Down Former Volunteers Helpline, to time.

## Holding to account

In order to ensure the successful achievement of our corporate strategy, I undertake robust holding-to-account arrangements throughout Dstl. The following explains the arrangements in place for the effective discharge of authorities and responsibilities held by my Executive team.

### Executive team

I have continued with the Executive team approach that I established in January 2015 in order to provide the appropriate leadership to enable us to achieve our long-term plan, and to allow us to focus our efforts on delivering impactful S&T for our customers – keeping us strong, now and into the future.

### Executive team activity

The overriding purpose of my Executive team is to support me in discharging my responsibilities, as outlined in Dstl's *Framework Document*. Therefore, the business taken at Executive meetings provides a balance between operational and strategic focus, and gives appropriate emphasis to managing corporate risks.

My Executive team routinely meets twice each month; at the first monthly meeting, there is a technical presentation as a standing item, and, at the second monthly meeting, there is a regular standing item update on health and safety. There are also standing agenda items to provide updates on key operational issues, current external reviews and feedback from the Executive sub-committees. During this financial year, I held 22 scheduled meetings with my Executive team.

### Executive sub-committees

As I outlined in last year's Governance statement, I have retained my Stewardship Executive Sub-Committee, which continues to be an effective means of balancing our investment priorities with that of maintaining and developing

our capabilities. The Investment Panel and SHEF Management Committee are the other formal sub-committees of my Executive team.

### Division arrangements and Division Agreements

From 1 April 2015, we replaced our former Department structure with five Divisions in order to improve our approach to delivery – each Division now has greater autonomy over its means of delivery. Each Division has documented a Division Agreement, which is approved by my Executive team and which captures expected business performance in-year. We review progress and performance against the Division Agreements quarterly, and review key action points and progress at full Executive team meetings.

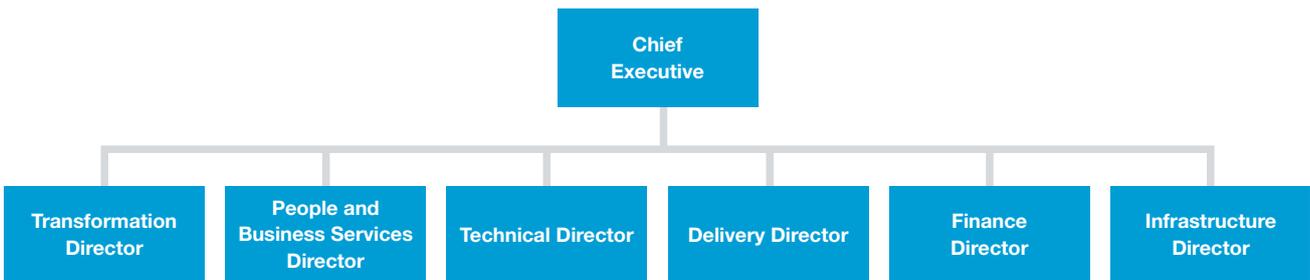
### Business performance reporting

Our approach to business performance reporting continues to evolve as we work towards achieving our long-term plan. Reporting has also adapted to reflect changes in our organisational structure and in the Division Agreements' areas of focus.

An audit of our performance reporting approach at the beginning of this financial year made a number of recommendations, many of which we have incorporated into our evolving approach to providing information to the Board. In the past year, our business performance reporting continued to improve the quality and focus of its content. Using feedback from my Executive team and the Board, we removed less-relevant content, introduced content where coverage was weak, and placed a greater emphasis on building relevant evidence to support key messages.

For the longer-term, we are building stronger measureable evidence that we are achieving our long-term plan and strategic objectives.

### Dstl Executive team structure as at 31 March 2016





“We have continued to build on the progress we have made over the past four years in creating a more integrated and responsive system of internal control, informed and driven by our key corporate risks.”

## In summary

### Annual assessment of governance

We base the overall assessment of our governance arrangements on the scope of the audit work carried out and the detailed testing undertaken. It also takes account of assurance outcomes from external providers.

Our Head of Internal Audit has concluded that: The recently concluded *Trading Fund Review* (TFR) has set the context for continued organisational change for Dstl, with some resulting significant structural changes already being taken forward in pilot form. In this change and transformation context, Dstl has:

- continued work to refine its governance and risk management arrangements. Particular examples include changes to governance of business transformation portfolio, streamlining roles and accountabilities at an operational level (Division setup) and reconfiguring the roles (and new external appointments) at the Executive in response to the TFR and the *Science Capability Review* (SCR)
- progressed important work to enhance its approach to engaging with and managing strategic partners through progressing implementation of agreed management action plans.

Based on and limited to the scope of work we undertook, accounting for significant changes to governance (highlighted above) and positive external assurances, we provide **substantial assurance** on the overall framework of governance, risk and control. Safety risks and associated governance and processes understandably have both visibility and sponsorship at Board and Executive level. It is, therefore, both appropriate and understandable that Dstl keeps this area under review, especially given the context of broader organisational changes. Through our work, we recognised the:

- actions already completed (such as a new senior role of Head of Safety being created and appointed to and a revised safety governance structure being stood up)
- importance of effectively completing the agreed action plans to appropriately defined timescales.

There are specific caveats to the overall assurance opinion, including in the following areas where currently **limited assurance** can be provided:

- **commercial capability, processes and controls:** a significant number of reviews requested by the Executive and the Audit Committee confirmed that existing management action in this area has not been having the expected impact, particularly to enhance commercial capability, systems and processes so they are appropriate for the complexity of Dstl’s commercial relationships (particularly with significant and strategic partners) and for commercial controls to be streamlined and made more effective (especially around how commercial contracts are managed)
- **technical assurance processes:** this was an area where the SCR identified the need for further development, which has been reinforced by internal audit work during the year.

### Summary comment

Our system of internal control, given clear focus through the independently chaired Audit Committee, is essential to enable me to discharge my responsibilities as Chief Executive and Accounting Officer for an organisation undergoing significant change in a challenging defence and economic context. This year, we have continued to create a more integrated and responsive system, informed and driven by our key corporate risks. In response to the limited assurance rating in our commercial and technical assurance areas, we have instigated a plan to streamline our commercial controls and review our contract management function. Additionally, we will be continuing to focus on our technical assurance processes, building on the work already progressing in this area. Our audit partner is providing us with insightful audit findings, and, coupled with the challenge and support of our NEDs, is enabling us to tackle those aspects of the business that need to improve as we seek to deliver impact and value to our customers.

## Dstl Board and Executive remuneration

### Remuneration policy

The following remuneration policy refers to the employment of Dstl's Directors. Eight Directors employed during the year were Senior Civil Servants (SCS) and subject to SCS terms and conditions, including the remuneration policy. These Directors were: Jonathan Lyle; Peter Thompson; Richard Brooks; David English; Jennifer Henderson; Christine Hewitt; Alexander Lambert; and, Joanne Peel. Their Non-Consolidated Performance Awards arrangements fall under SCS rules rather than the Dstl performance-award system.

The remaining Executive Directors (Mark Alexander; Graham Balmer; and, Bryn Hughes) are Dstl employees and subject to the same performance-related remuneration policy as all other Dstl staff. The Non-Executive Directors (NEDs) are not Dstl employees but, apart from one who is employed by MOD, they are paid a fee for their services.

### Performance conditions

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

### Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated, the officials named in this report hold appointments that are open-ended. Early termination would result in the individual receiving compensation (except in cases of misconduct) as outlined in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

There were no awards made to past senior managers.

## Dstl Board Directors' remuneration

This information is subject to audit opinion.

	Salary band 2015/16 £'000	Salary band 2014/15 £'000	NCPA* 2015/16 £'000	NCPA 2014/15 £'000	Fee 2015/16 £'000	Fee 2014/15 £'000	Pension benefits 2015/16 Nearest £'000	Pension benefits 2014/15 Nearest £'000	Total 2015/16 £'000	Total 2014/15 £'000
Sir David Pepper					25-30	15-20			25-30	15-20
						25-30				25-30
Elisabeth Astall					15-20	15-20			15-20	15-20
Gerard Connell					15-20	15-20			15-20	15-20
David Grant					15-20	15-20			15-20	15-20
Dame Wendy Hall					15-20	15-20			15-20	15-20
David Marsh <sup>1</sup>										
Jonathan Lyle	130-135	125-130					53	42	180-185	170-175
David English <sup>2</sup>	15-20 75-80						7		25-30	
Bryn Hughes <sup>3</sup>	40-45 80-85		0-5				12		60-65	
Joanne Peel <sup>4</sup>	10-15 75-80						13		25-30	
Carole Tolley <sup>5</sup>										
David English <sup>6</sup>										
Peter Thompson <sup>7</sup>	35-40 80-85	80-85	5-10	5-10			13	-2**	55-60	85-90
Mark Alexander <sup>8</sup>	65-70 95-100	90-95	0-5	5-10			24	35	95-100	135-140
Richard Brooks <sup>9</sup>	75-80 85-90	85-90		5-10			34	44	110-115	135-140
Paul Fox <sup>10</sup>	5-10 70-75		0-5				2		5-10	
Christine Hewitt <sup>11</sup>	40-45 75-80	75-80	5-10	5-10			16	13	65-70	95-100

Figures in italics denote full-year equivalent salary

\* Non-Consolidated Performance Awards (NCPAs). NCPAs have been awarded as indicated for 2015/16. NCPAs are paid based on Performance Evaluation Criteria scores that are awarded in line with the performance management rules.

\*\* The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension will increase from one year to the next by virtue of them having an extra year's service and by virtue of any pay rise during the year. Where there is no pay rise, the increase in pension due to extra service may not be sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce and will show a negative value.

Fees have been paid as indicated for 2015/16.

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

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

- <sup>1</sup> David Marsh has received no fee; he represents MOD as a NED. This is a related party with which Dstl has material transactions. Please see Related Party Note at note 24. David Marsh was appointed to the Board from 1 January 2016 to 31 March 2016.
- <sup>2</sup> David English was appointed to the Board on 1 January 2016.
- <sup>3</sup> Bryn Hughes was appointed to the Board on 1 October 2015.
- <sup>4</sup> Joanne Peel was appointed to the Board on 25 January 2016.
- <sup>5</sup> Carole Tolley received no fee; she represented MOD as a NED. This is a related party with which Dstl has material transactions. Please see Related Party Note at note 24. Carole Tolley left MOD on 29 May 2015.
- <sup>6</sup> David English received no fee. Before becoming Dstl Finance Director, he represented MOD as a NED between 30 May 2015 and 31 December 2015.
- <sup>7</sup> Peter Thompson left the Board on 31 August 2015.
- <sup>8</sup> Mark Alexander left the Board on 30 November 2015.
- <sup>9</sup> Richard Brooks left the Board on 12 February 2016.
- <sup>10</sup> Paul Fox was temporarily appointed to the Board as Acting Finance Director from 1 December to 31 December 2015.
- <sup>11</sup> Christine Hewitt left the Board on 12 October 2015.

## Trading Fund Board members' emoluments

This information is subject to audit opinion.

We have shown the details of members' emoluments in the table on page 46. They are summarised as follows:

	2016	2015
Salaries, NCPAs and fees (£'000)	783.1	918.1

## Dstl Board pension provision

This information is subject to audit opinion.

	Real increase in pension [and related lump sum at pension age]	Total accrued pension at pension age at 31/03/16 [and related lump sum]	Cash equivalent value at 31/03/16	Cash equivalent value at 31/03/15*	Real increase in cash equivalent transfer value as funded by employer
	£'000	£'000	£'000	£'000	£'000
Jonathan Lyle	2.5-5	80-85	1,538	1,380	49
David English	0-2.5	20-25	288	269	3
Bryn Hughes	0-2.5	30-35	691	688	12
Joanne Peel	0-2.5	10-15	239	222	9
	[0-2.5]	[90-95]			
Peter Thompson	0-2.5	20-25	384	359	5
	[0-2.5]	[65-70]			
Mark Alexander	0-2.5	0-5	276	243	10
Richard Brooks	0-2.5	30-35	622	571	18
	[0-2.5]	[100-105]			
Paul Fox	0-2.5	10-15	280	278	1
Christine Hewitt	0-2.5	20-25	500	458	13
	[2.5-5]	[70-75]			

\* The actuarial factors that are used in the Case Equivalent Transfer Value (CETV) calculation were changed during 2016. This means that the CETV in this year's report for 31/03/2015 will not be the same as the corresponding figure shown in last year's report.

Pension information is provided by MyCSP, the administrators of Civil Service Pensions. With the exception of Jonathan Lyle, who belongs to the Premium Civil Service Pension Scheme, all Directors belong to the Classic or Alpha Civil Service Pension Schemes. All schemes are part of the Principal Civil Service Pension Scheme. See pension information on page 54.

## Dstl Executive Committee remuneration

This information is subject to audit opinion.

	Salary Band 2015/16 £'000	Salary Band 2014/15 £'000	NCPA* 2015/16 £'000	NCPA 2014/15 £'000	Pension benefits 2015/16 Nearest £'000	Pension benefits 2014/15 Nearest £'000	Total 2015/16 £'000	Total 2014/15 £'000
Jonathan Lyle	130-135	125-130			53	42	180-185	170-175
Graham Balmer	75-80	70-75		5-10	36	20	110-115	95-100
David English <sup>1</sup>	15-20				7		25-30	
Jennifer Henderson <sup>2</sup>	45-50	50-55	0-5	5-10	28	11	80-85	70-75
Bryn Hughes <sup>3</sup>	40-45		0-5		12		60-65	
Alexander Lambert <sup>4</sup>	70-75		0-5		69		140-145	
Joanne Peel <sup>5</sup>	10-15				13		25-30	
Peter Thompson <sup>6</sup>	35-40	80-85	5-10	5-10	11	-2	55-60	85-90
Mark Alexander <sup>7</sup>	65-70	90-95	0-5	5-10	24	35	75-80	135-140
Richard Brooks <sup>8</sup>	75-80	85-90		5-10	34	44	110-115	135-140
Paul Fox <sup>9</sup>	5-10		0-5		2		10-15	
Christine Hewitt <sup>10</sup>	40-45	75-80	5-10	5-10	16	13	65-70	95-100

Figures in italics denote full-year equivalent salary.

\* Non-Consolidated Performance Awards (NCPAs). NCPAs have been awarded as indicated for 2015/16. NCPAs are paid based on Performance Evaluation Criteria scores that are awarded in line with the performance management rules.

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

No Executive Committee members, key managerial staff or other related parties have undertaken any material transactions with Dstl during the year.

