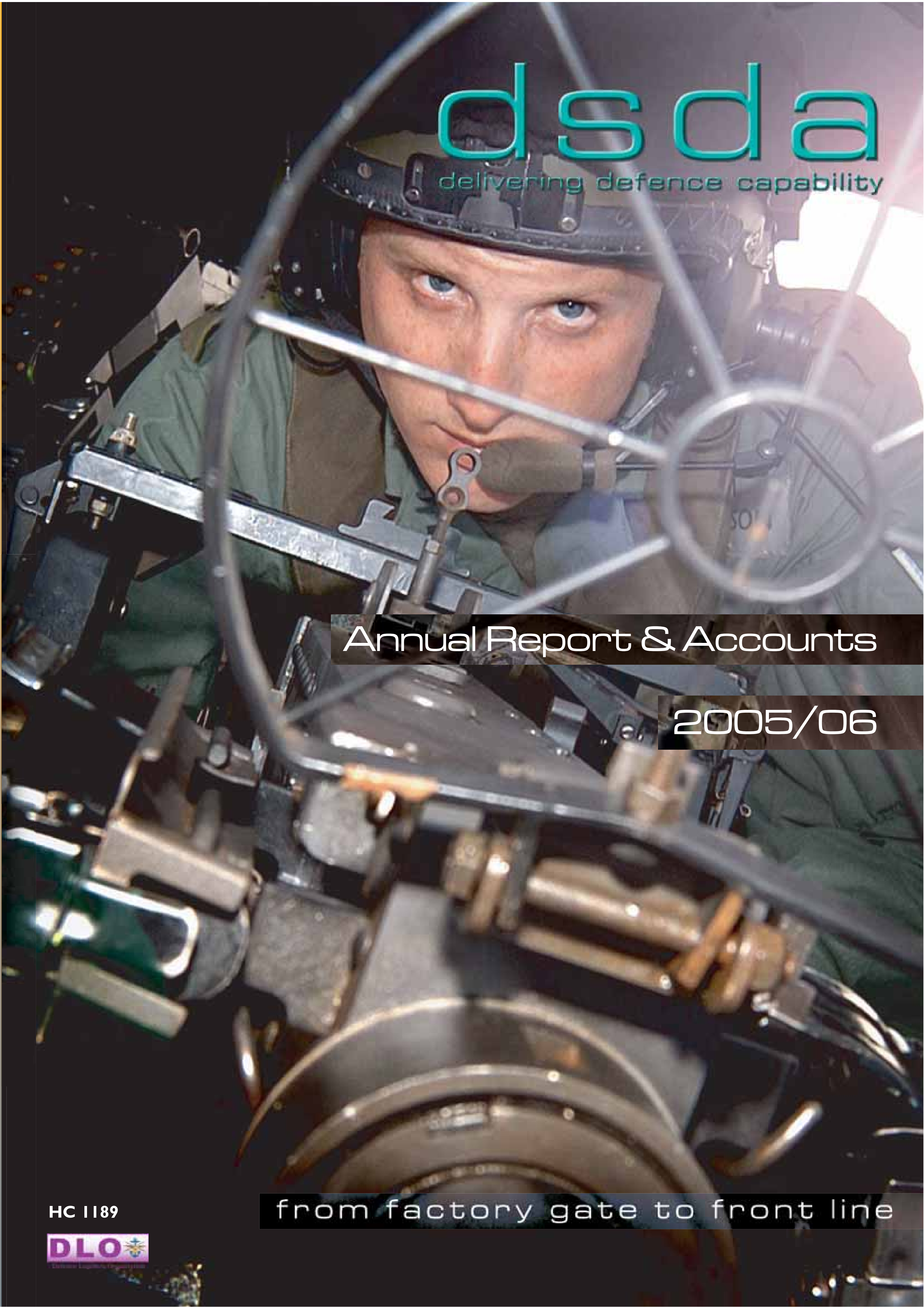

dsda

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Annual Report & Accounts

2005/06

from factory gate to front line

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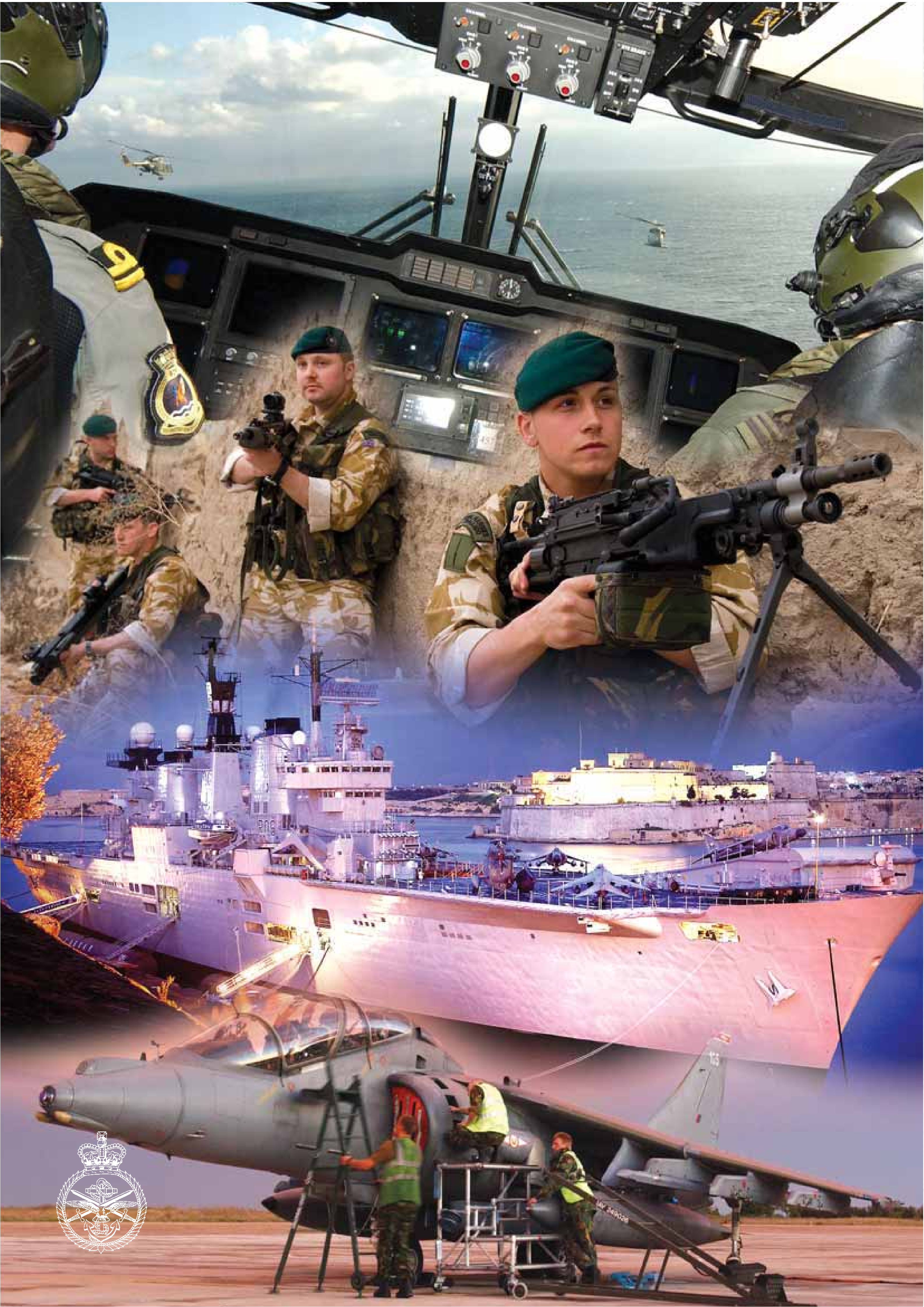

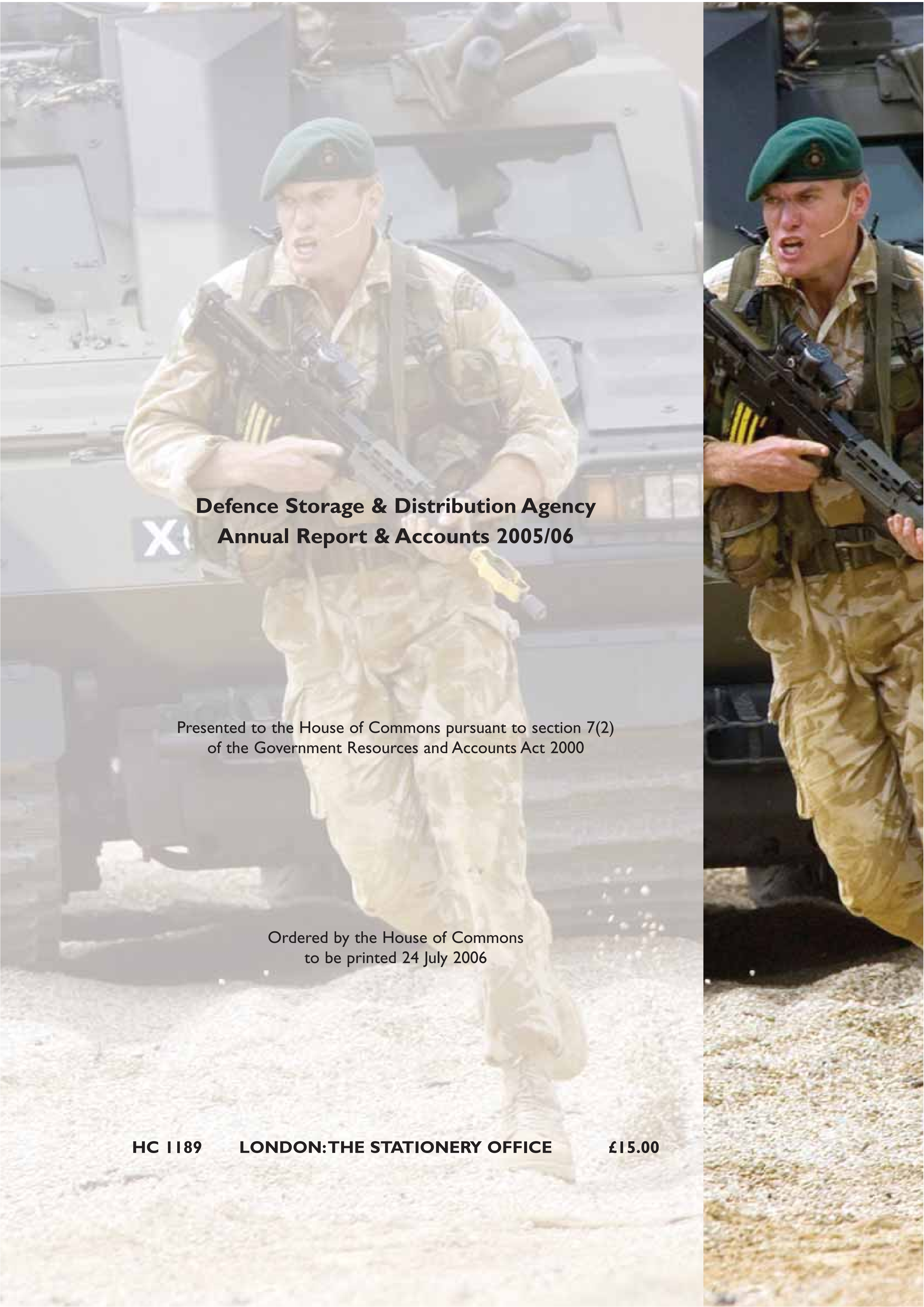

Defence Storage & Distribution Agency Annual Report & Accounts 2005/06

Presented to the House of Commons pursuant to section 7(2) of the Government Resources and Accounts Act 2000

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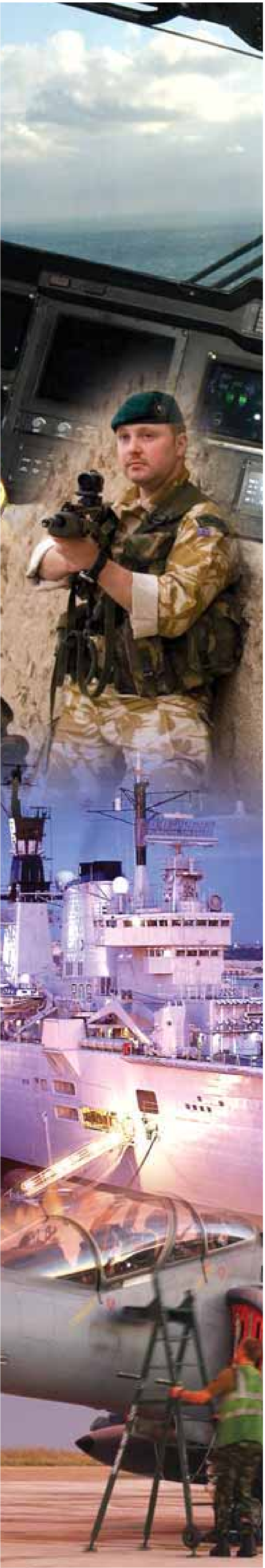

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Foreword by
The Chief Executive

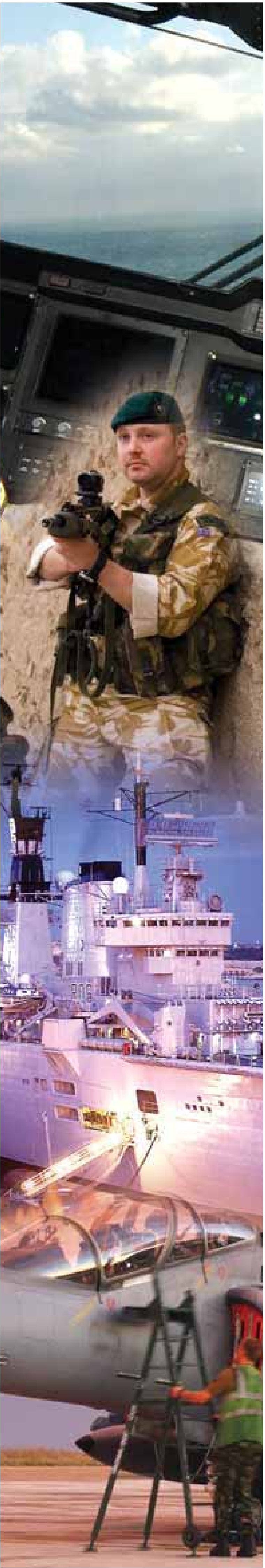
This seventh Annual Report and Accounts for 2005/06 for the Defence Storage and Distribution Agency (DSDA) describe an organisation which has evolved, and is evolving yet further in order to deliver better for Defence.

I take over responsibility as Chief Executive at a crucial and exciting time. The newly shaped Agency became operational in April 2006 and we are now embarking on a major change programme to transform military logistics activities in the UK and Northern Europe.

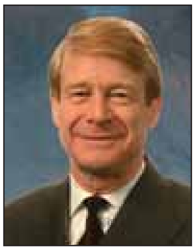
During the reporting year, the Agency has expanded following the merger with Defence Freight Distribution Group, Engineering Wing RAF Stafford and part of Supply Chain Services (Customer Support). The new shape of the Agency is reflected in the Accounts and previous year's figures have been accordingly restated. The changes within the Agency have not been restricted to the structure. The board shown within this report will change significantly in financial year 2006/07.

The reason we exist is to support the British Armed Forces. DSDA is the launch and recovery platform for Britains Defence and nothing will be allowed to cause our support to the Navy, Army and Air Force to falter.

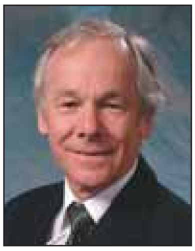
Mr Neil Firth
Chief Executive DSDA



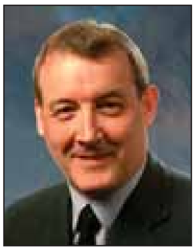
Management Board



Mr P D (Peter) Foxton CBE, *Chief Executive*
Mr Foxton was appointed as the Agency's first Chief Executive on its formation on 1 April 1999 and was reconfirmed after an open competition in 2001. A retired Brigadier in the British Army, he has experience in logistic units at all levels. He was awarded the CBE in the Queen's Birthday Honours List 2000. Mr Peter Foxton left DSDA on 31 March 2006, at the end of his contract and is replaced by Mr Neil Firth.



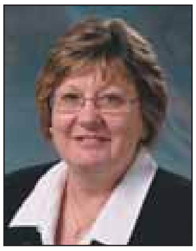
Mr R (Bob) Godbold, *Deputy Chief Executive*
Mr Godbold joined the Agency in late 2003 having spent the previous five years as Head of Corporate Support with the international defence procurement agency, OCCAR. He has had a varied career within the MOD, largely in weapons procurement and has served overseas in the US, Germany, Italy and the Middle East.



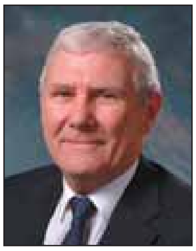
Group Captain W E (Bill) Mahon BA RAF,
Director Change Management
Group Captain Mahon joined DSDA in May 2003 as Director Plans. He had extensive logistics experience at the tactical and strategic levels and had served both in MOD Central Staffs and Defence Logistic Organisation (DLO) HQ, as well as in Germany, the Gulf region and the Falkland Islands. He became Director Change Management on 1 February 2005. On 7 April 2006 Group Captain Mahon left DSDA at the end of his tour, and was succeeded by Mr Martin White on an interim basis on 10 April 2006, who will be further succeeded by Mr Paul Wilson on 1 August 2006

Colonel P M (Phil) Naylor OBE,
Chief Operations Officer
Colonel Naylor joined the Agency in October 2002 as Director Operations. He has had a varied military career within the Royal Engineers, including operational experience in Northern Ireland, the Falkland Islands, Bosnia and Kosovo. In recent years, he has been involved in planning and providing logistic support to engineer operations world-wide. His previous appointment was as a Customer of the Agency from within HQ Land Command. On 3 March 2006 Colonel Naylor left the Agency and was succeeded by Mr Douglas Doherty on an interim basis on 20 March 2006, who will be further succeeded by Mr Neil Rixon on 24 July 2006.

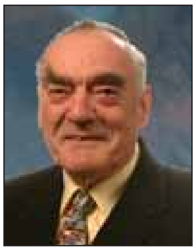
Colonel G A (Gary) O'Sullivan MBE QGM,
Director Explosives Operations
Colonel O'Sullivan joined the Agency in March 2005 as Director Explosive Operations. He has broad experience in logistics, personnel and ammunition technical matters and has served in Germany, Northern Ireland, the Gulf, the USA and Bosnia. His previous appointment was AD Munitions Corporate Business Unit in the DLO. Colonel O'Sullivan sat his last Management Board in November 2005 due to the re-structuring of DSDA.



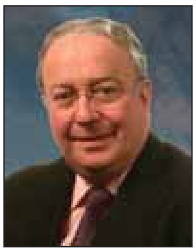
Mrs C R (Christine) Scott, *Director Finance*
Mrs Scott joined the DSDA Management Board on 1 April 2005. She joined the Agency in June 2001 as the Director Finance, having spent the previous five years as the Chief Accountant for the Central Region of Defence Munitions. Her career within the MOD has been extensively in finance, working for various sectors of the Defence Supply Chain.