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

<sup>1</sup> David English joined the Executive Committee on 1 January 2016.

<sup>2</sup> Jennifer Henderson joined the Executive Committee on 1 April 2015.

<sup>3</sup> Bryn Hughes joined the Executive Committee on 1 October 2015.

<sup>4</sup> Alexander Lambert joined the Executive Committee on 1 April 2015.

<sup>5</sup> Joanne Peel joined the Executive Committee on 25 January 2016.

<sup>6</sup> Peter Thompson left the Executive Committee on 31 August 2015.

<sup>7</sup> Mark Alexander left the Executive Committee on 30 November 2015.

<sup>8</sup> Richard Brooks left the Executive Committee on 12 February 2016.

<sup>9</sup> Paul Fox was appointed as Acting Finance Director during the period 1 December to 31 December 2015.

<sup>10</sup> Christine Hewitt left the Executive Committee on 12 October 2015.

## Dstl Executive Committee pension provision

This information is subject to audit opinion.

	Real increase in pension [and related lump sum at pension age] £'000	Total accrued pension at pension age at 31/03/16 [and related lump sum] £'000	Cash equivalent value at 31/03/16 £'000	Cash equivalent value at 31/03/15* £'000	Real increase in cash equivalent transfer value as funded by employer £'000
Jonathan Lyle	2.5-5	80-85	1,538	1,380	49
Graham Balmer	0-2.5 [0-2.5]	25-30 [30-35]	441	383	18
David English	0-2.5	20-25	288	269	3
Jennifer Henderson	0-2.5 [0-2.5]	15-20 [55-60]	290	254	13
Bryn Hughes	0-2.5 [0-2.5]	30-35 [90-95]	691	688	12
Alexander Lambert	2.5-5 [5-7.5]	10-15 [35-40]	196	144	34
Joanne Peel	0-2.5 [0-2.5]	10-15 [35-40]	239	222	9
Peter Thompson	0-2.5 [0-2.5]	20-25 [65-70]	384	359	-3
Mark Alexander	0-2.5	0-5	276	243	10
Richard Brooks	0-2.5 [0-2.5]	30-35 [100-105]	622	571	18
Paul Fox	0-2.5 [0-2.5]	10-15 [0-5]	280	278	1
Christine Hewitt	0-2.5 [2.5-3]	20-25 [70-75]	500	458	13

\* The actuarial factors that are used in the Case Equivalent Transfer Value (CETV) calculation were changed during 2016. This means that the CETV in this year's report for 31/03/2015 will not be the same as the corresponding figure shown in last year's report.

Pension information is provided by MyCSP, the administrators of Civil Service Pensions. With the exception of Jonathan Lyle, who belongs to the Premium Civil Service Pension Scheme, all Directors belong to the Classic, Classic Plus or Nuvos Civil Service Pension Schemes. All schemes are part of the Principal Civil Service Pension Scheme. See pension information on page 54.

## Relationship between the highest-paid Director and the workforce median

This information is subject to audit opinion.

	2015/16	2014/15
Band of highest-paid Director total remuneration	£130,000-£135,000	£125,000-£130,000
Median total remuneration	£35,721	£35,437
Ratio	3.68	3.60

Dstl is required to disclose the relationship between the remuneration of the highest-paid Director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in Dstl in the financial year 2015/16 was £130,000-£135,000 (2014/15: £125,000-£130,000). This was 3.68 times (2014/15: 3.60) the median remuneration of the workforce, which was £35,721 (2014/15: £35,437).

In both 2014/15 and 2015/16, no employees received remuneration in excess of the highest-paid director.

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



# Our people

**Dstl is committed to recruiting, developing and retaining a diverse workforce to ensure it meets current and future defence and security capability needs**

We are very proud of our people, who are dedicated to their work and the major contribution they make to national security and defence, and to saving lives. This year, we received around 2,700 applicants for Dstl's exciting career opportunities with more than 1,000 graduates applying to join us.

As a Trading Fund of MOD and part of the Civil Service, our people policies, procedures and employment contracts are in line with the *Civil Service Management Code*; these reflect and promote the fundamental principles of the Human Rights Act 2000.

Our recruitment practices are underpinned by Civil Service guidance and best practice. This year, to raise our profile with potential candidates, we capitalised on social media – this was recognised when we won the Public Sector Managers' Association – Social Media Recruitment Campaign. We spent £297,000 on our social media and recruitment advertising activity last year – we have no other publicity or advertising costs at Dstl.

We continue to be a member of The 5% club. This is a group of employers who are committed towards having a minimum of 5 per cent of their workforces enrolled on apprenticeships and other graduate and student development programmes. Currently, we have 236 students on a variety of schemes, representing 6.3 per cent of our workforce.

*continued over page* ►



**“Our recruitment practices are underpinned by Civil Service guidance and best practice.”**



## Workforce

The average Full-Time Equivalent number of persons (including members of the Board) employed during the year at Dstl was:

Group	Permanent (UK) employment contract		Agency and short-term contract staff		Inward secondees		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Professional and technical staff	2,861	2,783	241	278	76	78	3,178	3,139
Administrative and industrial staff	534	653	38	62	1	0	573	715
<b>Total</b>	<b>3,395</b>	<b>3,436</b>	<b>279</b>	<b>340</b>	<b>77</b>	<b>78</b>	<b>3,751</b>	<b>3,854</b>

## Trading Fund

Trading Fund	Permanent (UK) employment contract		Agency and short-term contract staff		Inward secondees		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Professional and technical staff	2,848	2,771	241	278	76	78	3,165	3,127
Administrative and industrial staff	531	651	38	62	1	0	570	713
<b>Total</b>	<b>3,379</b>	<b>3,422</b>	<b>279</b>	<b>340</b>	<b>77</b>	<b>78</b>	<b>3,735</b>	<b>3,840</b>

The staff costs incurred by our workforce over the past financial year were:

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
Wages and salaries	144.3	144.4	143.5	143.7
Social security costs	12.3	12.4	12.2	12.3
Other pension costs	28.7	26.5	28.6	26.4
Inward secondees	8.2	7.2	8.2	7.2
Agency and contract staff	11.7	15.3	11.7	15.3
Less recoveries in respect of outward secondments	(4.7)	(4.0)	(4.8)	(4.1)
<b>Total</b>	<b>200.5</b>	<b>201.8</b>	<b>199.4</b>	<b>200.8</b>

For the current year, recoveries of staff costs relating to outward secondees are disclosed as a deduction to total staff costs. The comparative has been restated on the same basis.

During the year, £0.3 thousand staff costs were capitalised (2014/15: £34.0 thousand).

## Off-payroll engagements

To complement our committed employed workforce, and to cover temporary capacity or to deliver particular niche scientific expertise for which there is no permanent need, we engage a number of Contracted Temporary Workers (CTWs). Identified in the following tables are the numbers of our non-permanent staff (contractors) at Dstl whom we hire under contingent labour routes – the CL One Framework. CTWs are not employees nor are they off-payroll appointments to public office, for which there is none at Dstl.

**Table 1. All off-payroll engagements**

Existing engagements, as of 31 March 2016, for more than £220 per day and that last for longer than six months	133
Of which	
Those that have existed for less than one year	66
Those that have existed for between one and two years	64
Those that have existed for between two and three years	3
Those that have existed for between three and four years	0
Those that have existed for four or more years	0

Dstl contacts all of its CTWs, who are paid more than £220 per day and on appointments lasting longer than six months, to request assurance that individuals are paying tax. We give these CTWs 28 days to send the information; if they do not respond, then we send a demand that gives a further 14 days to provide Dstl with appropriate assurance. If there is still no response, Dstl immediately terminates the contract.

Table 2. New off-payroll engagements	
New off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months	59
Of the above, those that include contractual clauses giving Dstl/MOD the right to request assurance in relation to income tax and National Insurance obligations	59
Those for whom assurance has been requested	59
Of which	
Those for whom assurance has been received	59
Those for whom assurance has not been received	0
Those whose contracts have been terminated as a result of assurance not being received	0

Table 3. Off-payroll and on-payroll engagements of Board members and/or senior officials	
Off-payroll engagements of Board members and/or senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016	0
Individuals on payroll and off-payroll that have been deemed Board members and/or senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016	19



### Building and rewarding a high-performing workforce

Performance management has remained a key priority this year with improved policy guidance and case management. We have continued to promote our Total Reward Package, with flexible working seen as a key element. Our people clearly value our learning and development opportunities, and appreciate this ongoing investment in their careers. In conjunction with Civil Service Learning, we provided comprehensive change-leadership training to equip line managers with the skills to lead their teams through the changes needed to take us into the future. Despite limits on increasing our total pay-bill, we have successfully worked with our trade union colleagues to create a more flexible approach to rewarding performance.

Successfully delivering our Helios Project ensures that we are sustaining national and world-class assets for the long term. This year, a series of events helped more than 500 directly affected people to prepare for working in a different environment and in a different way. We have also invested in helping to ensure that our affected colleagues are aware of their personal resilience and wellbeing.

Equally, we continue to invest in the wellbeing of all our employees; this year's average days lost to sickness per employee was 6.3 days.

### Reshaping and resizing Dstl

In line with our Corporate Plan, Business Plan and with Government austerity measures, we will be a smaller organisation in five years' time. During this period of change, we must retain the right specialist skills, experience and knowledge mix for our customers. We have continued to implement the planned 15 per cent reduction against a future shape, which we have approached sensitively to retain subject matter expertise in the S&T capabilities we need for the future and by maximising the reductions made through natural movement of people and proactive retraining.

This year, we aimed to become 2 per cent smaller and to help deliver this we operated a targeted Voluntary Early Exit scheme for both Functional staff and Divisional staff, which resulted in 121 exits.

This year, the establishment of our Divisions delivered a reduction in management roles allowing us to reinvest staff into S&T customer-facing roles. Following this restructuring, we successfully deployed 30 people into new roles.

The implementation of the outcomes of the *Science Capability Review* has also resulted in a restructure with some roles transferring from Dstl to Defence Science and Technology (DST) in MOD.

## Exit packages

We have paid redundancy and other departure costs in accordance with the provisions of the Civil Service Compensation Scheme, which is a statutory scheme made under the Superannuation Act 1972. We account for exit costs in full in the year of departure. Where the Trading Fund has agreed early retirements, the additional costs are met by the Trading Fund and not by the Principal Civil Service Pension Scheme (PCSPS). Ill-health retirement costs are met by the pension scheme and are not included in the table below.

This information is subject to audit opinion.

Exit packages cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2016	2015	2016	2015	2016	2015
Less than £10,000	0	2	7	1	7	3
£10,000-£25,000	0	0	38	3	38	3
£25,001-£50,000	0	0	43	13	43	13
£50,001-£100,000	0	0	32	1	32	1
£100,001-£150,000	0	0	1	0	1	0
£150,001-£200,000	0	0	0	0	0	0
More than £200,000	0	0	0	0	0	0
<b>Total number of exit packages</b>	<b>0</b>	<b>2</b>	<b>121</b>	<b>18</b>	<b>121</b>	<b>20</b>
<b>Total cost of exit packages (£)</b>	<b>0</b>	<b>18,249</b>	<b>4,555,598</b>	<b>640,185</b>	<b>4,555,598</b>	<b>658,434</b>

## Pensions

The PCSPS and the Civil Servant and Other Pension Scheme (CSOPS) – known as Alpha – are unfunded multi-employer defined benefit schemes but the Trading Fund is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Service Superannuation ([www.civilservicepensionscheme.org.uk/about-us/resource-accounts/](http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/)).

For 2015/16, employer contributions of £28.6 million were payable to the PCSPS (2014/15: £26.1 million) at one of four rates in the range 20 per cent to 24.5 per cent of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015/16 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employer contributions of £229,099 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable earnings up to 30 September 2015, and from 8 per cent to 14.75 per cent

of pensionable earnings from 1 October 2015. The employer also matches employee contributions up to 3 per cent of pensionable earnings. In addition, employer contributions of £8,626, representing 0.8 per cent of pensionable earnings up to 30 September 2015 and 0.5 per cent of pensionable earnings from 1 October 2015, were payable to the PCSPS. This was to cover the cost of the future provision of lump-sum benefits on death in service, or ill-health retirement of these employees. Contributions due to the partnership pension providers at 31 March 2016 were £20,649. There were no prepaid contributions at that date.

Three people retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £6,391 for these individuals.

## Our commitment to diversity and inclusivity

We actively promote inclusion of colleagues with protected characteristics as set out in the Equality Act 2010. Five Employee Support Networks with more than 100 active volunteers support our Diversity Action Plan, which is regularly reviewed by our Executive team. We hold regular discussions with our colleagues and this year designed a number of events to raise awareness.

We implement the Two Ticks scheme by interviewing all disabled applicants for our vacancies who meet essential job criteria. The Equality Act 2010 places a requirement on employers to make reasonable adjustments for their staff

disability; our equality and diversity policy sets the overall framework of how we promote and support those with protected characteristics. Our reasonable adjustment process ensures the continuation of employment of anyone who becomes disabled within Dstl. We apply this process during the assessment of new recruits and during employment to accommodate all our people. This year, we spent more than £25,000 on adjustments to help people with disabilities to progress their careers.

### Our staff composition

As at 31 March 2016, the gender numbers for our Non-Executive Directors, Directors, Senior Civil Service (SCS) and employees were:

	Male	Female	Total
Non-Executive Directors and Directors <sup>1</sup>	9	4	13
SCS (not on the Executive) <sup>2</sup>	1		1
Employees	2,514	1,196	3,710
<b>Totals</b>	<b>2,524</b>	<b>1,200</b>	<b>3,724<sup>3</sup></b>

<sup>1</sup> The Chief Executive, Finance Director, People and Business Services Director, and the Transformation Director (x2 people, job-share) are SCS.

<sup>2</sup> There is one other member of the SCS who is not a member of the Dstl Executive.

<sup>3</sup> All the above figures are headcount. Employee numbers include our permanent staff, our apprentices, and our fixed-term appointments.

## Parliamentary accountability

**These pages present information about Dstl that is useful to readers for accountability and decision-making purposes, to the extent that it is not covered elsewhere in this report**

The Dstl Chief Executive is personally accountable to Parliament for our performance and management of the Trading Fund. Our Annual Report and Accounts are subject to audit by the Comptroller and Auditor General, who heads the National Audit Office and is responsible for scrutinising public spending and safeguarding the interests of taxpayers on behalf of Parliament. The NAO's audit certification of this report is presented on page 57. More information on our Parliamentary Accountability is published in our existing *Framework Document*, which is available at the web address provided on page 34.