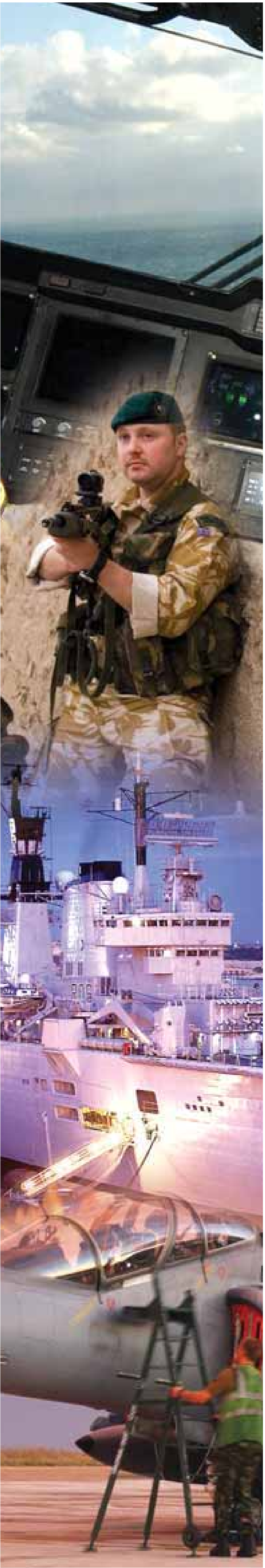
Mr S (Stan) Chapman, *Director (Human Resources)*
Mr Chapman joined the DSDA Management Board on 1 April 2005. He joined the Agency in November 2001 as Director HR. He has had a number of appointments in Bath, London and Innsworth previously. He has also had experience in Finance and Logistics, the latter in a Head Office environment, Coulport and in the US.



Mr R B (Dick) Blaxland, *Non-Executive Director*
Mr Blaxland joined the Management Board as a Non-Executive Director to assist the Agency to become more commercially orientated. His experience brings a specialised focus on finance. Mr Blaxland is currently Director of other public and private companies. Mr Blaxland's contract finished on 31 March 2006. Mr Blaxland will be succeeded by Mr Michael Maher in July 2006.



Mr T R (Richard) Sermon, *Non-Executive Director*
Mr Sermon joined the Management Board as a Non-Executive Director in September 1999 to assist the Agency with a focus on the development of entrepreneurial activity. Mr Sermon is Senior independent Director of Jardine Lloyd Thompson Group plc and Chairman, Director and Non-Executive Director of a number of other private sector companies and charities. Mr Sermon's contract finished on 31 March 2006.



Background

DSDA was created as a result of the 1998 Strategic Defence Review (SDR) to bring together the third line storage and distribution activities of the Ministry of Defence (MOD). A study in 2002 concluded that merger with Defence Munitions (DM) into the structure envisaged by the SDR would deliver significant benefits and efficiencies. As such, DM and DSDA merged on 1 April 2003 into a single Defence Agency under the DSDA banner.

This reporting year, 2005/06, the Agency has expanded following the merger with Defence Freight Distribution Group, Engineering Wing RAF Stafford and part of the Supply Chain Services Customer Support.

The Agency is an organisation within the Defence Logistics Organisation (DLO).

DSDA Mission and Objectives

The DSDA Mission

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

The DSDA Vision

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

Critical Success Factors

The factors critical to the success of the Agency are:

- To meet the requirements in the Agency's Customer Business Agreements (BAs).
- To deliver the Agency's outputs in a safe and environmentally responsible manner.
- To deliver DSDAs part of the DLO.
- To meet Agency financial targets and efficiencies.
- To grow the business where it is of benefit to Defence.
- To have a well trained and motivated workforce.
- To be an integral part of a rationalised and joined up supply chain.

Resources and Organisation

At 31 March 2006 DSDA employed 4,739 civilians, both industrial and non-industrial, and 235 military staff. The majority of these deliver our storage, distribution and processing services direct to the Customers, whilst the remainder provide administrative, financial and management support. The storage, processing and distribution services were provided through a network of twelve major installations. A Civilian or Service Director managed each of these. DSDA also had a network of smaller installations across the country consisting of Regional Distribution Centres, Materiel Parks and Munitions Compounds. During 2005/06 the Defence Freight Group, Engineering Wing at Stafford and part of Supply Chain Services (Customers Support) have been integrated into DSDA.

Employment Policy

The Agency operates fully within its MOD personnel management delegations. Staff matters are dealt with promptly and equitably in accordance with Departmental best practice. Personnel Management (PM) transactional services are currently delivered through teams of embedded PM staffs under the functional control of Director Human Resources with a strategic focus provided by a small Head Office based team.

Making the cultural shift from dependency on localised PM teams to greater self reliance and transition to remote service provision are the challenges both now and for the immediate future.

Performance Management

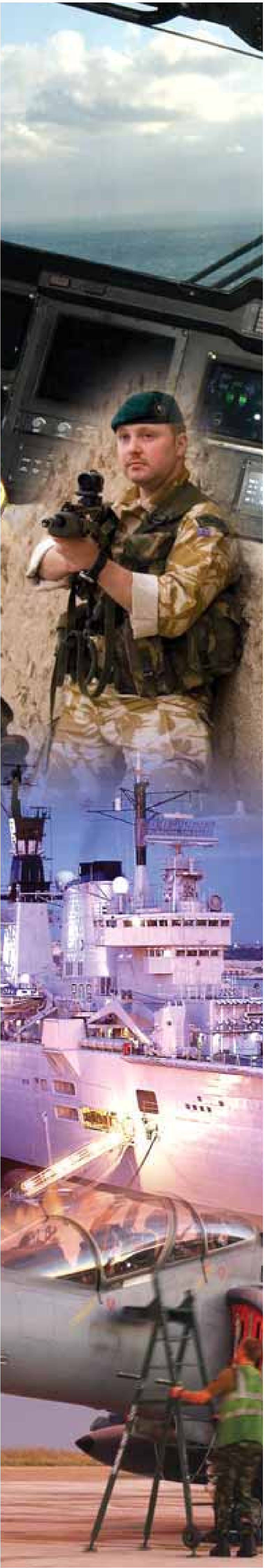
DSDA has a performance management framework document emanating from (but not exclusive to) the formalised Key Targets – see pages 13 to 15. Performance is monitored and reported at all levels, from site level to board level. The framework is supported by a Balanced Scorecard (BSC) for strategic objectives.

Quality Assurance

In line with the Agency's policy of adopting formal quality assurance, DSDA has achieved ISO 9001:2000 accreditation in the majority of its Centres. This will act as an enabler to the long-term aspiration of an Agency wide accreditation.

Investors in People (IIP)

The Agency continues to uphold the principles of Investors in People Standard and has maintained recognition through a rolling re-assessment programme.



Strategy

To meet the Agency's aims, the following strategies have been identified and detailed within the Corporate Plan:

Supporting Customers

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

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

Managing our Human Resources

The success of the Agency depends on our people having the right skills, motivation, training, information and resources to enable them to meet the challenges to be faced and to respond positively to the reality of change and the need for continuous improvement. We will continue to invest in our people, providing training to develop the skills, competencies and behaviour needed to deliver the transition required and to enable everyone to realise their full potential.

The Agency is committed to a working environment where there is mutual trust and respect and where everyone feels responsible for the performance and reputation of our Agency.

We are committed to the principles of equality and diversity and will recruit, employ and promote employees on the sole basis of the qualifications and abilities needed for the work to be performed.

Managing our Financial Resources

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

Partnerships

The Agency is committed to establishing mutually beneficial relationships with our Suppliers, Customers and business Partners. We will continue to forge partnerships with Industry wherever this is of benefit to Defence.

Reorganisation

There have been three additions to the Agency during 2005/06

Defence Freight Distribution Group (DFDG)

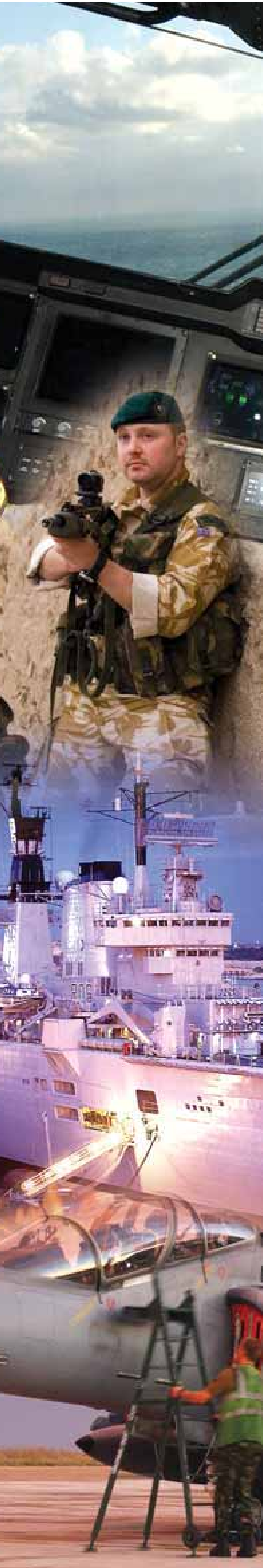
In January 2006, DFDG joined the Agency from the Defence Transport and Movements Agency (DTMA). It has since been renamed Road Transport Services (RTS) and provides a national road trunking distribution service. RTS has resources located across DSDA Centres for moving a diverse range of stores, which includes the movement of ammunition and hazardous cargo. Under current Treasury rules this has been accounted for as a merger with 2004/05 comparative figures restated and fully integrated into the 2005/06 accounts.

Supply Chain Services (Customer Support) (SCS(CS))

In January 2006, part of the SCS(CS) joined the Agency. SCS(CS) provides a single point of contact for Integrated Project Teams, Front Line Commands and other Business Units that require a range of day to day Supply Chain Services. This service covers a range of help, advice and administration for supply chain processes, associated logistics applications and functional supply chain training. Under current Treasury rules this has been accounted for as a merger with 2004/05 comparative figures restated and fully integrated into the 2005/06 accounts.

Engineering Wing RAF Stafford

In April 2005, Engineering Wing RAF Stafford was transferred to DSDA from RAF Strike Command. Engineering Wing provides technical support to the stock currently held in RAF Stafford. Technical support includes the manufacture of specialist containers, engineering inspection and calibration of equipment. Under current Treasury rules this has been accounted for as a merger with 2004/05 comparative figures restated and fully integrated into the 2005/06 accounts.



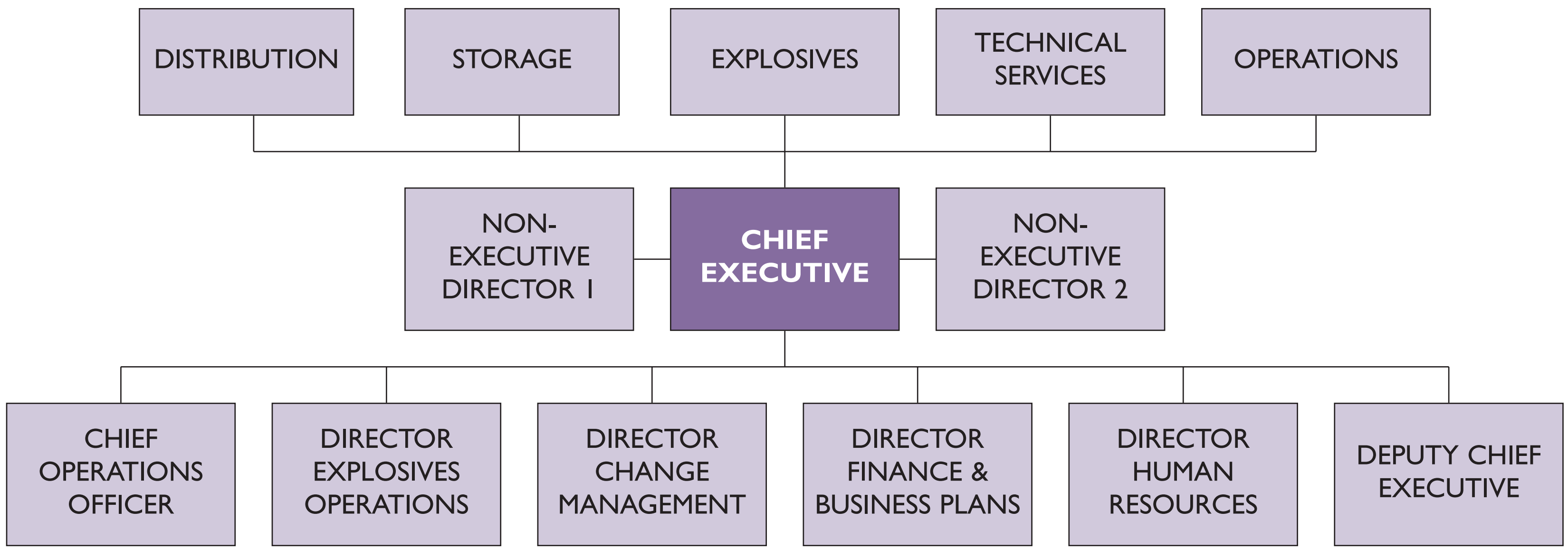
Customers and Consumers

DSDA manages a range of storage and distribution tasks on behalf of its Customers in defence and industry. Although the majority of DSDA Customers are the Integrated Project Teams (IPTs) within the DLO and the Defence Procurement Agency, the Agency is increasingly forging third party logistics partnerships with industry. The main Customers for 2005/06 were Director General Logistics (Land), Director General Logistics (Strike), Director General Logistics (Fleet), Non-Project Procurement Organisation, HQ Land Command, Defence Procurement Agency, Defence Fuels Group, Defence Catering Group, Defence Communications Service Agency, Test Equipment Management Organisation, General Officer Commanding Northern Ireland, HQ Fleet, Above Water Systems and Maritime Commissioning Trials and Assessment.

The consumers of DSDA for 2005/06 were the Royal Navy units world-wide, Regular and Territorial Army units world-wide, RAF units world-wide, MOD administrative and training units, other Government Departments, other authorities, including NATO allies, Commonwealth and Foreign Governments and Defence contractors.

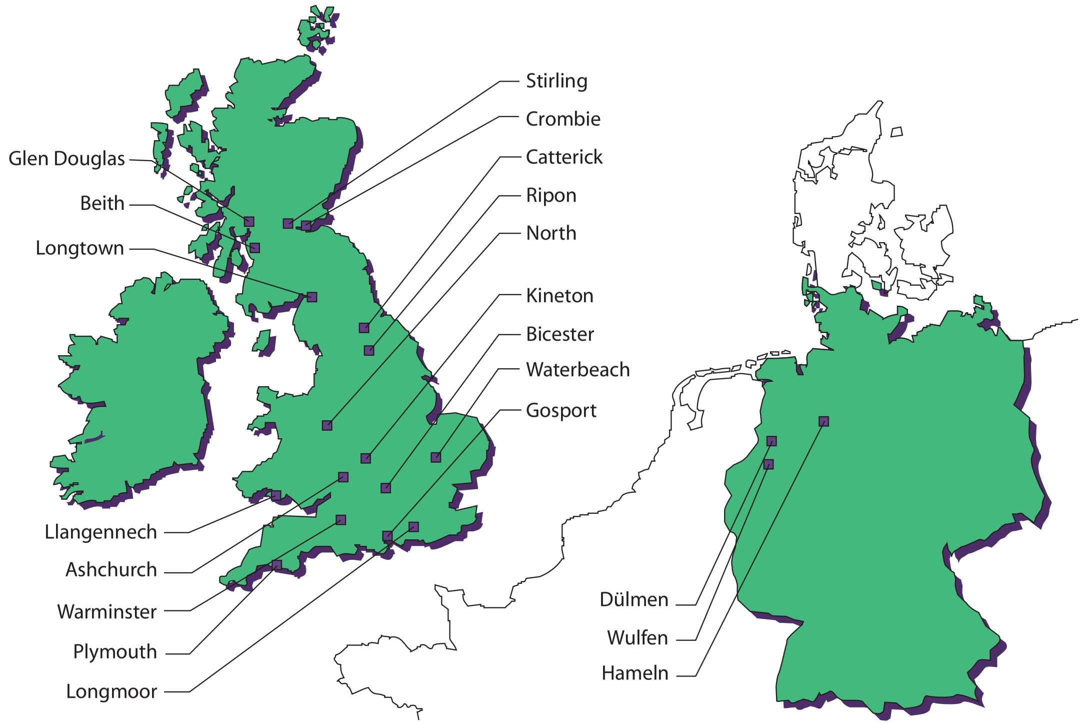
Services provided by the Agency are set out in Business Agreements, specifying the level of service in terms of quality, cost and performance standards to be met.

Defence Storage and Distribution Agency Organisation Chart



DSDA Major Installations

The Agency currently operates five Main Storage Sites, eight Munition Sites and seven Materiel/Engineering Parks throughout the UK and Germany.



The DSDA Code of Business Principles

Standard of Conduct

We conduct our operations with honesty, integrity and with respect for the human rights and interests of our employees. We shall similarly respect the legitimate interests of those with whom we have relationships.

Employees

DSDA is committed to diversity in a working environment where there is mutual trust and respect and where everyone feels responsible for the performance and reputation of our Agency.

We will recruit, employ and promote employees on the sole basis of the qualifications and abilities needed for the work to be performed. We are committed to safe and healthy working conditions for all employees. We are committed to working with employees to develop and enhance each individual's skills and capabilities. We respect the dignity of the individual and the right of employees to freedom of association. We will maintain good communications with employees through DSDA based information and communication procedures.

Business Partners

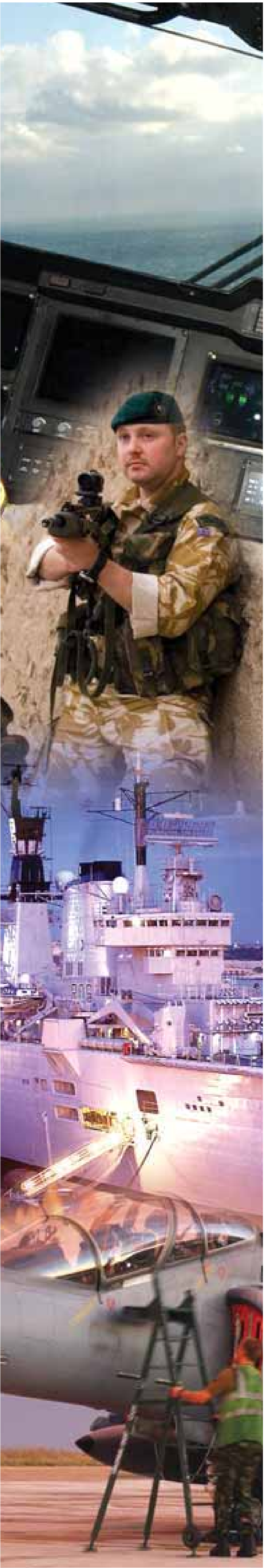
DSDA is committed to establishing mutually beneficial relations with our Suppliers, Customers and business Partners. In our business dealings, we expect our Partners to adhere to business principles consistent with our own.