### **Statement of Parliamentary Supply (subject to audit)**

As a trading fund agency, we do not have a Statement of Parliamentary Supply.

### **Public spending and administration budgets**

As a trading fund agency, we receive neither a departmental net expenditure limit nor an administrative control total. All our operating expenditures are funded by receipts from trading operations, supplemented by loan funding from our parent department if required. Our Chief Executive receives his letter of authority directly from the Permanent Under Secretary of MOD.

### **Fees and charges (subject to audit)**

We charge for goods and services in accordance with the principles in *Managing Public Money* and apply a fee to all the goods and services we provide; details of these services can be found on pages 2 to 8 of this report. Additionally, details of our principal operating segments are disclosed in Note 2 to the financial statements on page 68.

### **Remote contingent liabilities**

The nature of our operations means that our sites and specialist buildings may become liable to significant decommissioning and remediation costs. The likelihood of the experimental establishments that we own transferring outside the public sector is considered remote, and we have not attempted to quantify the costs associated with such liabilities that could arise due to a transfer of ownership or significant change of use. Maintenance of a safe and secure working environment presents an enduring running cost to our business, funded through our trading operations. Our normal business is self-insured and long-term residual liabilities are considered to be underwritten by our parent department, MOD.

### **Regularity of expenditure (subject to audit)**

There was a reduction in the doubtful debt provision of £0.5 million (2014/15: increased by £0.4 million) in respect of a receivable from Ploughshare (in the Trading Fund financial statements). There were no other losses or special payments exceeding £300,000 during the year. We also did not make any special severance payments during this financial year.

### **Long-term expenditure trends**

Dstl's expenditure is driven by the demands of our customers and therefore future expenditure trends cannot be anticipated accurately. In the five years to 31 March 2016, Dstl's expenditure increased by 12 per cent. Future expenditure will depend on our future income, and is expected broadly to follow the underlying trend in defence and security expenditure across Government. Further details on our finances can be found on page 14.

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

I certify that I have audited the financial statements of Defence Science and Technology Laboratory (Dstl) for the year ended 31 March 2016 under the Government Trading Funds Act 1973. The financial statements comprise the Group and Trading Fund: Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in that report as having been audited.

### Respective responsibilities of Dstl, the Chief Executive and auditor

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

### Scope of the audit of the financial statements

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

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

### Opinion on regularity

In my opinion, in all material respects the expenditure and

income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Dstl's affairs as at 31 March 2016 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

### Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### Report

I have no observations to make on these financial statements.

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

30 June 2016

# Our Annual Report and Accounts 2015/16

Dstl's *Framework Document* requires us to prepare our own Annual Report and Accounts and present it to Parliament following certification by the Comptroller and Auditor General to the House of Commons (see page 57). Our Dstl Audit Committee endorsed this report at its meeting on 1 June 2016, and the Dstl Board approved it on 2 June 2016. Our annual report and accounts is prepared in line with the Government *Financial Report Manual (FReM)*, *Managing Public Money* and any applicable HM Treasury (HMT) instructions.

This year, our approach to the structure and format of our Annual Report and Accounts has been guided by the outcomes of HMT's Simplifying and Streamlining Annual Reports and Accounts project, and in line with the scope of the FReM, which is an interpretation of the *Companies Act 2006* for the public sector.

I believe that the information we have presented in our Performance Report (pages 5 to 24) provides a fair, balanced and understandable analysis of Dstl's performance. As required, I have signed and dated our Performance Report on page 24, as well as signing here our Accountability Report, which meets Dstl's key accountability requirements to Parliament. Our fully audited Financial Statements follow in the rest of this document, which give a true and fair view of Dstl's state of affairs and of its profit, changes in taxpayers' equity and cash flows. I have signed our Statement of Financial Position on page 63.

I hope you find our Annual Report and Accounts helpful to your understanding of Dstl's business and performance over the past financial year.



Jonathan Lyle | Chief Executive  
16 June 2016



# Financial Statements

“Our financial position remains healthy. Another year of strong performance ensures that we can continue to meet future financial challenges, and make affordable plans for future investment to sustain our nationally critical and highly specialised capabilities.”

– David English, Finance Director, Dstl



# Accounting information

## Statement of Comprehensive Income for the year ended 31 March 2016

	Note	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
<b>Turnover</b>	3	<b>611.9</b>	<b>652.9</b>	<b>609.5</b>	<b>652.3</b>
Cost of sales		(274.5)	(307.9)	(274.1)	(307.8)
<b>Net income</b>		<b>337.4</b>	<b>345.0</b>	<b>335.4</b>	<b>344.5</b>
Operating expenses		(306.8)	(314.7)	(304.6)	(312.0)
<b>Operating profit</b>	4	<b>30.6</b>	<b>30.3</b>	<b>30.8</b>	<b>32.5</b>
Share of associate's income		0.0	0.0	0.0	0.0
Finance income	6	0.5	0.5	0.5	0.4
Finance expense	7	(0.6)	(0.7)	(0.6)	(0.7)
<b>Profit before taxation</b>		<b>30.5</b>	<b>30.1</b>	<b>30.7</b>	<b>32.2</b>
Taxation expense	8	0.0	0.0	0.0	0.0
<b>Profit for the year</b>		<b>30.5</b>	<b>30.1</b>	<b>30.7</b>	<b>32.2</b>
Dividend	9	(13.2)	(12.7)	(13.2)	(12.7)
<b>Retained profit for the year</b>		<b>17.3</b>	<b>17.4</b>	<b>17.5</b>	<b>19.5</b>
<b>Other comprehensive income</b>					
Net gain on revaluation of property, plant and equipment		10.7	15.8	10.7	15.8
Net gain / (loss) on revaluation of available-for-sale investments		(1.9)	0.2	0.0	0.0
Net loss on revaluation of intangible assets		0.0	(0.1)	0.0	(0.1)
<b>Total comprehensive income for the year</b>		<b>26.1</b>	<b>33.3</b>	<b>28.2</b>	<b>35.2</b>

The notes on pages 65 to 89 form an integral part of these accounts.

## Statement of changes in taxpayers' equity for the year ended 31 March 2016

### Group

	Note	Retained earnings £ million	Public dividend capital £ million	Revaluation surplus £ million	Total taxpayers' equity £ million	Total comprehensive income £ million
<b>Balance at 1 April 2014</b>		<b>244.8</b>	<b>50.4</b>	<b>65.7</b>	<b>360.9</b>	
Transfer to retained earnings				(1.2)	(1.2)	(1.2)
Surplus on revaluation of properties	10			9.0	9.0	9.0
Surplus on application of modified historic cost accounting to property, plant and equipment	10			8.0	8.0	8.0
Surplus on revaluation of non-current financial asset investments	11			0.2	0.2	0.2
Deficit on application of modified historic cost accounting to intangible assets	12			(0.1)	(0.1)	(0.1)
Net gains recognised in the Statement of Comprehensive Income				15.9	15.9	15.9
Net profit for the period		30.1			30.1	30.1
Dividend	9	(12.7)			(12.7)	(12.7)
Transfer from revaluation surplus		1.2			1.2	
Modified historic cost accounting	10, 12	1.1			1.1	
<b>Balance at 31 March 2015</b>		<b>264.5</b>	<b>50.4</b>	<b>81.6</b>	<b>396.5</b>	<b>33.3</b>
Transfer to retained earnings				(2.0)	(2.0)	(2.0)
Surplus on revaluation of properties	10			2.1	2.1	2.1
Surplus on application of modified historic cost accounting to property, plant and equipment	10			10.6	10.6	10.6
Deficit on revaluation of non-current financial asset investments	11			(1.9)	(1.9)	(1.9)
Net gains recognised in the Statement of Comprehensive Income				8.8	8.8	8.8
Net profit for the period		30.5			30.5	30.5
Dividend	9	(13.2)			(13.2)	(13.2)
Transfer from revaluation surplus		2.0			2.0	
Modified historic cost accounting	10, 12	0.3			0.3	
<b>Balance at 31 March 2016</b>		<b>284.1</b>	<b>50.4</b>	<b>90.4</b>	<b>424.9</b>	<b>26.1</b>

## Statement of changes in taxpayers' equity for the year ended 31 March 2016

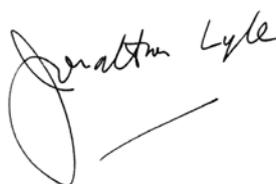
### Trading Fund

	Note	Retained earnings £ million	Public dividend capital £ million	Revaluation surplus £ million	Total taxpayers' equity £ million	Total comprehensive income £ million
<b>Balance at 1 April 2014</b>		<b>244.7</b>	<b>50.4</b>	<b>63.6</b>	<b>358.7</b>	
Transfer to retained earnings				(1.2)	(1.2)	(1.2)
Surplus on revaluation of properties	10			9.0	9.0	9.0
Surplus on application of modified historic cost accounting to property, plant and equipment	10			8.0	8.0	8.0
Deficit on application of modified historic cost accounting to intangible assets	12			(0.1)	(0.1)	(0.1)
Net gains recognised in the Statement of Comprehensive Income				15.7	15.7	15.7
<b>Net profit for the period</b>		<b>32.2</b>			<b>32.2</b>	<b>32.2</b>
Dividend	9	(12.7)			(12.7)	(12.7)
Transfer from revaluation surplus		1.2			1.2	
Modified historic cost accounting	10, 12	1.1			1.1	
<b>Balance at 31 March 2015</b>		<b>266.5</b>	<b>50.4</b>	<b>79.3</b>	<b>396.2</b>	<b>35.2</b>
Transfer to retained earnings				(2.0)	(2.0)	(2.0)
Surplus on revaluation of properties	10			2.1	2.1	2.1
Surplus on application of modified historic cost accounting to property, plant and equipment	10			10.6	10.6	10.6
Net gains recognised in the Statement of Comprehensive Income				10.7	10.7	10.7
<b>Net profit for the period</b>		<b>30.7</b>			<b>30.7</b>	<b>30.7</b>
Dividend	9	(13.2)			(13.2)	(13.2)
Transfer from revaluation surplus		2.0			2.0	
Modified historic cost accounting	10, 12	0.3			0.3	
<b>Balance at 31 March 2016</b>		<b>286.3</b>	<b>50.4</b>	<b>90.0</b>	<b>426.7</b>	<b>28.2</b>

## Statement of Financial Position as at 31 March 2016

	Note	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	308.2	283.7	308.2	283.7
Financial assets	11	0.5	2.3	3.7	3.7
Investment in associate	11	0.0	0.0	0.0	0.0
Intangible assets	12	8.0	10.9	8.0	10.9
Receivables	15	0.5	0.6	0.5	0.6
<b>Total non-current assets</b>		<b>317.2</b>	<b>297.5</b>	<b>320.4</b>	<b>298.9</b>
<b>Current assets</b>					
Work in progress	14	2.9	2.8	2.9	2.8
Receivables	15	203.2	214.8	202.3	214.7
Short-term investments	15	0.0	5.0	0.0	5.0
Cash and cash equivalents	16	78.4	75.0	76.9	72.8
<b>Total current assets</b>		<b>284.5</b>	<b>297.6</b>	<b>282.1</b>	<b>295.3</b>
<b>Total assets</b>		<b>601.7</b>	<b>595.1</b>	<b>602.5</b>	<b>594.2</b>
<b>Current liabilities</b>					
Trade and other payables	17	163.8	183.9	162.8	183.3
Short-term provisions	18	0.3	0.5	0.3	0.5
<b>Total current liabilities</b>		<b>164.1</b>	<b>184.4</b>	<b>163.1</b>	<b>183.8</b>
<b>Non-current assets plus net current assets</b>		<b>437.6</b>	<b>410.7</b>	<b>439.4</b>	<b>410.4</b>
<b>Non-current liabilities</b>					
Other payables	17	11.5	12.9	11.5	12.9
Long-term provisions	18	1.2	1.3	1.2	1.3
<b>Total non-current liabilities</b>		<b>12.7</b>	<b>14.2</b>	<b>12.7</b>	<b>14.2</b>
<b>Assets less liabilities</b>		<b>424.9</b>	<b>396.5</b>	<b>426.7</b>	<b>396.2</b>
<b>Taxpayers' equity</b>					
Public dividend capital	23	50.4	50.4	50.4	50.4
Revaluation surplus		90.4	81.6	90.0	79.3
Retained earnings		284.1	264.5	286.3	266.5
<b>Total taxpayers' equity</b>		<b>424.9</b>	<b>396.5</b>	<b>426.7</b>	<b>396.2</b>

The financial statements were signed on 16 June 2016. The Accounts were authorised for issue on the date of certification by the Comptroller and Auditor General.



Jonathan Lyle | Chief Executive

## Statement of cash flows for the year ended 31 March 2016

	Note	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
<b>Cash flows from operating activities</b>					
Net profit before taxation		30.5	30.1	30.7	32.2
Adjustments for:					
Depreciation	4, 10	17.1	14.9	17.1	14.9
(Profit) / loss on sale of non-current financial asset investments	4, 11	0.0	(0.9)	0.0	0.0
Amortisation	4, 11	1.8	1.5	1.8	1.5
Operating profit before working capital changes		49.4	45.6	49.6	48.6
Increase in work in progress		(0.2)	(2.1)	(0.2)	(2.1)
Decrease in receivables		16.6	29.0	17.4	26.7
Decrease in payables		(17.9)	(35.6)	(18.3)	(35.8)
Use of provisions		(1.9)	(0.8)	(1.9)	(0.8)
Finance income		(0.5)	(0.5)	(0.5)	(0.4)
Finance expense		0.6	0.7	0.6	0.7
Net cash inflow from operating activities		46.1	36.3	46.7	36.9
Taxation paid		0.0	0.0	0.0	0.0
<b>Cash flows from investing activities</b>					
Purchases of property, plant and equipment		(25.9)	(21.3)	(25.9)	(21.3)
Purchases of non-current financial asset investments		(0.1)	0.0	0.0	(0.8)
Proceeds from sale of non-current financial asset investments		0.0	1.2	0.0	0.0
Purchases of intangible assets		(0.7)	(5.3)	(0.7)	(5.3)
Finance income		0.5	0.5	0.5	0.4
Net cash used in investing activities		(26.2)	(24.9)	(26.1)	(27.0)
<b>Cash flows from financing activities</b>					
Repayment of loans from MOD		(3.2)	(3.2)	(3.2)	(3.2)
Interest paid on loans		(0.6)	(0.7)	(0.6)	(0.7)
Dividend paid		(12.7)	(11.0)	(12.7)	(11.0)
Net cash used in financing activities		(16.5)	(14.9)	(16.5)	(14.9)
Net increase / (decrease) in cash and cash equivalents		3.4	(3.5)	4.1	(5.0)
Brought forward cash and cash equivalents		75.0	78.5	72.8	77.8
<b>Carried forward cash and cash equivalents</b>	16	<b>78.4</b>	<b>75.0</b>	<b>76.9</b>	<b>72.8</b>

# Notes to the accounts

## 1. Accounting policies

### (a) Statement of accounting policies

The financial statements have been prepared in accordance with the 2015/16 Government *Financial Reporting Manual* (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM apply *International Financial Reporting Standards* (IFRS) as adapted or interpreted for the public sector context. The particular policies adopted by the Group are described below. They have been applied consistently in dealing with items that are considered material to the accounts. The accounts of all Group undertakings are drawn up to 31 March 2016.