Community Involvement

DSDA strives to be a trusted corporate citizen and, as an integral part of society, to fulfil our responsibilities to the societies and communities in which we operate.

The Environment

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



Land Quality Assessments

Two DSDA sites have been identified as having contaminated land due to discontinued activities.

Phase 1 and 2 Land Quality Assessments (LQAs) have been carried out in Longtown and East Riggs, including some targeted LQAs e.g. recent oil spill, by the DLO Environmental Science Group, who will be re-visiting East Riggs. Monitoring is ongoing, including bore hole monitoring every three months and soil sampling at the sites.

Unless the use of the site is changed there are no major costs involved in maintaining the land following the LQAs.

Business Integrity

DSDA does not give or receive, whether directly or indirectly, bribes or other improper advantages for business or financial gain. No employee may offer, give or receive any gift or payment, which is, or may be construed as being a bribe. Any demand for, or offer of, a bribe must be rejected immediately and reported to management.

DSDA accounting records and supporting documents must accurately describe and reflect the nature of the underlying transactions. No undisclosed or unrecorded account, fund or asset will be established or maintained.

Conflicts of Interests

All DSDA employees are expected to avoid personal activities and financial interests that could conflict with their responsibilities to the Agency. DSDA employees must not seek to gain for themselves or others through misuse of their positions.

Compliance – Monitoring – Reporting

Compliance with these principles is an essential element in our business success. The DSDA Management Board is responsible for ensuring these principles are communicated to and observed by all employees.

Policy from Operations Directorate is delegated to General and Process Managers who are responsible for implementing these principles, if necessary through more detailed guidance tailored to meet local needs.

Performance Summary

Performance Against Key Targets for FY 2005/06

Key Targets (KT)

Category = Efficiency

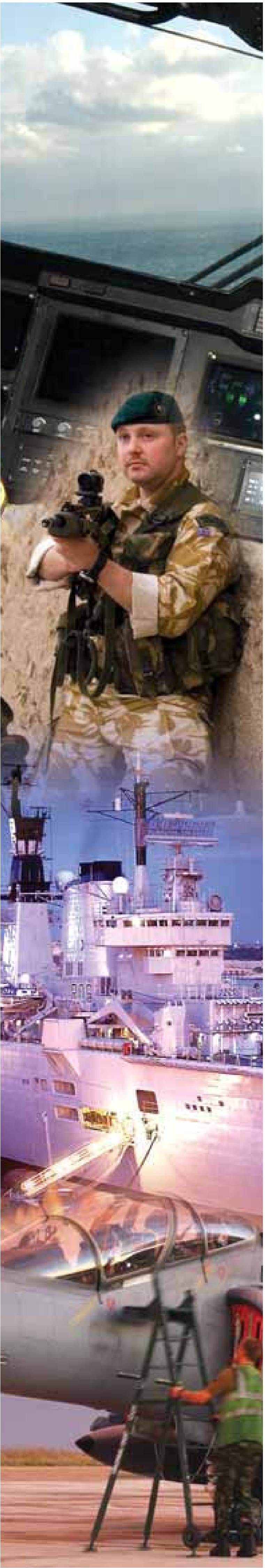
Key Target 1: To meet the Customers' requirements as negotiated and agreed in Customer Suppliers' Agreements.

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

Key Target 1a	Target	2003–04	Target	2004–05	Target	2005–06	Target	2006–07
For explosives materiel; to supply 95% of available maintained munitions within demand timescales.	95%	99.37%	95%	99.74%	95%	99.55%	95%	

Key Target 1b	Target	2003–04	Target	2004–05	Target	2005–06	Target	2006–07
95% of all issues of non-explosives materiel to consumers to meet that element of the Supply Chain Pipeline Time for which DSDA has responsibility.	95%	93.23%	95%	97.81%	95%	106.99%	95%	

Key Target 1c	Target	2003–04	Target	2004–05	Target	2005–06	Target	2006–07
98% of all receipts that conform to the specifications laid down in the contract and/or materiel regulations to be processed within the time limits agreed with each individual customer.	98%	97.50%	98%	100.07%	98%	103.98%	98%	



Key Target 2

Category = Efficiency

KT 2 is an efficiency measure for continuous performance improvement to achieve a 2.5 per cent (net of 2.5 per cent inflation factor) reduction in the unit cost of output (UCO) in financial year 2005/06 (based on financial year 2004/05) while maintaining an effective level of services to the customers in accordance with the business agreements (BAs).

The table below shows performance for FY 2005/06 where an average saving in UCO of 10.3% has been achieved.

Key Target 2	Baseline	Target FY 2005–06	Achieved FY 2005–06	Average Savings
Make average saving of 2.5% (5% less 2.5% inflation) year on year on a rolling basis.	2004/05	£.p 29.49	£.p 26.44	% 10.3%

Performance

Explosives Materiel	2004–05		2005–06	
Unit of Output	**Target**	**Performance**	**Target**	**Performance**
Receipt Voucher	£101.85	£74.96	£99.42	£58.52
Storage M^3	£71.32	£61.38	£69.62	£57.51
Processing: M-Hrs	£41.48	£31.19	£40.49	£24.06
Issue Voucher	£94.68	£103.37	£92.43	£113.37

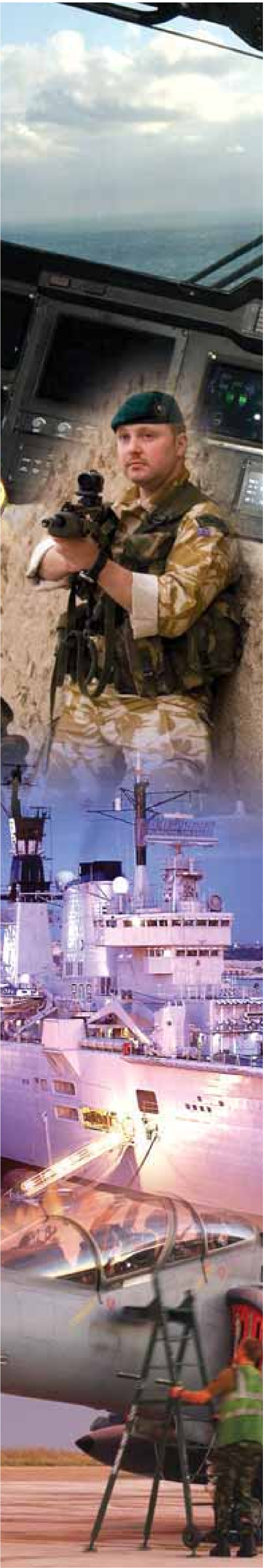
Non-Explosive Materiel	2004–05		2005–06	
Unit of Output	**Target**	**Performance**	**Target**	**Performance**
Receipt Voucher	£37.34	£32.51	£36.45	£41.84
Storage M^3	£8.29	£19.21	£17.85	£17.40
Maintenance: M-Hrs	£46.18	£41.02	£45.08	£22.34
Issue Voucher	£9.16	£8.94	£8.94	£10.67

Key Target 3: The value of the inventory written off as a result of DSDA's action to be less than the value of materiel written off during the financial year 2004/05.

Key Target 3a	Target	2003–04	Target	2004–05	Target	2005–06	Target	2006–07
This target was introduced in 2003/04 following the merger with Defence Munitions.	Less than £104,792	£1,899	0.02%	0.00068%	0.02%	0.0003%*	0.02%	

KT 3a note: *The performance against KT 3a at March 2006 stood at £15,446 written off for the year to date against a target of £1,030,121 (0.02% of the £5,150,606.609 inventory).

Key Target 3b	Target	2003–04	Target	2004–05	Target	2005–06	Target	2006–07
The performance against KT 3b at March 2006 stood at 0.01381 & (YTD) of the value of Receipts, Issue and Storage activity written off as a result of DSDA's actions.	ES(Land) 0.02% ES(Air) 0.015% WSA 0.02% DCG 0.02% NPPO 0.02% HQ Land 0.02%	0.019% 0.012% 0.045% 0.066% 0.66% 0.028%	<0.02% of the value of activity	0.0130%	<0.02% of the value of activity	DCSA 0.019% DG Log (Fleet) 0.00% DG Log Land 0.0395% DG Log Nuclear 0.00% DG Log SC 0.189% DC IPT 0.20% DCG IPT 0.011% DFG 0.08% DGM 0.003% GS IPT 0.11% DG Log Strike 0.013% MSA 0.22% TES 0.05%	<0.02% of the value of activity	



Performance Against Key Targets for FY 2005/06

DSDA has continued to deliver successfully against its Key Performance Targets through 2005/06. It has maintained very high customer service levels in its explosive business area and significantly exceeded the performance recorded for the previous period in its Non-Explosive business area. In this latter area, demand for DSDA Services has been in excess of that forecast by Customers in terms of issues and receipt activity, up by 4.75% (107k) and 7.25% (34k) respectively. As the increase in output activity was met from within budget limits we are able to show performance figures in excess of 100%.

During the year, the DSDA "Do Different Option" was the successful bid in FDSCi. The Agency has started the process of delivery against some very tough targets and has agreed the incorporation of its '7 day delivery' aspirations into the FDSCi Performance Indicators, with the target of achieving its aim by October 2007.