### (b)

#### (i) Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for revaluation of property, plant and equipment, intangible assets, and for the application of fair value where appropriate.

#### (ii) Going concern

On 13 January 2016, MOD announced that Dstl's Trading Fund status will be revoked from 1 April 2017. From this date, Dstl will remain as an Executive Agency of MOD with a similar function and purpose to the existing Trading Fund and will continue as a going concern.

### (c) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, there are necessary judgements, estimates and assumptions made, that affect the carrying amounts of certain assets and liabilities. Where information is not readily available, estimates and assumptions are made with reference to advice from management, technical experts, professional third parties, and from historical experience. The estimates and underlying assumptions are reviewed on an ongoing basis.

There have been no revisions of accounting judgement, or revisions to the application of estimation technique during the year. Revisions to accounting estimates are recognised during the period of revision, and future periods if the revision affects both current and future periods.

#### (i) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimates (see Note 1 (c) (ii)), that the Group has made in the process of applying its accounting policies and have had significant effects on the financial statements. There have been no revisions to the application of accounting policies.

#### • Valuation of property

The accounting policy for the valuation of freehold land and buildings is disclosed in Note 1 (e), and the valuations are disclosed in Note 10. With independent professional advice, the Group has concluded that the most appropriate method of valuation provided by the Royal Institute of Chartered Surveyors (RICS) is Depreciated Replacement Cost (DRC). The market for the Group's specialised laboratories and

secure accommodation is extremely limited. The large size of the two main sites (Porton Down and Portsdown West) and their relatively remote locations has a limiting effect on the number of alternative users.

#### • Biological High Containment Facility

Details of the facility and valuation are disclosed in Note 10. The Group considers that it is not possible to determine the facility's fair value less costs to sell. The Group therefore considers the facility's recoverable amount to be its value in use.

#### • Financial assets available-for-sale

The Group's wholly owned subsidiary, Ploughshare Innovations Ltd (Ploughshare), holds equity investments in other entities. The Group considers that it does not have direct control, participating control or interests in any of these investments that influence their activities and exposes the Group to variability of returns from their performance. The equity investments are disclosed as non-current available-for-sale financial assets and are valued annually using the British Venture Capital Association (BVCA) Guidelines. The investments are unlisted. The Group therefore considers the price of most recent investment, discounted using market intelligence, to be the most appropriate. See Note 1 (c) (ii) and Note 11 for further details.

#### (ii) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year.

#### • Accruals

Accruals are estimated with reference to available documentation, advice from the relevant project manager, information provided by third parties, and from experience gained from previous years. Third-party verification is sought from suppliers of all sub-contracted research where the value of un invoiced work is expected to be £100,000 or above. The total cost of sales accrual is £68.2 million (2014/15: £73.6 million).

Staff holiday is not recorded on central management information systems and therefore the holiday pay accrual calculation is an area of estimation uncertainty. The estimate is based on daily pay, using the mid-point for each pay scale. This is applied to the total calculated holiday entitlement for all employees by pay scale. An appropriate proportion is assumed to be outstanding at the year end. The proportion applied is derived from periodic sample testing. The last sample testing was performed during 2013 from which an estimate of 32 per cent of all annual holiday was considered to be outstanding at the financial year end. The total annual holiday accrual liability is £6.6 million (2014/15: £6.6 million). A variance of 5 per cent to the proportion of holiday entitlement outstanding would vary this liability by £1.0 million.

#### • Fair value non-current financial assets available-for-sale

Ploughshare performs the valuations following BVCA Guidelines (see Note 1 (c) (i)). A market discount is applied based on market intelligence. If no discount was applied, the total valuation would be £4.3 million. Further information is provided in Note 11.

- **Modified Historic Cost Accounting (MHCA)**

Non-current plant and equipment and non-current intangible assets are reported at fair value by applying various indices provided by the Office of National Statistics (ONS). Freehold land and buildings are subject to a rolling programme of quinquennial revaluation by an independent professional valuer. RICS indices are applied to building valuations in the years between independent professional valuations. An index provided by ONS is applied to freehold land valuations in the years between independent professional valuations.

There are inherent valuation uncertainties. A professional's valuation will depend on the methodology and judgement. Where indices are applied, the values are dependent on the particular index adopted. For consistency and comparability, the index used for each class of asset is applied every year. Further information is provided in Note 1 (e), (f) and (g).

- **Depreciation and amortisation**

Depreciation of property, plant and equipment, and amortisation of intangible assets, is based on the useful economic life of the asset. Remaining useful economic lives are reviewed at least annually. The basis for estimating a remaining useful economic life includes experience of similar assets, the condition and performance of the asset, and knowledge of technological advances and obsolescence. Remaining useful economic lives are revised, where appropriate, to reflect changing circumstances. The net book value of the asset at the time of the revision will be depreciated on a straight-line basis over the revised remaining useful economic life.

With respect to the depreciation of buildings, an independent professional evaluation of their remaining useful economic lives is performed during the quinquennial rolling valuation programme. Further information is provided in Note 1 (e), (f) and (g).

- **Business-in-use valuation**

A business-in-use valuation based on discounted projected cash flows has been adopted for the specialised Biological High Containment Facility. Further information, including the valuation's sensitivity to a variety of assumptions, is disclosed in Note 10.

- **Provisions**

The measurement of early departure provisions is derived from information provided by the Cabinet Office (My Civil Service Pension). Variations on crystallisation of the liability are not considered material. The measurement of dilapidation provision is based on a third-party estimate provided during 2009. The Retail Price Index has been applied to derive its current value. Further disclosures are provided in Note 18.

#### **(d) Basis of consolidation**

The consolidated accounts incorporate the accounts of the Trading Fund with its associate, Tetricus Ltd, and its wholly owned subsidiary undertaking, Ploughshare.

The subsidiary undertaking, which the Trading Fund has the power to control, has been consolidated according to International Accounting Standard (IAS)27: Consolidated and Separate Financial Statements. The associate, over which the Trading Fund has the power to exercise significant influence, has been consolidated using the equity method.

#### **(e) Property, plant and equipment**

All assets are independently inspected on a five-year rolling programme.

Assets are carried at current value in existing use or fair value. The valuation bases for different classes of asset are as follows:  
Land and buildings:

Where valuations are carried out, they are performed using RICS Red Book methods.

Porton Down – DRC  
Portsdown West – DRC

For land and buildings that have been declared surplus – Market Value

Specialised facilities

– Lower of DRC and recoverable amount.

The recoverable amount is calculated as the greater of:

- (i) the estimated net present value of the cash flows derived from the continued use of the asset in its current state
- (ii) the estimated net sale proceeds of the asset.

Plant, machinery, computers and office equipment – Modified historic cost accounting.

Property is revalued in the years between professional independent valuations using the following indices:

Land – Retail Price Index  
Buildings – Buildings Cost Information Service (BCIS)  
All-In Tender Price Index.

Plant, machinery, computers and office equipment assets are revalued using relevant indices published by ONS.

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

Depreciation is provided on a straight-line basis over the useful economic lives of the assets, which are as follows:

Freehold land	Not depreciated
Freehold buildings	1 – 50 years
Plant and machinery	1 – 25 years
Computers and office equipment	1 – 10 years

Details of property, plant and equipment values included within these financial statements are disclosed in Note 10.

#### **(f) Donated assets**

Plant and equipment donated to the Trading Fund for which no consideration was given are brought onto the Statement of Financial Position at their fair value and are revalued and depreciated on the same basis as purchased assets. The fair value at initial recognition is credited to the Statement of Comprehensive Income as other operating income.

#### **(g) Customer-funded assets**

Where a customer has funded in part or in whole, the purchase or construction of an asset that meets the definition of a non-current asset, and ownership is conveyed to the Trading Fund, the asset is brought onto the Statement of Financial Position at cost and is depreciated on a straight-line basis. The customer funding is released to other operating income over the period that the customer has an interest in the asset.

#### **(h) Intangible assets**

Intangible assets comprise purchased software licences and the cost of software developed in-house where there is reliable cost information and it is probable that the asset will give rise to future economic benefit. The minimum level for capitalisation of intangible assets is £10,000. Amortisation is on a straight-line basis over the shorter of the licence term or the useful economic life. Intangible assets are revalued annually using the Retail Price Index (excluding housing) published by ONS. The useful economic lives of intangible assets are considered to fall within one to 10 years.

#### **(i) Impairment**

The carrying value of the Group's non-current assets is reviewed during the year to determine whether there is any indication of

impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairments are first offset through other comprehensive income where sufficient revaluation surplus exists. If impairment is through consumption of economic benefit, or there is insufficient revaluation surplus, it is charged through profit or loss. Impairment losses will be reversed if there is an increase in the fair value or service potential of a previously impaired asset. The increased carrying amount attributable to a reversal of an impairment is first credited to profit or loss to the extent of any original charge to profit or loss. Any remaining balance, or the whole reversal (if impairment was fully offset through other comprehensive income), will be credited through other comprehensive income.

#### **(j) Research and development**

Research and development expenditure incurred during work on a contract for a customer is chargeable to the customer. Internally funded research expenditure is charged to the Statement of Comprehensive Income as incurred.

#### **(k) Work in progress**

Work in progress represents costs incurred on firm-price contracts and is stated at the lower of cost and net realisable value.

#### **(l) Amounts recoverable under contract**

Amounts recoverable under contract represent turnover recognised in excess of the values invoiced (net of VAT) on cost-plus contracts and include an appropriate amount of profit attributed to the contract.

#### **(m) Financial instruments**

Financial assets and liabilities are recognised where the Group has become a party to contractual terms of a financial instrument. Financial instruments are initially measured at fair value, which is usually cost. Long-term loans are measured at amortised cost using the effective interest rate method. Available-for-sale investments are measured at fair value. Unrealised gains and losses arising from changes in fair value are recognised in other comprehensive income.

#### **(n) Provisions**

Provisions are made where the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that a reliably measured economic outflow will result. Provisions are measured taking into account the risks and uncertainties surrounding the obligation. Where possible, information from third parties is used as a basis for deriving the estimated liability.

#### **(o) Pensions**

Past and present employees are covered by the provisions of the Principle Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer scheme providing benefits based on final salary. The Trading Fund is unable to identify its share of the underlying assets and liabilities and therefore it accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period. Details of rates and amounts of contributions during the year are disclosed in the Remuneration and Staff Report within the Accountability section.

#### **(p) Foreign currencies**

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the

transaction. Monetary assets and liabilities that are denominated in foreign currency are retranslated at the rates of exchange ruling at the Statement of Financial Position date. Gains and losses arising on retranslation are included in the Statement of Comprehensive Income.

#### **(q) Turnover**

Turnover is recognised when the significant risks and rewards of ownership have been transferred to the buyer and there is reasonable certainty of recovery of the consideration receivable. For cost-plus contracts, turnover is recognised as work is performed, and includes an appropriate amount of profit. For firm-price contracts, turnover is recognised as agreed milestones are reached or as deliverables are met. An appropriate amount of profit is attributed where there is reasonable certainty of the final outcome. Losses are recognised as soon as they are foreseen.

#### **(r) Segmental reporting**

The principal business activities of the Group are managed through Divisions, and the segmental analysis in Note 2 is presented according to the Group's internal management reporting structure. The accounting policies of the operating segments are the same as those of the Group. Corporate overheads are allocated to operating segments of the Trading Fund on the basis of headcount with the exception of estates management charges, which are allocated on area of occupation. Inter-segment sales and transfers within the Trading Fund are at cost. Trading with Ploughshare is on an arm's-length basis.

#### **(s) Reserves within taxpayers' equity**

The revaluation surplus represents taxpayers' equity arising from increases in the value of non-current assets. For buildings, the difference between depreciation charged on the total revalued amount and the depreciation relating to the original historic cost of the asset is transferred to retained earnings.

#### **(t) IFRS, amendments and interpretations in issue but not yet effective or adopted**

IAS8: Accounting Policies, Changes in Accounting Estimates and Errors requires disclosures in respect of new IFRS, amendments and interpretations that are or will be applicable after the reporting period. There are a number of standards, amendments and interpretations issued by the IAS Board that are effective for financial statements after this reporting period. The following have not been adopted early by the Group:

##### **IFRS15: Revenue from Contracts with Customers**

A new standard intended to replace previous revenue standards IAS11 and IAS18. IFRS15 establishes a framework for determining when to recognise revenue and how much revenue to recognise. The effective date is for accounting periods beginning on or after 1 January 2018. The standard has been reviewed and is not expected to have a future material impact on the financial statements of the Group.

##### **IFRS16: Leases**

A new standard intended to replace the previous leases standard IAS17. The standard provides a single lessee accounting model for recognising, measuring, presenting and disclosing leases. The effective date is for accounting periods beginning on or after 1 January 2019. The standard has been reviewed and its impact is likely to depend on the exit arrangements and subsequent negotiations surrounding the lease for property at Fort Halstead. This is the Group's only material lease. See Note 20 for more information.

## 2. Operating segments

### Group and Trading Fund

All of the Group's business reporting segments is disclosed to enable users of these financial statements to evaluate the nature and financial effects of the Group's business activities. The Group's corporate support functions have been aggregated. All Divisions derive their revenues from the provision of specialist and technical services. The Group derives more than 90 per cent of its revenues from MOD, and more than 95 per cent of its revenues from wider Government. More detailed disclosures can be found in Note 24, related-party transactions.

The measure of profit presented to the Board, the chief decision maker, is the underlying operating profit that excludes the significant operating items described in Note 5, and separately identified below. No measure of segmental assets and liabilities have been disclosed because this information is not regularly provided to the Board. More than 95 per cent of revenue is derived from UK sources. The Board does not review the business on a geographical basis. A geographical analysis would not be necessary to aid users' understanding of these financial statements.

On 1 April 2015, the Trading Fund implemented 'Reviewing Our Approach to Delivery' (ROAD), a fundamental re-organisation, with the objective of reducing complexity, and by doing so, reducing costs. The Trading Fund has migrated from 12 operating Departments and a Programme Office, to five Divisions and a Portfolio Office. Due to the complexity of the re-organisation, the cost and time to develop the information necessary to restate the previous year comparatives on the same basis would exceed any benefit derived from the information.

Operating segment analysis for the year ended 31 March 2016:

	Note	Chemical, Biological and Radiological Division £ million	Cyber and Information Systems Division £ million	Counter-Terrorism and Security Division £ million	Defence and Security Analysis Division £ million	Platform Systems Division £ million	Portfolio Office £ million	Corporate £ million	Ploughshare £ million	Internal trading and Group consolidation adjustments £ million	Group total as per financial statements £ million
MOD Chief Scientific Adviser		33.7	87.0	41.2	61.4	156.8	2.0	0.0	0.0		382.1
MOD other		44.6	17.9	46.8	15.3	56.8	0.1	0.0	0.0		181.5
Wider Government		2.0	8.1	20.3	0.0	0.0	0.2	0.0	0.0		30.6
Non-Exchequer income		8.1	0.3	2.0	0.0	0.2	0.0	4.7	0.1		15.4
Non-Exchequer equity sales, royalty income and licensing income		0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3		2.3
<b>Turnover</b>	3	<b>88.4</b>	<b>113.3</b>	<b>110.3</b>	<b>76.7</b>	<b>213.8</b>	<b>2.3</b>	<b>4.7</b>	<b>2.4</b>	<b>0.0</b>	<b>611.9</b>
Revenue from other operating segments		7.7	8.4	11.9	26.6	16.3	0.1	3.3	0.1	(74.4)	0.0
<b>Turnover (internal and external)</b>		<b>96.1</b>	<b>121.7</b>	<b>122.2</b>	<b>103.3</b>	<b>230.1</b>	<b>2.4</b>	<b>8.0</b>	<b>2.5</b>	<b>(74.4)</b>	<b>611.9</b>
Underlying operating profit <sup>1</sup>		(1.4)	8.5	(3.0)	6.6	11.5	(2.0)	7.0	0.3	(0.5)	27.0
Significant operating items	5	0.0	0.0	0.3	0.0	0.0	0.0	3.3	0.0		3.6
<b>Operating profit<sup>2</sup></b>		<b>(1.4)</b>	<b>8.5</b>	<b>(2.7)</b>	<b>6.6</b>	<b>11.5</b>	<b>(2.0)</b>	<b>10.3</b>	<b>0.3</b>	<b>(0.5)</b>	<b>30.6</b>
Finance income	6	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0		0.5
Finance expense	7	0.0	0.0	0.0	0.0	0.0	0.0	(0.6)	0.0		(0.6)
<b>Profit before taxation</b>		<b>(1.4)</b>	<b>8.5</b>	<b>(2.7)</b>	<b>6.6</b>	<b>11.5</b>	<b>(2.0)</b>	<b>10.2</b>	<b>0.3</b>	<b>(0.5)</b>	<b>30.5</b>
Taxation	8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0
Dividend	9	0.0	0.0	0.0	0.0	0.0	0.0	(13.2)	0.0		(13.2)
<b>Retained profit / (loss) for the year</b>		<b>(1.4)</b>	<b>8.5</b>	<b>(2.7)</b>	<b>6.6</b>	<b>11.5</b>	<b>(2.0)</b>	<b>(3.0)</b>	<b>0.3</b>	<b>(0.5)</b>	<b>17.3</b>

<sup>1</sup> Underlying operating profit is the measure of profit routinely presented to the Board.

<sup>2</sup> Within underlying operating profit is depreciation and amortisation expenses as follows:

	Note	£ million	£ million	£ million						
Depreciation and impairment of property, plant and equipment	4	0.7	0.3	1.3	0.0	0.3	0.0	14.5	0.0	17.1
Amortisation of intangible assets	4	0.0	0.0	0.0	0.1	0.0	0.0	1.7	0.0	1.8
<b>Total depreciation and amortisation</b>		<b>0.7</b>	<b>0.3</b>	<b>1.3</b>	<b>0.1</b>	<b>0.3</b>	<b>0.0</b>	<b>16.2</b>	<b>0.0</b>	<b>18.9</b>

**A summary of the business activities provided by the operating segments is as follows:**

#### **Chemical, Biological and Radiological (CBR)**

The CBR Division provides an integrated chemistry, biology, radiation and medical sciences capability. The Division delivers longer-term research as well as short-term advice and consultancy, and supports the Commands and wider Government.

#### **Counter-Terrorism and Security (CTS)**

The CTS Division delivers innovative S&T and solutions to support CTS operations, both for MOD and wider Government. With in-house laboratories, workshops and other specialised facilities, the Division provides rapid response to operational demands. The Division maintains the Sovereign UK Energetics capability and provides a source of threat information throughout the Trading Fund.

#### **Cyber and Information Systems (CIS)**

The CIS Division brings together the key capabilities of C4ISR (including sensors, data processing and information systems communications), cyber and space. By co-working with the Defence and Security Analysis Division, the CIS Division delivers to MOD Head Office and Joint Forces Command.

#### **Defence and Security Analysis (DSA)**

The DSA Division is the single focus for military and security capability analysis, consulting and enterprise-level system engineering. The Division covers work for MOD Head Office and all Commands, plus the human systems and analysis and simulation sub-capabilities.

#### **Platform Systems (PS)**

The PS Division brings together the platform systems, weapons and integrated survivability capabilities. The Division's focus is a single platform-based capability covering all mission and weapons systems, and the related survivability capabilities.

#### **Portfolio Office**

The Portfolio Office is responsible for the delivery of the Trading Fund portfolio of defence and security S&T, and leadership of the Portfolio, Programme and Project (P3) community. The activities of the S&T Portfolio Office mainly involve: the allocation and balancing of Programme budgets and S&T requirements; the provision of management information to senior customers and stakeholders to enable strategic Portfolio decision-making; the management of the interface with the Chief Scientific Adviser (CSA) senior stakeholder community; and, setting and assuring P3 Management.

#### **Corporate**

Main functions and activities include:

- corporate governance, and centralised functions such as finance and treasury management, human resources, and commercial contracting management
- estate management
- business information systems
- knowledge services, providing services to the Trading Fund's internal knowledge base, MOD-funded reports and the wider scientific and technical literature, together with a range of information and analysis services.

#### **Ploughshare Innovations Ltd**

It is Government policy to transfer technical knowledge, wherever possible, to the economy for exploitation of its full commercial and social potential. Ploughshare is a wholly owned subsidiary incorporated on 6 April 2005 as a vehicle for the transfer and management of the Trading Fund's Intellectual Property and its consequential investment interests in other entities. The Ploughshare mission is to evaluate Dstl technologies for commercial potential and to maximise market adoption of the technologies to support the wider UK growth agenda.

### 3. Turnover

Turnover by major class of customer is analysed as follows:

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
<b>MOD:</b>	<b>563.6</b>	<b>607.4</b>	<b>563.6</b>	<b>607.4</b>
Chief Scientific Adviser	382.1	406.7	382.1	406.7
Other	181.5	200.7	181.5	200.7
<b>Non-MOD:</b>	<b>48.3</b>	<b>45.5</b>	<b>45.9</b>	<b>44.9</b>
Wider Government	30.6	29.7	30.6	29.7
Non-Exchequer income	15.4	15.3	15.3	15.2
Non-Exchequer equity sales, royalty income and licensing income	2.3	0.5	0.0	0.0
<b>Total</b>	<b>611.9</b>	<b>652.9</b>	<b>609.5</b>	<b>652.3</b>

Turnover is categorised according to the main contracted customer. All turnover relates to the same class of business, which is the supply of scientific and technical services. This is conducted principally in the UK in sterling and no other geographical market has contributed significantly to turnover. See Note 2 for operating segment disclosures.

### 4. Operating profit

This is stated after charging / (crediting):

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
<b>Depreciation charge for year:</b>	<b>17.1</b>	<b>14.9</b>	<b>17.1</b>	<b>14.9</b>
Depreciation of owned property, plant and equipment	16.3	13.3	16.3	13.3
Exceptional costs of impairment of property, plant and equipment	0.6	0.8	0.6	0.8
Adjustment valuation of property, plant and equipment	0.2	0.8	0.2	0.8
<b>Amortisation charge for the year:</b>	<b>1.8</b>	<b>1.5</b>	<b>1.8</b>	<b>1.5</b>
Amortisation of software licences	1.8	1.5	1.8	1.5
Profit on sale of financial asset available-for-sale	0.0	(0.9)	0.0	0.0
Operating lease rentals: property	3.3	3.9	3.3	3.9
Travel, subsistence and hospitality	3.0	2.6	3.0	2.6
Doubtful debt provision <sup>1</sup>	0.0	0.0	(0.5)	(2.2)
Foreign exchange gains	(0.1)	(0.1)	(0.1)	(0.1)
Auditor's remuneration and expenses <sup>2</sup>	0.1	0.1	0.1	0.1
Other operating income <sup>3</sup>	(11.2)	(3.0)	(11.4)	(3.3)

The Trading Fund and Group comparative for other comprehensive income has been restated with a reduction of £4.1 million. This is to reflect the revised treatment of recoveries for outward secondees being reported as a reduction to staff costs. Operating profit is stated after charging £200.5m of staff costs. Staff costs are disclosed in more detail in the Remuneration and Staff report on page 52.

<sup>1</sup> This relates to debt held with Ploughshare. There was a net reduction in the doubtful debt provision following receipt of a significant payment.

<sup>2</sup> The audit fee is £69,500 (2014/15: £76,392). During the years ending 31 March 2015 and 31 March 2016, the Group did not contract any non-audit services from its external auditor, the National Audit Office (NAO).

<sup>3</sup> Included within other operating income is grant funding contribution from MOD. See Note 10 for further details.

## 5. Significant operating items

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
i lab <sup>1</sup>	0.3	0.4	0.3	0.4
Helios <sup>2</sup>	3.6	1.3	3.6	1.3
Magazine and associated materials processing facilities <sup>3</sup>	0.3	1.7	0.3	1.7
Donated assets <sup>4</sup>	(0.3)	(1.8)	(0.3)	(1.8)
MOD Grant funding <sup>5</sup>	(7.5)	0.0	(7.5)	0.0

<sup>1</sup> Costs of withdrawal from the Trading Fund's sites at Farnborough and Malvern under the i lab rationalisation programme.

<sup>2</sup> Costs of withdrawal from the Trading Fund's site at Fort Halstead under the Helios Project.

<sup>3</sup> Cost of delay and design associated with review of incorporating additional processing facilities.

<sup>4</sup> Non-current plant and equipment donated by the Home Office and reported as other operating income.

<sup>5</sup> See Note 10 for further details.

## 6. Finance income

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
Interest received and receivable from bank accounts and short-term deposits	0.5	0.5	0.5	0.4
<b>Total</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>

## 7. Finance expense

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
Interest paid and payable on loans	0.6	0.7	0.6	0.7
<b>Total</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>

One payment was made under the Late Payments of Commercial Debts (Interest) Act 1998 of £5,277 (2014/15: £400).

## 8. Taxation

The Trading Fund is not subject to income or corporation tax in the UK under Section 829(2) of the Income and Corporation Taxes Act 1988, and consequently the requirements to account for current tax and deferred tax under IAS12 are not relevant to the Trading Fund. However, Ploughshare is liable to pay corporation tax in the UK on its taxable profits.

The tax charge on the profit on ordinary activities for the year was as follows:

	2016 Group £ million	2015 Group £ million
<b>Current tax:</b>		
UK corporation tax	0.0	0.0

The tax assessed for the year is lower than the standard rate of corporation tax in the UK.

The difference is explained below:

	2016 £ million	2015 £ million
Group profit on ordinary activities before tax	30.5	30.1
less Trading Fund profit (exempt) and consolidation adjustments on ordinary activities before tax	(30.2)	(29.8)
Profit on ordinary activities before tax	<b>0.3</b>	<b>0.3</b>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20 per cent (2014/15: 21 per cent)	0.1	0.1
Effects of:		
Income on disposal of assets	0.0	(1.2)
Unutilised trading losses carried forward	(0.1)	1.1
<b>Current tax (credit) / charge</b>	<b>0.0</b>	<b>0.0</b>

Ploughshare has unutilised gross trading losses carried forward of £6.4 million (2014/15: £6.6 million). No provisions for deferred tax have been made.

## 9. Dividends

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
Ordinary dividend payable	13.2	12.7	13.2	12.7
<b>Total</b>	<b>13.2</b>	<b>12.7</b>	<b>13.2</b>	<b>12.7</b>

Dividends payable to MOD are set by agreement with the Secretary of State for Defence. Payment will be made during the next financial year.

## 10. Property, plant and equipment

### Group and Trading Fund

The accounting policy for property, plant and equipment is covered in Note 1.

Property, plant and equipment movements during the year were as follows:

	Freehold land £ million	Freehold buildings £ million	Legacy facilities £ million	Plant and machinery £ million	Computers and office equipment £ million	Assets under construction £ million	Total £ million
<b>Valuations and gross modified historic cost:</b>							
Balance at 1 April 2015	40.9	180.9	0.1	97.7	23.3	44.2	387.1
Additions	0.0	0.1	0.0	0.8	0.2	25.0	26.1
Disposals	0.0	0.0	0.0	(1.4)	(0.1)	0.0	(1.5)
Transfers (additions)	0.0	0.1	0.0	0.5	11.9	(12.5)	0.0
Net transfers from intangible assets	0.0	0.0	0.0	0.0	0.0	2.7	2.7
Reclassified as non-capital spend	0.0	0.0	0.0	0.0	0.0	(0.4)	(0.4)
Revaluations	0.6	13.2	0.0	0.6	1.1	0.0	15.5
Impairment	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.1)
<b>Balance at 31 March 2016</b>	<b>41.5</b>	<b>194.3</b>	<b>0.1</b>	<b>98.2</b>	<b>36.4</b>	<b>58.9</b>	<b>429.4</b>

<b>Depreciation:</b>							
Balance at 1 April 2015	0.0	(29.1)	(0.1)	(62.3)	(11.9)	0.0	(103.4)
Charge for year:							
historical	0.0	(5.9)	0.0	(4.6)	(5.8)	0.0	(16.3)
supplementary	0.0	(1.9)	0.0	(0.8)	(1.0)	0.0	(3.7)
impairment	0.0	0.0	0.0	(0.3)	0.0	0.0	(0.3)
Disposals	0.0	0.0	0.0	1.4	0.1	0.0	1.5
Revaluations	0.0	1.0	0.0	0.0	0.0	0.0	1.0
<b>Balance at 31 March 2016</b>	<b>0.0</b>	<b>(35.9)</b>	<b>(0.1)</b>	<b>(66.6)</b>	<b>(18.6)</b>	<b>0.0</b>	<b>(121.2)</b>

Net modified historic cost:

<b>Balance at 31 March 2016</b>	<b>41.5</b>	<b>158.4</b>	<b>0.0</b>	<b>31.6</b>	<b>17.8</b>	<b>58.9</b>	<b>308.2</b>
Balance at 1 April 2015	40.9	151.8	0.0	35.4	11.4	44.2	283.7

Land and buildings are subject to a quinquennial revaluation by an independent, professional valuer in accordance with IAS16: Property, Plant and Equipment. Please refer to the Accounting Policy Notes 1 (c) and (e) for the basis of valuation.