Business Review

Achieving Operational Excellence

Activity

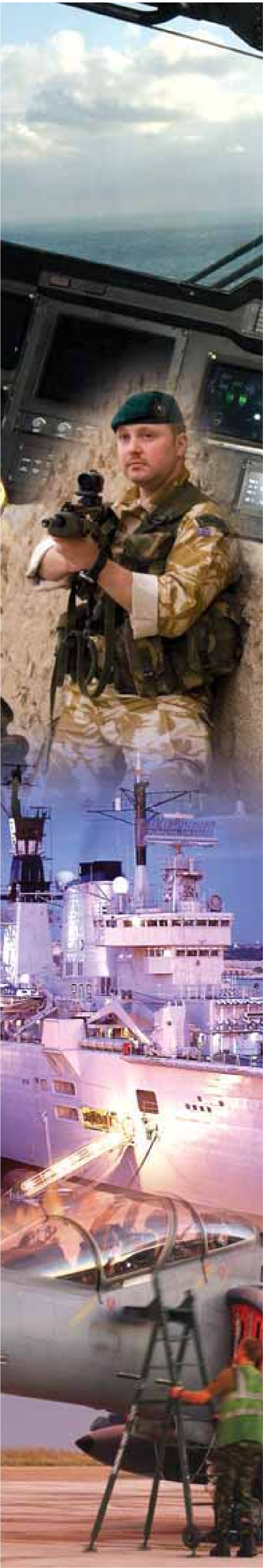
2.47 million Non-Explosive Issues were made from DSDC's Ashchurch, Bicester, Llangennech and North in 2005/06, almost the same level as 2004/05. The overall Issue activity made in support of operations was 257,793, representing 10% of the total Issues made in 2005/06. This represents an increase of 15% on operational Issues made in 2004/05. For Issues of Explosive materiel by the Defence Munitions Centres, DSDA made 82,894 Issues, 8,093 were in support of military operations, 9.76% of the total number of Issues made. Of the 82,894 Issues made by the DMCs, only 435 failed to meet customers' demand timescales, in percentage terms 0.52% of the total. Overall, routine Issues account for about 54.99% of all Issues made by DSDCs. The busiest months for Issues made from DSDCs were during November, July, March and June, whilst peaks for Operational Issues during the year were during September and March. The busiest months for Issues made from DMCs were July, June and March, whilst peaks for Operational Issues during the year were during April, May and June.

Support to Operations

During 2005/06, DSDA has provided seamless Logistical Support to Operations all over the globe: A major outload to OP HERRICK (Afghanistan), continued medium scale operations to OP TELIC (Iraq), Spearhead Lead Element (SLE), real-world deployments to include OP BRACKEN (Balkans) and OP CALICLE (Balkans), OP SHANDON (Disaster relief in New Orleans) and support to the Pakistan earthquake. In addition to these Operations, DSDA continues to support major training exercises both in the UK such as EX LOG VIPER (101 Log Brigade), and abroad such as Poland and BATUS rotations.

Business Agreements

DSDA Key Account Managers continue to engage IPT's and as a consequence Business Agreements are becoming more specific to the Customers' business needs and requirements, whilst complying with the DLO mandated Business Agreement template. Business Agreements have also been established with Front Line Commands for specific services, and whilst these agreements are currently immature they will develop and allow for the needs of the Customers to be satisfied in the future. Customer forecasting continues to be developed with varying states of success, and this with the soon to be issued compendium of services, will allow DSDA to offer the required service, at the right time and at the right price.



DSDA/Defence Supply Chain Operations and Movements (DSCOM) Relationship

The relationship between DSDA and the DSCOM (DSCOM – amalgamation of Defence Transport and Movement Agency (DTMA) and Defence Logistics Operations Centre) is continuing to provide and develop resources to supply our Customers with the best possible logistical supply system. In the last year, the challenge continued during a period of high activity to support Operations.

Whole Fleet Management (WFM)

The key achievement for 2005/06 was the completion in December 2005 of the refurbishment work of Building 1 at DSDC Ashchurch, which provided an additional 14,000m^2 of Controlled Humidity Environment (CHE) Storage. Planning is now well in hand to rebuild Building 26. Work is due to commence in December 2006 and will provide an additional 12,760m^2 of storage space. In addition, further capacity of some 25,000m^2 is planned for 2006/07 by adopting a quick fix solution to adapt Buildings 28 and 33.

HQ LAND Command have already started to inload WFM vehicles into existing capacity, as well as making use of CHE storage to facilitate the fleet restructuring brought about by Future Army Structure (FAS). Over 1,300 vehicles are now being held in CHE. This figure is set to increase significantly over the coming year.

Defence Readiness Focus

Provide Total Logistic Support

Information Systems (IS) – Base Ordnance Depot Management System (BODMS) & Warehouse & Transport Management System (WTMS)

The replacement of BODMS and WTMS with a converged DSDA Joint Warehouse System (JWS) remains subject to Investment Appraisal Board (IAB) approval, following an increase in the estimate for the coding of the customisations to the Commercial off the shelf software. However, to meet the challenging targets of FDSCi, staff effort has been concentrated on the preparation of an IS Business Case for a Fast Moving Warehouse (FMW) at Donnington, in support of the DSDA Velocity Storage Strategy. Work on the IAB submission is planned to resume once the FMW IS is in place. IAB submission will necessitate that all options with regard to a Tri-Service Warehouse Management System (WMS) are re-examined and will mean a probable In Service Date of late 2010.

Work to replace the explosives storage management system Naval Armaments and Weapons Business System (NAWBUS) with Ammunition Management Area Network Depot Aid (AMANDA) as the explosives WMS, BODMS as the non-explosives WMS, and a Management Resource Planning 2 (MRP2) capability, is running to plan. AMANDA has been rolled out to

Crombie, Beith, Plymouth, Gosport and Glen Douglas. BODMS has been rolled out to Gosport, Plymouth and Glen Douglas. The timescale for rollout to Beith and Crombie will be dependent on the solution chosen for the MRP2 capability.

Regional Distribution Services

The Regional Distribution Centres (RDCs) and Ammunition Compounds (ACs) are part of DSDA's distribution network in Great Britain and are the last link in the distribution chain between DSDA Centres and Tri-Service unit customers and Defence suppliers. RDCs provide transhipment, delivery and collection services. They also provide a central collection point for returned stores from units and for stores in transit for disposal. ACs provide ammunition to support training centres, garrisons and visiting units.

Corporate Governance

During 2005/06 the Corporate Governance Unit provided assurance cover for the work streams of Safety Health Environment & Fire (SHEF), Internal Assurance, Technical Inspection, Materiel Accounts Control, Risk Management and Business Continuity. The Head of the Unit is responsible for Corporate Governance activities and is a member of the Agency's Audit Committee.

Munitions Audits

During the last year, the Explosives Business Stream Permissions and Restrictions Group have lead 11 Munitions Audits (four were facilities reviews of contractors sites i.e. British Underwater Test Evaluation Centre, four were Pre-Inspector Explosives DLO Inspection reviews) using a question set based upon Joint Service Publication 482, the DSDA Munitions Engineering Handbook and Defence Standard 05-57. All audits resulted in a satisfactory score with observations and recommendations actively progressed.

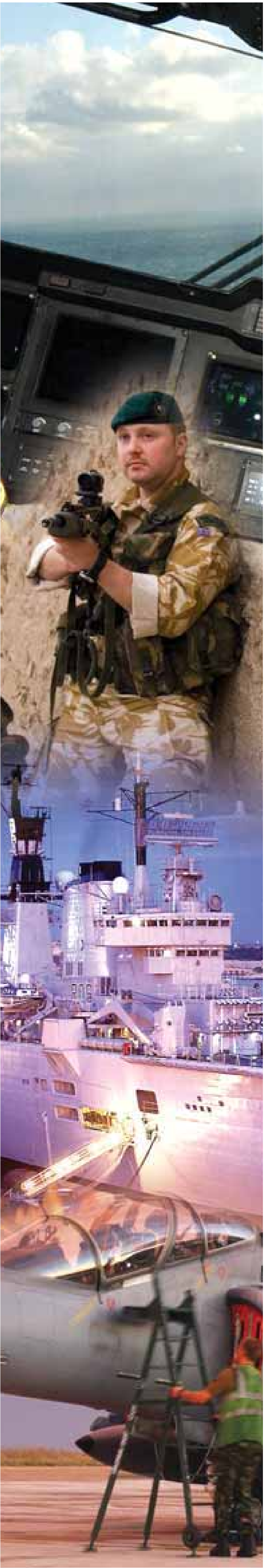
SHEF Audits

This year the SHEF Audit Team has conducted audits on 14 sites across the Agency. The average scores overall were:

Safety, Health and Fire	81%
Environment	81%

Both figures fully meet Key Performance Indicator 19 set by the client organisation. The Environmental figure is an improvement on last years with Safety remaining the same. This reflects the additional effort by DSDA toward establishing Environmental Management Systems on sites. The Audit team who conducted a series of in-depth Environmental Audits supported improvement in performance.

Each site is notified of their individual audit failings and is required to produce to the Head Office a SHEF Action Plan, detailing their remedial actions. In addition to the 14 full Audits, the team conducted six follow up visits which assisted sites to meet the requirements of their action plans.



Commercial Activity

During the past year, the DSDA Commercial team exceeded its Income Generation target, generating £27.87 million in turnover for the Agency. The Commercial team has also been successfully restructured and now includes a Contracts team, enabling DSDA to take more ownership of the commercial process, and a Demand Forecast Team which will enable the Agency to respond more quickly to changes in Customer requirements.

The Agency has again achieved some notable successes in the commercial market; winning some high profile (and high value) contracts, and has continued to expand its commercial Customer base by consistently providing a commercially competitive, operationally effective and Customer-focused portfolio of services.

The forecast for DSDA's commercial Income Generation turnover for 2006/07, based on current contracts and those in the final stages of negotiation is £30.04m. In addition to this, the DSDA Business Development Directorate has a number of significant business opportunities currently under consideration or discussion with potential Customers.

Financial Review for the Year Ended 31 March 2006

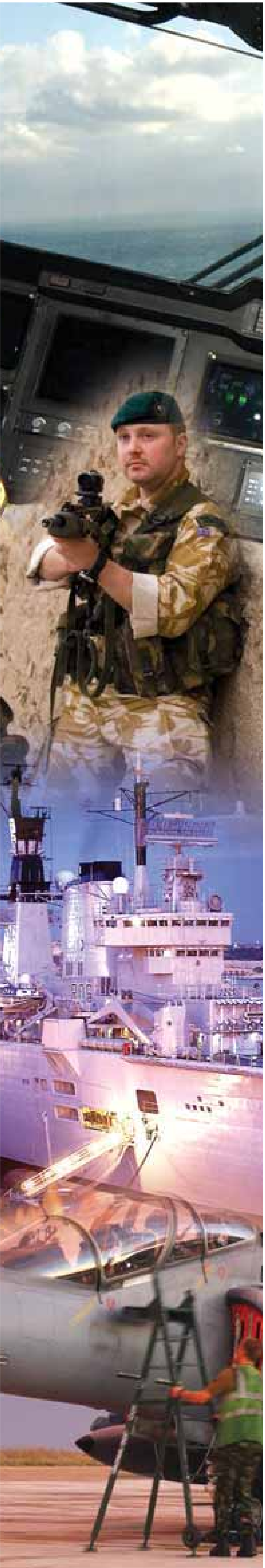
The total operating expenditure of the Agency for the year ended 31 March 2006 was £329m. Total income was £27.9m resulting in net operating expenditure of £301.3m. This represents an increase of £14.6m over the restated position for the previous year but this increase is as a result of three main factors. Firstly, the previous year's figures included a loss of £24.7m on revaluation of Land and Buildings whereas this year's accounts include the charge for the establishment of a redundancy provision (£27.6m); this is a result of the outcome of the FDSCi. As DSDA moves to a matrix management led organisation it is required to reduce its manpower numbers and this can only be achieved by means of a redundancy campaign; these two factors explain a movement of £2.9m. The remaining movement of £11.7m is as a result of two changes firstly in the treatment of consumable stock, which has increased by £9.2m. Previously, only stock consumed specifically to the storage and distribution task has been included, however, this year's accounts incorporate all stores charges incurred by the agency. The second relates to the increase in the superannuation rates as shown in note 2(c).

Approximately 40% of total operating expenditure is related to staff costs, reflecting the labour intensive nature of the Agency's task. Permanent employee numbers have reduced from 5,149 at 31 March 2005 to 4,974 at 31 March 2006 representing a 3.4% reduction in numbers during the period. These numbers do include 23 staff who left on 31 March 2006 on Year 2 of the DLO Early Release Scheme. The number of casual employees has reduced from 79 to 70 during the period.

The income generated from a range of third parties reflects DSDA's continuing drive to market our facilities and expertise in receipt, storage, maintenance and distribution. During the last year, income from munitions processing, assembly and maintenance accounted for £17.3m (62%) of the total income.

The Cost of Capital Charge of £19.4m, as disclosed in the accounts, has decreased from last year's £19.6m. The fall in net assets from £607m to £552.9m reflects the inclusion of the FDSCi redundancy provision and the fall in net book value of assets as a result in year depreciation charges.

Mr N A Firth
Chief Executive
17 July 2006



Remuneration Report (Audited)

Remuneration Policy

The Chief Executive is a senior civil servant and his pay is set through recommendations made by the Review Body on Senior Salaries, which provides independent advice to the Prime Minister. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

The remaining Executive Directors and all other Non Industrial staff have their remuneration determined by a process consistent with MOD and HM Treasury regulations. The Agency has delegated authority for setting Industrial staff salaries. The last agreement covered a four-year period and this expires in the next financial year. DSDA's HR staff in consultation with the Treasury set the current deal.

The Chief Executive has delegated authority for the personnel management of the civilian staff with the Agency. He has the authority to create or abolish posts, and change the mix of ranks and grades (both military and civilian); this is set against his delegated complementing powers.

Performance pay is awarded in line with the laid down procedures adopted across the MOD. A number of cluster panels are established across the agency and sit by location and grade. Posts at senior management level are managed on an Agency wide basis.

Additional performance related pay, via Special Pay Awards and Minor Awards schemes, are available to all civil servants. Both schemes are administered in line with MOD policy.

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

Service Contracts

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

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

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

Martin White was appointed as the interim Change Management Director in April 2006 on a contract for services with Odgers Interim until September 2006 when a permanent replacement is appointed via open competition.

Doug Doherty was appointed interim Chief of Operations on a contract for services with Systems Consultants Ltd for a period of six months. The post will be filled on a permanent basis via open competition.

Robert Godbold was extended beyond normal retirement age for a minimum period of seven months in the role as Deputy Chief Executive.

Christine Scott (Finance Director) was appointed to the enhanced Management Board on 1 April 2005.

Stanley Chapman (Director Human Resources) was appointed to the enhanced Management Board on 1 April 2005.

Non-Executive Directors are not appointed as Civil Servants. Both Mr Richard Sermon and Mr Richard Blaxland relinquished their appointments on 31 March 2006. Mr Michael Maher has been appointed as Non-Executive Director, and will join the Agency in July 2006.

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

	Salary, Including performance pay 04/05 £k	Salary, Including performance pay 05/06 £k	Benefits in kind £k	Real increase in pension and related lump sum at age 60 £k	Total accrued pension at age 60 at 31/3/06 and related lump sum (or date left DSDA) £k	CETV at 31/3/05 (or date joined DSDA) (nearest) £k	CETV at 31/3/06 (or date left DSDA) (nearest) £k	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest) £k
Mr P D Foxton Chief Executive	95–100	90–95	–	0–2.5	5–10 N/A Premium	73	96	25
Mr R Godbold Deputy Chief Executive	–	Consent Withheld	–	–	–	–	–	–
Colonel P M Naylor Director Non-Explosives Operations	65–70	65–70	–	0–2.5 plus 2.5–5 lump sum	25–30 plus 85–90 lump sum	673	725	27
Colonel G O'Sullivan Director Explosives Operations	–	95–100	–	0–2.5 plus 2.5–5 lump sum	30–35 plus 90–95 lump sum	684	730	27
Group Captain W E Mahon Director Plans	60–65	65–70	–	0–2.5 plus 2.5–5 lump sum	25–30 plus 85–90 lump sum	664	721	38
Mrs C Scott Finance Director	–	45–50	–	0–2.5 plus 2.5–5 lump sum	15–20 plus 55–60 lump sum	279	380	31
Mr S Chapman Director Human Resources	–	Consent Withheld	–	–	–	–		
Mr R Blaxland Non-Executive Director	–	Consent Withheld						
Mr T Sermon Non-Executive Director	–	Consent Withheld						

Notes:

i. Mrs Scott and Mr Chapman became members of the Board on 1 April 2005.

ii. Members of the Agency Management Board (with the exception of Mr R Blaxland and Mr R Sermon, who are Non-Executive members) are paid employees of the Agency. Non-Executive members receive a set fee for their services.

iii. The salary bands exclude pension contributions and ERNIC and are apportioned for part years service with DSDA. CETV values have also been apportioned for part years service with DSDA. Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances or any other allowance to the extent that it is subject to UK taxation.

iv. All Board members, with the exception of Mr R Blaxland and Mr R Sermon, are members of the AFPS or CSP.

v. No taxable benefits in kind were paid to any member of the Agency Management Board in either the current or prior year.

vi. Col O'Sullivan was in receipt of a Continuation of Education Allowance, which is a taxable benefit, settled by the Armed Forces Personnel Administration Agency under a PAYE settlement agreement.

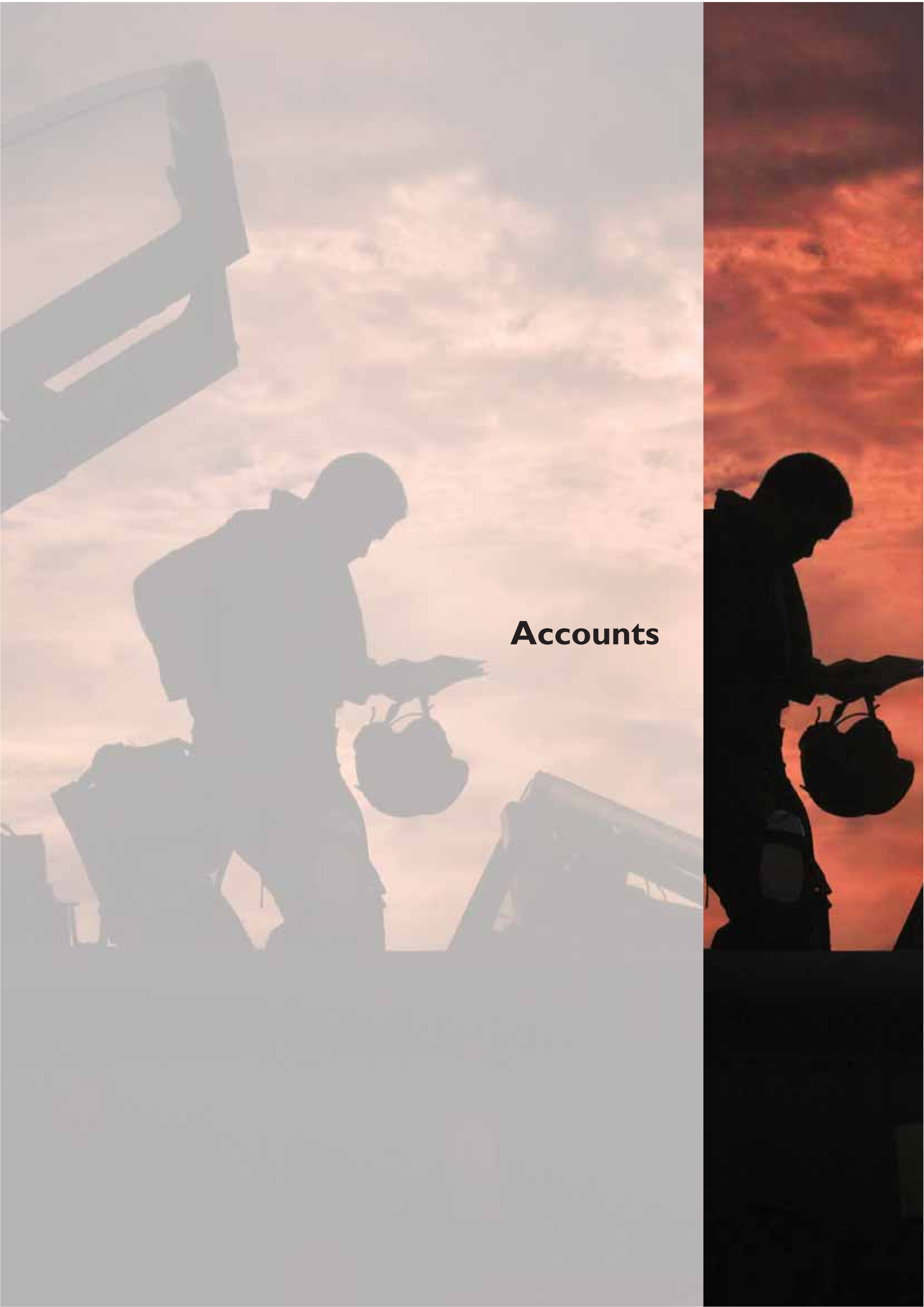
vii. Mr P D Foxton is a member of the Premium scheme.