The land at Portsdown Main has been declared surplus and is valued annually. The latest valuation was carried out as at 31 January 2016 on a Market Value basis by Alder King LLP, Property Consultants. The land and building assets at Portsdown West were valued by GVA Ltd, Chartered Surveyors as at 31 March 2013. A third of all building assets at Porton Down were valued by Alder King LLP, Property Consultants as at 31 March 2016. A third of all building assets at Porton Down were valued by Alder King LLP, Property Consultants as at 31 March 2015. The remaining third of Porton Down building assets were valued by GVA Ltd, Chartered Surveyors during the periods ending 31 March 2012 and 31 March 2014. The land at Porton Down was valued by GVA Ltd, Chartered Surveyors as at 31 March 2014.

The published figures for land and buildings include:

- a professional external valuation of Portsdown Main as at 31 January 2016
- a professional external valuation of the land and building assets at Portsdown West as at 31 March 2013
- a professional external valuation of the land at Porton Down as at 31 March 2014
- a professional external valuation of a third of the building assets at Porton Down as at 31 March 2016
- a professional external valuation of a third of the building assets at Porton Down as at 31 March 2015
- a professional external valuation of all of the remaining buildings at Porton Down for the periods ending 31 March 2012 and 31 March 2014.

The valuation of Portsdown Main remained unchanged.

Included within freehold land and freehold buildings are properties from which rental income is derived. These are not material and are not disclosed separately.

Included within assets under construction is a cost of £12.8 million that relates to the construction of the Large Energetics facility, partly funded by a grant contribution of £7.5 million from MOD. The grant revenue relates to the current period (2014/15: £nil), and is included within other operating income.

Included within assets under construction is an asset that was donated by the Home Office during the year. During the previous year, the Home Office donated 30 plant and machinery assets. A sub-set of the note is as follows:

	Plant and machinery £'000	Assets under construction £'000	Total £'000
<b>Valuations and gross modified historic costs:</b>			
Balance at 1 April 2015	1,829.3	0.0	1,829.3
Additions	0.0	314.7	314.7
Revaluations	10.1	0.0	10.1
<b>Balance at 31 March 2016</b>	<b>1,839.4</b>	<b>314.7</b>	<b>2,154.1</b>
<b>Depreciation:</b>			
Balance at 1 April 2015	(29.9)	0.0	(29.9)
Charge for year:			
historical	(359.0)	0.0	(359.0)
supplementary	(2.1)	0.0	(2.1)
<b>Balance at 31 March 2016</b>	<b>(391.0)</b>	<b>0.0</b>	<b>(391.0)</b>
Net modified historic cost:			
<b>Balance at 31 March 2016</b>	<b>1,448.4</b>	<b>314.7</b>	<b>1,763.1</b>
Balance at 1 April 2015	1,799.4	0.0	1,799.4

### Biological High Containment Facility

This facility enables the Trading Fund to maintain the UK strategic Sovereign Capability for assessing hazards from current and emerging chemical and biological threats. The facility is a separately identifiable cash generating unit comprising a group of assets, which is reported within the figures for freehold buildings, and plant and machinery.

An annual business-in-use valuation is performed on the facility, which includes cash flows from staff and facility income that are largely independent from other assets. The valuation includes capacity support income from MOD used to under-write any shortfall where the cost to run the facility exceeds turnover generated. The valuation for the facility is £8.3 million (2014/15: £9.1 million). The facility's remaining useful economic life is estimated to be 19 years (2014/15: 20 years). HM Treasury's nominal discount rate of 3.7 per cent has been applied to derive the net present value. For 2015, the Trading Fund's target ROCE of 3.5 per cent had been used.

The business-in-use valuation is sensitive to a variety of assumptions. The most significant include:

- the discount factor
- the percentage of shortfall covered by on-going capacity support income from MOD
- income generation from customer demand for the use of the facility by the Trading Fund's micro-biology scientists.

The Trading Fund has assumed full on-going capacity support throughout the facility's remaining useful economic life, and 3 per cent income-generating utilisation of the facility by microbiology scientists. The most significant factor that affects the valuation is capacity support. Assuming a discount factor of 3.7 per cent, and 3 per cent income generating utilisation of the facility by microbiology scientists, reducing capacity support to 50 per cent results in a net present value of minus £22.8 million, and assuming no capacity support would reduce the net present value to minus £54.0 million.

To enable a greater understanding of the sensitivity of the valuation to these variables, an analysis has been performed as follows:

		Facility utilisation by microbiology staff				
		0%	3%	30%	60%	90%
		£ million	£ million	£ million	£ million	£ million
<b>2% discount factor</b>						
Capacity support:	0%	(64.2)	(62.9)	(51.7)	(39.3)	(26.8)
	50%	(27.7)	(26.4)	(15.2)	(2.8)	9.7
	100%	8.8	10.0	21.3	33.7	46.2
<b>3.7% discount factor</b>						
Capacity support:	0%	(55.1)	(54.0)	(44.4)	(33.7)	(23.0)
	50%	(23.9)	(22.8)	(13.2)	(2.5)	8.2
	100%	7.3	8.3	18.0	28.7	39.3
<b>5% discount factor</b>						
Capacity support:	0%	(49.3)	(48.4)	(39.8)	(30.2)	(20.6)
	50%	(21.5)	(20.5)	(11.9)	(2.4)	7.2
	100%	6.3	7.3	15.9	25.5	35.1

The comparatives for the year ended 31 March 2015 are:

	Freehold land £ million	Freehold buildings £ million	Legacy facilities £ million	Plant and machinery £ million	Computers and office equipment £ million	Assets under construction £ million	Total £ million
<b>Valuations and gross modified historic cost:</b>							
Balance at 1 April 2014	40.5	167.0	0.1	92.5	14.8	38.3	353.2
Additions	0.0	0.0	0.0	2.1	0.2	18.3	20.6
Disposals	0.0	0.0	0.0	(0.6)	0.0	0.0	(0.6)
Transfers (additions)	0.0	1.7	0.0	1.9	8.8	(12.4)	0.0
Downward revaluation	0.0	0.0	0.0	0.0	(0.5)	0.0	(0.5)
Revaluations	0.4	12.2	0.0	1.8	0.0	0.0	14.4
<b>Balance at 31 March 2015</b>	<b>40.9</b>	<b>180.9</b>	<b>0.1</b>	<b>97.7</b>	<b>23.3</b>	<b>44.2</b>	<b>387.1</b>
<b>Depreciation:</b>							
Balance at 1 April 2014	0.0	(27.5)	(0.1)	(56.6)	(9.0)	0.0	(93.2)
Charge for year:							
historical	0.0	(5.3)	0.0	(4.3)	(3.7)	0.0	(13.3)
supplementary	0.0	(1.1)	0.0	(1.3)	0.0	0.0	(2.4)
downward revaluation	0.0	0.0	0.0	0.0	0.8	0.0	0.8
impairment	0.0	0.0	0.0	(0.7)	0.0	0.0	(0.7)
Disposals	0.0	0.0	0.0	0.6	0.0	0.0	0.6
Revaluations	0.0	4.8	0.0	0.0	0.0	0.0	4.8
<b>Balance at 31 March 2015</b>	<b>0.0</b>	<b>(29.1)</b>	<b>(0.1)</b>	<b>(62.3)</b>	<b>(11.9)</b>	<b>0.0</b>	<b>(103.4)</b>
<b>Net modified historic cost:</b>							
<b>Balance at 31 March 2015</b>	<b>40.9</b>	<b>151.8</b>	<b>0.0</b>	<b>35.4</b>	<b>11.4</b>	<b>44.2</b>	<b>283.7</b>
Balance at 1 April 2014	40.5	139.5	0.0	35.9	5.8	38.3	260.0

## 11. Non-current financial assets

	Trading Fund subsidiary undertaking £ million	Trading Fund associate £ million	Trading Fund Total £ million	Group investments and associate £ million	Group Total £ million
<b>Cost or valuation:</b>					
Balance at 1 April 2015	3.7	0.0	3.7	2.3	2.3
Additions <sup>1</sup>	0.0	0.0	0.0	0.1	0.1
Revaluations <sup>2</sup>	0.0	0.0	0.0	(1.9)	(1.9)
<b>Balance at 31 March 2016</b>	<b>3.7</b>	<b>0.0</b>	<b>3.7</b>	<b>0.5</b>	<b>0.5</b>

<sup>1</sup> During the year, Subsea Asset Location Technologies Ltd (SALT) sold certain non-core intellectual property to a newly established company, SALT Aviation Recovery Assistance Ltd (SARA). Ploughshare invested £0.1 million in SARA alongside other existing shareholders of SALT, which maintains similar common ownership of the intellectual property.

<sup>2</sup> All available-for-sale investments owned by the Group are held by Ploughshare. A valuation of the available-for-sale investments has been performed by Ploughshare. These valuations have been adopted by the Board, and have been incorporated into the Group accounts on consolidation of the subsidiary undertaking.

Ploughshare derives fair value by following the BVCA Guidelines. Its approach is by application of the price of most recent investment to the number of shares held, and discounting by an appropriate market-based factor. Ploughshare, which manages the Group's equity investments, is able to apply market intelligence to the valuations.

The movement in valuation of the Group's available-for-sale investments is detailed below:

	2016 £'000	2015 £'000	Movement £'000
Claresys Ltd	64.2	409.1	(344.9)
Enigma Diagnostics Ltd	0.0	1,712.2	(1,712.2)
Esroe Ltd	144.0	54.1	89.9
SALT	167.3	129.4	37.9
			<b>(1,929.3)</b>

The valuation of Enigma has been reduced to zero due to the necessity for additional funding to get its product to market. At the Statement of Financial Position date, additional funding had not been secured.

Further details of the subsidiary and associate owned directly by the Trading Fund as at 31 March 2016 are shown below:

Name of company	Principal area of operation and country of incorporation	Proportion of voting rights and shares held	Class of shares held	Last financial year ended	Turnover £ million	Profit for year £ million	Total assets £ million	Total liabilities £ million	Aggregate capital and reserves £ million	Nature of business
<b>Subsidiary</b>										
Ploughshare Innovations Ltd	Great Britain	100%	Ordinary of £1	31 March 2016	2.5	0.3	3.0	2.9	0.1	Technology transfer management

Draft statutory accounts for the year ended 31 March 2016 have been used due to a different timetable for preparing audited accounts.

<b>Associate</b>										
Tetricus Ltd	Great Britain	33.3%	Ordinary C of £1	31 March 2016	0.4	0.0	0.3	0.1	0.2	Business support to biotechnology start-ups

Management accounts for 12 months to the year ended 31 March 2016 have been used due to a different timetable for preparing audited accounts.

The comparatives for the year ended 31 March 2015 are:

	Trading Fund subsidiary undertaking £ million	Trading Fund associate £ million	Trading Fund Total £ million	Group investments and associate £ million	Group Total £ million
<b>Cost or valuation:</b>					
Balance at 1 April 2014	0.0	0.0	0.0	2.5	2.5
Additions	3.7	0.0	3.7	0.0	0.0
Disposals	0.0	0.0	0.0	(2.0)	(2.0)
Revaluations	0.0	0.0	0.0	1.8	1.8
<b>Balance at 31 March 2015</b>	<b>3.7</b>	<b>0.0</b>	<b>3.7</b>	<b>2.3</b>	<b>2.3</b>

Further details of the subsidiary and associate owned directly by the Trading Fund as at 31 March 2015 are shown below:

Name of company	Principal area of operation and country of incorporation	Proportion of voting rights and shares held	Class of shares held	Last financial year ended	Turnover £ million	Profit for year £ million	Total assets £ million	Total liabilities £ million	Aggregate capital and reserves £ million	Nature of business
<b>Subsidiary</b>										
Ploughshare Innovations Ltd	Great Britain	100%	Ordinary of £1	31 March 2015	0.7	0.3	5.6	3.1	2.5	Technology transfer management

Draft statutory accounts for the year ended 31 March 2015 were used due to a different timetable for preparing audited accounts.

<b>Associate</b>										
Tetricus Ltd	Great Britain	33.3%	Ordinary C of £1	31 March 2015	0.4	0.1	0.3	0.1	0.2	Business support to biotechnology start-ups

Management accounts for 12 months to the year ended 31 March 2015 were used due to a different timetable for preparing audited accounts.

## 12. Intangible assets

### Group and Trading Fund

The accounting policy for intangible assets is covered in Note 1. Intangible asset movements during the year were:

	Purchased software licences £ million	Software assets under construction £ million	Total £ million
<b>Gross modified historic cost:</b>			
Balance at 1 April 2015	9.7	7.0	16.7
Additions	0.0	1.9	1.9
Transfers (additions)	3.2	(3.2)	0.0
Net transfers to property, plant and equipment	0.0	(2.7)	(2.7)
Reclassified as non-capital spend	0.0	(0.3)	(0.3)
Revaluations	0.1	0.0	0.1
<b>Balance at 31 March 2016</b>	<b>13.0</b>	<b>2.7</b>	<b>15.7</b>
<b>Amortisation:</b>			
Balance at 1 April 2015	(5.8)	0.0	(5.8)
Charge for year:			
historical	(1.8)	0.0	(1.8)
supplementary	(0.1)	0.0	(0.1)
<b>Balance at 31 March 2016</b>	<b>(7.7)</b>	<b>0.0</b>	<b>(7.7)</b>
Net modified historic cost:			
<b>Balance at 31 March 2016</b>	<b>5.3</b>	<b>2.7</b>	<b>8.0</b>
Balance at 1 April 2015	3.9	7.0	10.9

The comparatives for the year ended 31 March 2015 are:

	Purchased software licences £ million	Software assets under construction £ million	Total £ million
<b>Gross modified historic cost:</b>			
Balance at 1 April 2014	6.6	5.3	11.9
Additions	0.0	4.8	4.8
Transfers	3.1	(3.1)	0.0
<b>Balance at 31 March 2015</b>	<b>9.7</b>	<b>7.0</b>	<b>16.7</b>
<b>Amortisation:</b>			
Balance at 1 April 2014	(4.2)	0.0	(4.2)
Charge for year:			
historical	(1.5)	0.0	(1.5)
supplementary	(0.1)	0.0	(0.1)
<b>Balance at 31 March 2015</b>	<b>(5.8)</b>	<b>0.0</b>	<b>(5.8)</b>
Net modified historic cost:			
<b>Balance at 31 March 2015</b>	<b>3.9</b>	<b>7.0</b>	<b>10.9</b>
Balance at 1 April 2014	2.4	5.3	7.7

## 13. Impairments

Impairments occurring during the year were either charged to profit or loss, or other comprehensive income as follows:

Group	Note	2016	2015	2016	2015
		Profit or Loss £ million	Profit or Loss £ million	Other Comprehensive Income £ million	Other Comprehensive Income £ million
Investment in Enigma Diagnostics Ltd	11	0.0	0.0	1.7	0.0
Investment in Claresys Ltd	11	0.0	0.0	0.3	0.0
Biological High Containment Facility	10	0.3	0.7	0.0	0.0
Buildings (including MHCA*)	10	0.4	0.3	1.2	2.5
Plant and machinery (MHCA)	10	0.1	0.2	0.3	0.0
Computer equipment (MHCA)	10	0.1	0.8	0.0	0.0
<b>Total</b>		<b>0.9</b>	<b>2.0</b>	<b>3.5</b>	<b>2.5</b>

\* Modified Historic Cost Accounting

## Trading Fund

Trading Fund	Note	2016	2015	2016	2015
		Profit or Loss £ million	Profit or Loss £ million	Other Comprehensive Income £ million	Other Comprehensive Income £ million
Biological High Containment Facility	10	0.3	0.7	0.0	0.0
Buildings (including MHCA)	10	0.4	0.3	1.2	2.5
Plant and machinery (MHCA)	10	0.1	0.2	0.3	0.0
Computer equipment (MHCA)	10	0.1	0.8	0.0	0.0
<b>Total</b>		<b>0.9</b>	<b>2.0</b>	<b>1.5</b>	<b>2.5</b>

## 14. Work in progress

	2016	2015	2016	2015
	Group £ million	Group £ million	Trading Fund £ million	Trading Fund £ million
Central Government bodies	2.8	2.6	2.8	2.6
Non-public sector organisations	0.1	0.2	0.1	0.2
<b>Total</b>	<b>2.9</b>	<b>2.8</b>	<b>2.9</b>	<b>2.8</b>

## 15. Trade receivables and other current assets

Amounts falling due within one year:

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
<b>Trade receivables</b>	<b>43.1</b>	<b>37.3</b>	<b>42.8</b>	<b>37.2</b>
Central Government bodies	40.9	35.9	40.9	35.9
Non-public sector organisations	2.2	1.4	1.9	1.3
<b>Amounts recoverable under contracts</b>	<b>149.5</b>	<b>171.3</b>	<b>149.5</b>	<b>171.3</b>
Central Government bodies	148.0	169.9	148.0	169.9
Non-public sector organisations	1.5	1.4	1.5	1.4
<b>Deposits and advances – staff receivables</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
<b>Other receivables</b>	<b>3.4</b>	<b>0.5</b>	<b>3.4</b>	<b>0.5</b>
Central Government bodies	0.4	0.5	0.4	0.5
Non-public sector organisations	3.0	0.0	3.0	0.0
<b>Prepayments and accrued income</b>	<b>6.9</b>	<b>5.4</b>	<b>6.3</b>	<b>5.4</b>
Central Government bodies	1.0	0.0	1.0	0.0
Local authorities	0.7	0.8	0.7	0.8
Non-public sector organisations	5.2	4.6	4.6	4.6
<b>Total</b>	<b>203.2</b>	<b>214.8</b>	<b>202.3</b>	<b>214.7</b>
<b>Short-term investments – Non-public sector organisations</b>	<b>0.0</b>	<b>5.0</b>	<b>0.0</b>	<b>5.0</b>
<b>Total</b>	<b>0.0</b>	<b>5.0</b>	<b>0.0</b>	<b>5.0</b>

Amounts falling due after more than one year:

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
<b>Deposits and advances – staff receivables</b>	<b>0.5</b>	<b>0.6</b>	<b>0.5</b>	<b>0.6</b>
<b>Total</b>	<b>0.5</b>	<b>0.6</b>	<b>0.5</b>	<b>0.6</b>

## 16. Cash and cash equivalents

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
Balance brought forward	75.0	78.5	72.8	77.8
Net change in cash and cash equivalent balances	3.4	(3.5)	4.1	(5.0)
<b>Balance carried forward</b>	<b>78.4</b>	<b>75.0</b>	<b>76.9</b>	<b>72.8</b>
The following balances were held at:				
Commercial banks – cash	73.4	70.0	71.9	67.8
Debt Management Office – short-term investments	5.0	5.0	5.0	5.0
<b>Balance carried forward</b>	<b>78.4</b>	<b>75.0</b>	<b>76.9</b>	<b>72.8</b>

## 17. Trade payables and other liabilities

Amounts falling due within one year:

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
<b>Current part of long-term loan payable to MOD</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>
<b>VAT</b>	<b>7.1</b>	<b>6.6</b>	<b>6.8</b>	<b>6.2</b>
<b>Other taxation and social security</b>	<b>5.4</b>	<b>5.3</b>	<b>5.3</b>	<b>5.2</b>
<b>Payments received on account</b>	<b>9.2</b>	<b>11.9</b>	<b>9.2</b>	<b>11.9</b>
Central Government bodies	5.5	8.6	5.5	8.6
Non-public sector organisations	3.7	3.3	3.7	3.3
<b>Trade payables</b>	<b>29.5</b>	<b>45.8</b>	<b>29.5</b>	<b>45.8</b>
Central Government bodies	0.5	2.2	0.5	2.2
Trading funds	0.0	0.1	0.0	0.1
NHS Trusts	0.1	0.0	0.1	0.0
Local authorities	2.3	1.8	2.3	1.8
Non-public sector organisations	26.6	41.7	26.6	41.7
<b>Other payables</b>	<b>4.8</b>	<b>5.6</b>	<b>4.8</b>	<b>5.6</b>
Central Government bodies	4.7	5.6	4.7	5.6
Non-public sector organisations	0.1	0.0	0.1	0.0
<b>Pay and expenses – staff payables</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>
<b>Accruals and deferred income</b>	<b>87.6</b>	<b>89.0</b>	<b>87.0</b>	<b>88.9</b>
Central Government bodies	8.9	3.0	8.9	3.0
Trading funds	0.1	0.0	0.1	0.0
NHS Trusts	0.0	0.1	0.0	0.1
Local authorities	8.4	2.5	8.4	2.5
Non-public sector organisations	69.3	81.6	68.7	81.5
Staff	0.9	1.8	0.9	1.8
<b>Dividend</b>	<b>13.2</b>	<b>12.7</b>	<b>13.2</b>	<b>12.7</b>
<b>Total</b>	<b>163.8</b>	<b>183.9</b>	<b>162.8</b>	<b>183.3</b>

Amounts falling due after more than one year:

	2016 Group £ million	2015 Group £ million	2016 Trading Fund £ million	2015 Trading Fund £ million
<b>Non-current part of long-term loan payable to MOD</b>	<b>9.7</b>	<b>12.9</b>	<b>9.7</b>	<b>12.9</b>
<b>Accruals and deferred income – Central Government bodies</b>	<b>1.8</b>	<b>0.0</b>	<b>1.8</b>	<b>0.0</b>
<b>Total</b>	<b>11.5</b>	<b>12.9</b>	<b>11.5</b>	<b>12.9</b>

With the exception of long-term loans, long-term creditors are held undiscounted.

## 18. Provisions for liabilities and charges

### Group and Trading Fund

	Onerous contracts £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Balance at 1 April 2015	1.1	0.1	0.4	0.0	0.2	1.8
Provided in the year	0.0	0.0	0.0	0.8	3.7	4.5
Provisions utilised in the year	0.0	0.0	(0.2)	(0.8)	(3.8)	(4.8)
<b>Balance at 31 March 2016</b>	<b>1.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>1.5</b>

### Analysis of expected timing of cash flows:

	Onerous contracts £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Between 1 April 2016 and 31 March 2017	0.0	0.1	0.1	0.0	0.1	0.3
Between 1 April 2017 and 31 March 2018	0.0	0.0	0.1	0.0	0.0	0.1
Between 1 April 2018 and 31 March 2023	1.1	0.0	0.0	0.0	0.0	1.1
<b>Balance at 31 March 2016</b>	<b>1.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>1.5</b>

No amounts are expected to be called after 31 March 2028 and therefore no further analysis is necessary for amounts after this date. The provisions have not been discounted. The effect of discounting is not material.

### Onerous contracts

A lease is in place for a facility (owned by the Trading Fund) to remain at the Farnborough site. This defers a dilapidation obligation under the Farnborough lease to beyond a year. The current expiry date of the lease is 31 March 2020, and therefore utilisation may not be until beyond this date.

### Remediation

As freehold owner of the Portsdown Main site, the Trading Fund has an obligation to clear, remove and safely dispose of hazardous waste. The hazardous waste had been left by a contractor who had use of the site.

### i lab (rationalisation programme) provisions

Due to the Trading Fund's withdrawal from the Farnborough and Malvern sites, there have been redundancies for some non-mobile staff. The provision is not expected to be fully utilised until the year ending 31 March 2018, although a liability of less than £0.1 million will remain after this date, until the year ending 31 March 2020.

### Helios Project provisions

Due to a phased withdrawal from the Fort Halstead site, there have been some voluntary redundancies for non-mobile staff.

### Early departure costs

The Trading Fund meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Trading Fund provides for this in full when the early retirement agreement becomes binding. Payment values are established by the Cabinet Office (My Civil Service Pension). During the year, there were two targeted Voluntary Early Exit schemes, which together cost £3.2 million and others amounting to £1.3 million. A provision was established during the year, which was fully utilised.

The comparatives for the year ended 31 March 2015 are:

### Group and Trading Fund

	Onerous contracts £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Balance at 1 April 2014	1.1	0.0	0.7	0.1	0.1	2.0
Provided in the year	0.0	0.1	0.0	0.0	0.6	0.7
Provisions not required written-back	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Provisions utilised in the year	0.0	0.0	(0.3)	0.0	(0.5)	(0.8)
<b>Balance at 31 March 2015</b>	<b>1.1</b>	<b>0.1</b>	<b>0.4</b>	<b>0.0</b>	<b>0.2</b>	<b>1.8</b>

Analysis of expected timing of cash flows:

	Onerous contracts £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Between 1 April 2015 and 31 March 2016	0.0	0.1	0.2	0.0	0.2	0.5
Between 1 April 2016 and 31 March 2017	0.0	0.0	0.1	0.0	0.0	0.1
Between 1 April 2017 and 31 March 2022	1.1	0.0	0.1	0.0	0.0	1.2
<b>Balance at 31 March 2015</b>	<b>1.1</b>	<b>0.1</b>	<b>0.4</b>	<b>0.0</b>	<b>0.2</b>	<b>1.8</b>

## 19. Long-term loans

	2016 Group and Trading Fund £ million	2015 Group and Trading Fund £ million
Balance brought forward	16.1	19.3
Repayment of loan	(3.2)	(3.2)
<b>Balance carried forward</b>	<b>12.9</b>	<b>16.1</b>

A £21.5 million loan was received from MOD on 11 September 2008 and is repayable by instalments until 31 March 2020. Interest is charged at 4.53 per cent per annum. The interest rate is fixed for the duration of the loan. A further loan of £10.7 million was received from MOD on 15 October 2009, and is repayable by instalments until 31 March 2020. Interest is charged at 2.75 per cent per annum. The interest rate is fixed for the duration of the loan.

	2016 Group and Trading Fund £ million	2015 Group and Trading Fund £ million
Analysis of repayments:		
Within one year	3.2	3.2
After one year but within two years	3.2	3.2
After two years but within five years	6.5	9.7
<b>Total</b>	<b>12.9</b>	<b>16.1</b>

The carrying amount of the loan, following amortisation using the effective interest rate method, is as follows:

	2016 Group and Trading Fund £ million	2015 Group and Trading Fund £ million
Balance brought forward	16.1	19.3
Repayment of principal	(3.2)	(3.2)
<b>Balance carried forward</b>	<b>12.9</b>	<b>16.1</b>

## 20. Commitments under leases

### Operating leases

Commitments under non-cancellable operating leases to pay rentals after 31 March 2016 are analysed as follows:

	2016 Group and Trading Fund £ million	2015 Group and Trading Fund £ million
<b>Property:</b>		
Due within one year	3.8	4.1
Due after one year but within five years	14.2	15.4
<b>Total</b>	<b>18.0</b>	<b>19.5</b>

The Group leases various properties, including land, under short-term cancellable operating lease agreements. There is only one significant lease – the property at Fort Halstead. To cancel the lease, a notice period of not less than five years is required of the Group. The landlord does not have a right to cancel. No renewal or purchase options exist. There is a rent review every five years, performed on a Market Value basis. The last review was performed for 1 April 2012. There is no contingent rent or any significant restrictions concerning the use of the property.

## 21. Capital commitments

	2016 Group and Trading Fund £ million	2015 Group and Trading Fund £ million
<b>Property, plant and equipment:</b>		
Capital expenditure that has been contracted for but has not been provided for in the accounts	24.9	14.1
Capital expenditure that has been authorised but has not been provided for in the accounts	65.6	90.0
<b>Intangible assets:</b>		
Capital expenditure that has been contracted for but has not been provided for in the accounts	0.3	1.1
Capital expenditure that has been authorised but has not been provided for in the accounts	0.5	0.6

The Trading Fund has obtained Ministerial approval for the Helios Project, which will result in migration away from the Fort Halstead site and the construction of replacement facilities at Porton Down. Ministerial approval of £115 million at 2013 prices was granted, which has been revised for inflation to a total expected cost of £119 million comprising both revenue and capital amounts. Some construction elements of the project remain in the design phase prior to tendering, and the final approval based on confirmed costs is not expected until autumn 2016. Within the figures above there is £19.8 million that has been contracted but not provided for, and a further £62.4 million that has been provisionally authorised subject to tender.

## 22. Financial instruments

Financial assets and liabilities are recognised where the Group has become a party to contractual terms of a financial instrument.

The Trading Fund and its subsidiary undertaking's principal financial instruments comprise cash, short-term deposits and long-term borrowings. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments, such as trade receivables and trade payables, that arise directly from its operations. The Group has no embedded derivatives that require separation from their host contract and measurement at fair value through profit or loss. It has been the Group's policy throughout the year that no trading in financial instruments should be undertaken.

### Categories of financial instrument

Trade and other receivables, and cash and cash equivalents, have been classified as loans and receivables. Trade and other payables have been classified as other financial liabilities. The fair value of these financial assets and financial liabilities approximates carrying value due to the short-term nature of these financial instruments. The loan received from MOD has been classified as other financial liabilities and is held at amortised cost using the effective interest rate method. The carrying value of the loan is shown in Note 19. Equity holdings of the group are classified as available-for-sale investments and are disclosed in Note 11. The main risks arising from the Group's financial instruments are liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks. These policies have remained unchanged throughout the year. The category of financial instrument that has produced finance income received and receivable, and the category of financial instrument that has produced finance charges paid and payable, are disclosed in Notes 6 and 7.

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank current account facilities and investment of surplus funds in short-term, interest-bearing accounts. For the Group, liquidity risk primarily relates to managing payment and receipt of trade and other payables, and of trade and other receivables, arising out of normal operations. This is managed through matching of credit terms with suppliers and customers.

The following is an analysis of financial liabilities by remaining contractual maturity:

	Matures within 1 year £ million	Matures between 1 and 2 years £ million	Matures between 2 and 3 years £ million	Matures between 3 and 4 years £ million	Matures between 4 and 5 years £ million	Matures after more than 5 years £ million
Trade payables	29.5	0.0	0.0	0.0	0.0	0.0
Other payables:						
Staff / payroll	3.8	0.0	0.0	0.0	0.0	0.0
Taxation and social security	12.5	0.0	0.0	0.0	0.0	0.0
Payments on account	9.2	0.0	0.0	0.0	0.0	0.0
Other	4.8	0.0	0.0	0.0	0.0	0.0
Accruals and deferred income	87.6	0.2	0.2	0.2	0.2	1.0
Provisions	0.3	0.1	0.0	1.1	0.0	0.0
Loan provided by MOD: Principal	3.2	3.2	3.2	3.3	0.0	0.0
Dividend	13.2	0.0	0.0	0.0	0.0	0.0
<b>Total financial liabilities</b>	<b>164.1</b>	<b>3.5</b>	<b>3.4</b>	<b>4.6</b>	<b>0.2</b>	<b>1.0</b>

The liquidity risks inherent in this are met by close management of the Group's financial assets. Amounts recoverable under contract are invoiced weekly or monthly in accordance with contract terms, and the receipts are invested on short-term deposits designed to mature when liabilities fall due. The following is a maturity analysis of financial assets:

	Matures within 1 year £ million	Matures between 1 and 2 years £ million	Matures between 2 and 3 years £ million	Matures between 3 and 4 years £ million	Matures between 4 and 5 years £ million	Matures after more than 5 years £ million
Work in progress	2.9	0.0	0.0	0.0	0.0	0.0
Trade receivables	43.1	0.0	0.0	0.0	0.0	0.0
Amounts recoverable under contract	149.5	0.0	0.0	0.0	0.0	0.0
Prepayments	6.9	0.0	0.0	0.0	0.0	0.0
Other receivables:						
Staff	0.3	0.1	0.1	0.1	0.0	0.2
Other	3.4	0.0	0.0	0.0	0.0	0.0
<b>Total financial assets</b>	<b>206.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.2</b>

## Market risk

### Foreign currency risk:

The Group has limited transactional currency exposures. Such exposures arise from the sales or purchases by an operating unit in currencies other than sterling and, for staff who are posted overseas, payment of salaries in the host currency. Foreign currency contracts require approval from the Finance Director. It is the Trading Fund's policy to include a clause that allows for the price of a foreign currency sales contract to be revised if the relevant exchange rate fluctuates by more than 2.5 per cent during the life of the contract. This clause enables the Trading Fund to reserve the right to revise the price but it is not routinely exercised. The Group does not use forward currency contracts to eliminate such exposure to currency losses.

As at 31 March 2016, the Group's exposure to currency exchange movements, denominated in sterling, is:

	US Dollar £'000	Euro £'000
Assets	1,917.0	136.3
Liabilities	267.8	5.9

No sensitivity analysis has been performed because the exposure to currency exchange movement risk is not material.

### Interest rate risk:

There is no interest rate risk in respect of short-term investments. All investments are at a fixed rate.

As at 31 March 2016, the Group's investments at fixed rates are:

Counterparty	Maturity date	Amount invested £ million	Rate %
Debt Management Office	8 April 2016	5.0	0.25

There is no interest rate risk with the two loans repayable to MOD. The interest rates are fixed.

	Date provided	Maturity date	Principal £ million	Rate %
Loan from MOD	11 September 2008	31 March 2020	21.5	4.53
Loan from MOD	15 October 2009	31 March 2020	10.7	2.75

### Credit risk:

Exposure to credit risk is low. All work is performed under contract terms. More than 90 per cent of trading is undertaken with the Group's immediate owner, MOD, and more than 95 per cent of trading is undertaken with wider Government. All non-Exchequer parties are credit checked prior to contract agreement and are regularly monitored. The standard term negotiated with both customers and suppliers is a 30-day credit period.

The following disclosure provides details of the Group's trade receivables that are beyond their due date:

0 - 90 days £ million	91 - 180 days £ million	Over 180 days £ million
11.1	2.7	1.5

The Group has not made a doubtful debt provision because there are no indications of any improbable recovery.

The maximum exposure to credit risk can be broken down as follows:

	£ million	£ million
Trade receivables		43.1
Amounts recoverable under contract		149.5
Other receivables:		
Other	3.4	
Staff loans, advances and imprests	0.8	
		4.2
Cash and cash equivalents:		
Cash at bank – Lloyds Bank	71.9	
Cash at bank – HSBC	0.2	
Cash at bank – Santander Bank	1.3	
Short-term investments – Debt Management Office	5.0	
		78.4
<b>Maximum exposure to credit risk</b>		<b>275.2</b>

The amount quoted above is the technical maximum, quantitative exposure but, within this, £178.8 million relates to MOD. Credit risk with MOD is minimal since it is a central Government department, and is the Group's immediate Owner.

No capital disclosures are necessary. A buffer for risk to creditors does not arise because public sector financing is tax based. No further disclosure is necessary to enable the Group's overall financial position, performance and cash flows to be understood.

## 23. Public dividend capital

### Group and Trading Fund

The FReM interprets public dividend capital as equity.

	2016 £ million	2015 £ million
Balance brought forward	50.4	50.4
<b>Balance carried forward</b>	<b>50.4</b>	<b>50.4</b>

## 24. Related-party transactions

Dstl is a Trading Fund owned by MOD.

### MOD

MOD is regarded as a related party. During the year, the Trading Fund had various material transactions with MOD and all transactions were carried out under contract terms and subject to the normal course of internal and external audit:

	2016 £'000	2015 £'000
Sales	577,127.6	611,692.1
Purchases	22,659.2	19,100.2
Receivables	178,800.6	194,527.7
Payables	21,424.6	23,476.5

Sales include £13,501.1 thousand of other operating income (2014/15: £3,841.3 thousand), which includes grant funding of £7,500 thousand (2014/15: £nil). See Note 10 for further details. In addition to purchases, an ordinary dividend of £13.2 million, payable to MOD, was agreed (2014/15: £12.7 million). Interest paid and payable on the loans totalled £0.6 million, measured at amortised cost using the effective interest rate method (2014/15: £0.7 million). Repayments of the principal during the year totalled £3.2 million. Final repayment is due on 31 March 2020. See Note 19.

### Ploughshare Innovations Ltd

Ploughshare is a wholly owned subsidiary undertaking of the Trading Fund. Details are provided in Note 11.

Inter-company trading has been eliminated on consolidation using the purchase method. During the year, the following trading occurred with Ploughshare, which was carried out under standard contract terms:

	2016 £'000	2015 £'000
Sales and other operating income	342.9	419.0
Purchases and expenses	130.7	110.2
Receivables	12.3	30.1
Payables	0.0	0.0

During the previous year, the Trading Fund had maintained a full doubtful debt provision for Ploughshare totalling £2,809.1 thousand, which offset the current account. During the year, £1,050.2 thousand of the debt owed by Ploughshare was paid. The provision for the doubtful debt was reversed to reflect this, resulting in a credit of £882.3 thousand (net of VAT) to profit or loss. A full doubtful debt provision has been maintained to include sales made to Ploughshare during the year. This has resulted in a total provision of £2,157.2 thousand, and a charge to profit or loss of £342.9 thousand.

Ownership of the Trading Fund's holdings in its available-for-sale investment with Remo Technologies Ltd transferred to Ploughshare during the reporting year ended 31 March 2007. Ownership of the Trading Fund's holdings in its available-for-sale investment with Enigma transferred to Ploughshare during the reporting year ended 31 March 2013.

### Available-for-sale investments and associate

Details of the available-for-sale investments and the associate, Tetricus Ltd, are provided in Note 11. During the year, the following trading occurred with these entities, which was carried out under standard contract terms:

	Sales		Purchases		Receivables		Payables	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Claresys Ltd	21.9	33.4	0.0	0.0	19.6	0.0	0.0	0.0
Esroe Ltd	45.0	0.0	0.0	0.0	138.0	84.0	0.0	0.0
Subsea Asset Location Technologies Ltd (SALT)	9.8	7.8	0.0	0.0	0.0	0.0	0.0	0.0
Tetricus Ltd	242.6	134.4	0.0	0.0	3.3	0.0	0.0	0.0

J Kirby is on the Board of Directors of Ploughshare, and is a director in common with Subsea Asset Location Technologies Ltd.

R Drummond is on the Board of Directors of Ploughshare, and is a director in common with Subsea Asset Location Technologies Ltd.

S Callister is on the Board of Directors of Ploughshare, and is a director in common with Claresys Ltd and Esroe Ltd.

## Other public sector bodies

Other public sector bodies are regarded as related parties by virtue of being under the same common control. During the year, the Group had various material transactions with certain public sector bodies. All transactions are carried out on standard contract terms and are subject to the normal course of internal and external audit.

	Sales		Purchases		Receivables		Payables	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Cabinet Office (excluding PCSPS)	144.2	25.2	76.7	65.2	86.2	0.0	8.6	7.8
Centre for Applied Science and Technology	720.0	641.0	11.4	0.0	0.0	109.2	11.4	0.0
Centre for Protection of National Infrastructure	0.0	46.9	0.0	14.8	0.0	37.7	0.0	0.0
Defence Electronics and Components Agency	10.1	73.1	6.4	34.9	3.0	32.8	0.0	14.6
Department for Energy and Climate Change	246.0	330.8	0.0	0.0	127.8	178.8	0.0	0.0
Department for the Environment, Food and Rural Affairs	312.4	516.0	59.7	107.0	26.2	146.2	2.3	40.9
Department for Transport	3,922.4	4,308.5	50.8	54.9	1,102.7	1,751.0	15.0	26.7
Drinking Water Inspectorate	0.0	18.2	0.0	0.0	0.0	0.0	0.0	0.0
Economic and Social Research Council	150.0	0.0	161.4	214.5	0.0	0.0	7.4	6.0
Engineering and Physical Sciences Research Council	0.0	0.0	2,200.4	489.3	0.0	0.0	548.3	141.2
Foreign and Commonwealth Office	59.9	64.9	0.1	23.1	35.6	9.9	0.0	8.5
Government Communications Bureau	9,331.1	8,679.6	433.4	1,885.4	4,078.3	4,012.3	481.6	2,210.8
Government Communications Centre	6,766.0	4,195.9	238.3	16.8	1,760.9	1,573.4	123.7	195.7
Health and Safety Executive	0.0	0.0	0.3	0.3	0.0	0.0	0.0	0.0
Health and Safety Laboratory	0.0	0.0	47.2	2.8	0.0	0.0	22.7	0.5
Home Office	8,397.5	11,080.8	96.0	87.9	2,484.6	2,759.4	127.6	204.9
Innovate UK	477.0	1,842.6	2,613.9	2,017.7	11.0	491.3	2,294.4	26.6
Meteorological Office	4.2	1.6	1,060.7	1,171.3	0.0	0.0	6.5	96.3
Public Health England	1,317.8	852.3	1,165.6	1,490.1	364.2	264.5	123.3	1,086.0
Science and Technology Facilities Council	0.0	0.0	486.8	171.7	0.0	0.0	0.0	20.8
UK Space Agency	313.6	291.7	0.0	0.0	26.9	0.0	0.0	0.0
Cabinet Office – PCSPS	0.0	0.0	41,559.1	35,384.8	0.0	0.0	7,626.5	4,308.6
HM Revenue and Customs:								
Employer's and Employees' Income Tax and National Insurance	0.0	0.0	45,230.8	44,767.4	0.0	0.0	5,688.4	5,515.9
VAT	0.0	0.0	48,102.9	36,820.8	0.0	0.0	6,840.2	6,192.5

No Minister, Board member, key manager or other related parties has undertaken any material transactions with the Group during the year. Any compensation paid to senior management is disclosed in the Remuneration and Staff Report.

## 25. Contingent liabilities

There were no contingent liabilities at 31 March 2016 or 31 March 2015.

## 26. Events after the reporting period

The result of the referendum held on 23 June 2016 was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made.

# Dstl's nine priority S&T capabilities



**Analysis**



**Platform  
Systems**

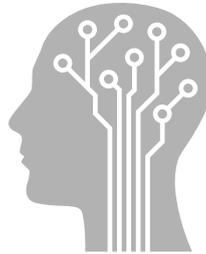


**Weapons**



**C4ISR**

Command, Control,  
Communication,  
Computers, Intelligence,  
Surveillance  
and Reconnaissance



**Human  
Capability**



**Counter-  
Terrorism (CT)  
and Security**

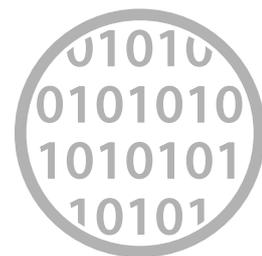


**CBR**

Chemical, Biological  
and Radiological



**Integrated  
Survivability**



**Cyber**



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For more information about Dstl's work, visit  
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