viii. Real increase in pension and total accrued pension for Military members are based on a leaving date of 31 March 2006 (or date left DSDA) as pensions are payable on retirement and not deferred until age 60.

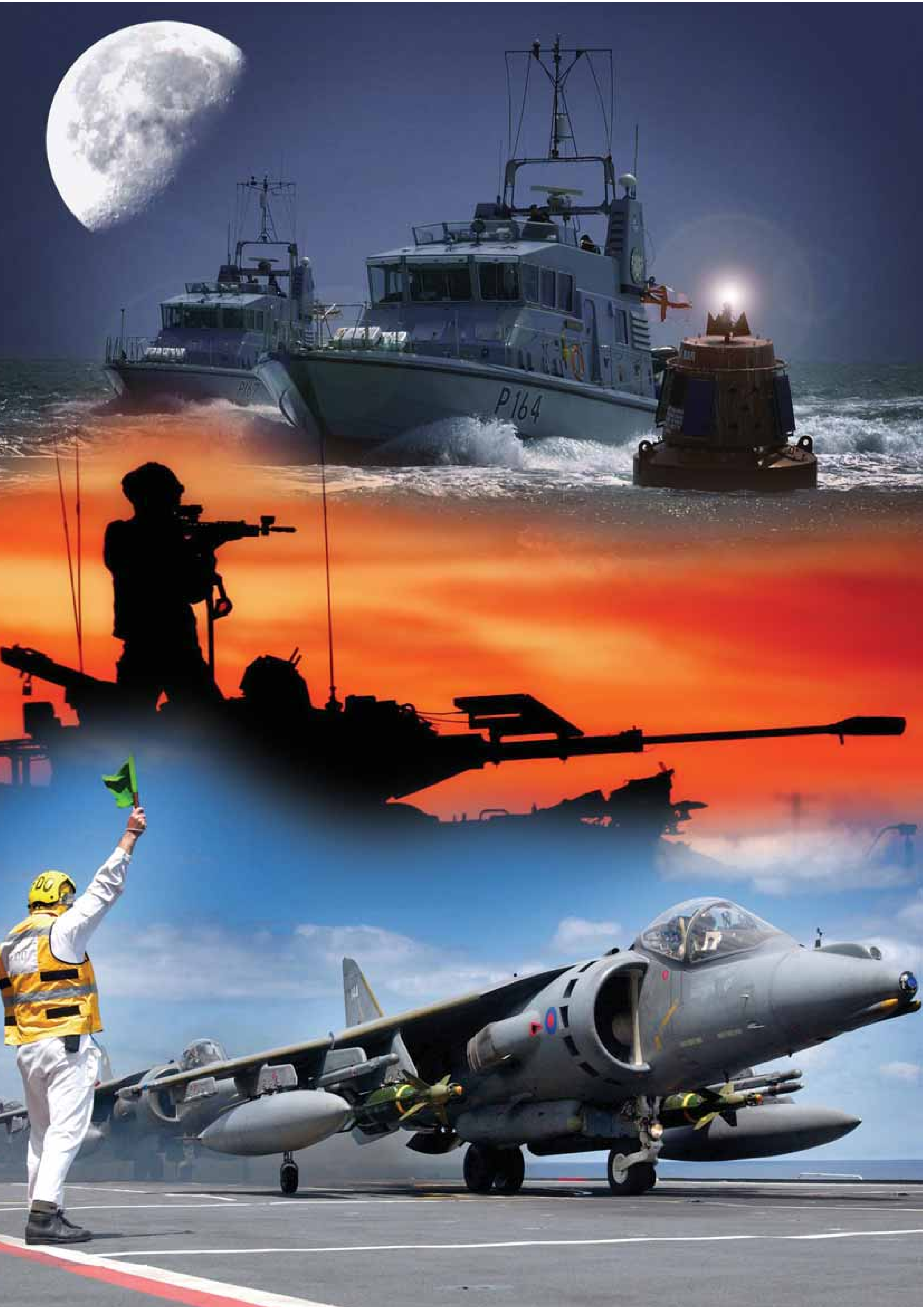
ix. Columns 6 & 7 of the above table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 8 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

x. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003/04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Mr N A Firth
Chief Executive
17 July 2006



Accounts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Statement of Internal Control

Scope of Responsibility

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

Background

The Agency is currently restructuring due in the main to the outcome of the Future Defence Supply Chain Initiative (FDSCi). This has generated significant turbulence with the revision of roles and responsibilities and change of personnel in many key posts. As part of this change I personally did not take up appointment as Chief Executive until 3 April 2006.

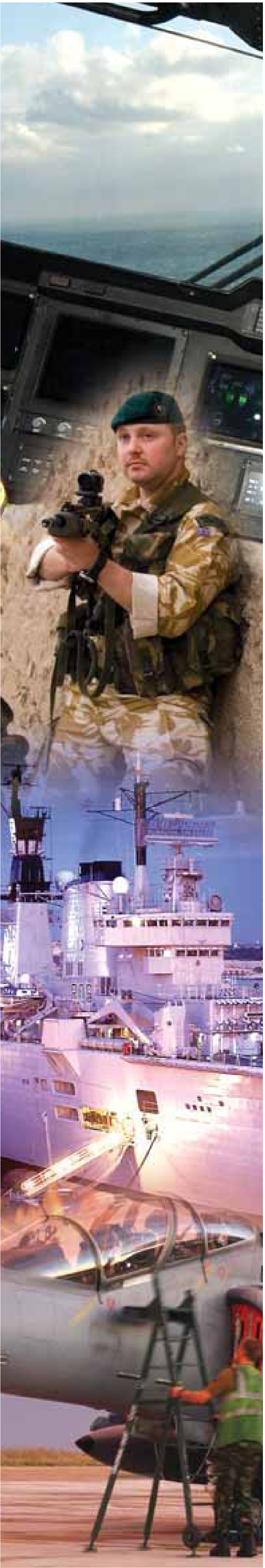
Within this restructuring the control of the Agency is being centralised using a matrix management structure with a 'Shared Service Centre'. During the year the Agency has seen a transition towards Business Stream and Functional Directors. Currently all staff in these appointments are employed on an 'interim' basis. The guiding governance principle applied during this transitional period was that existing controls remained extant and were maintained until replaced; this lessened the risk of the internal control process becoming ineffective.

Purpose of the System of Internal Control

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

Capacity to Handle Risk

The Agency's Deputy Chief Executive is the nominated Business Risk Management lead within my Management Board and day to day control of the risk management process rests within the Corporate Governance Unit. The Agency Audit Committee is responsible for reviewing the Agency Risk Register and the internal assurance programme.



The Risk and Control Framework

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

The Corporate Governance Unit liaises with the Chairman of the Audit Committee and Deputy Chief Executive (DCE) to ensure that the Agency Risk Register is regularly reviewed at the Audit Committee and Management Board. DCE is responsible for providing the relevant updates and revisions and reporting the Agency Top Risks to the Enabling Layer Corporate Governance staff. The Agency uses the database software provided by the Defence Logistics Organisation, introduced during the reporting period, to record risks identified within the Agency.

Review of Effectiveness

As Chief Executive and Accounting Officer of the DSDA, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Corporate Assurance team and the Executive Managers within the Agency. They have responsibility for the development and maintenance of the internal control framework, taking cognisance of comments made by the external auditors in their management letters and other reports.

Whilst I am content that the internal process for identifying risk has been correctly adhered to I recognise that the change in key personnel has significantly impacted upon the Risk Management Process. The loss of the interim Chief Operations Officer together with the change in Chief Executive and both Non-Executive Directors leaving before the end of the financial year has placed a strain on the Agency's internal control mechanism. Equally the uncertainty during the year of the future role of DSDA has prevented the Risk Management process being effectively managed and as a result the Audit Committee was not able to provide assurance on a quarterly basis. The Audit Committee met only twice over the past year.

The Management Board and the Audit Committee have advised me on the implications of the result of my review of the effectiveness of the system of internal control and a plan to address weaknesses and ensure continuous improvement of the systems is developing. No significant internal control weaknesses were identified during the past year.

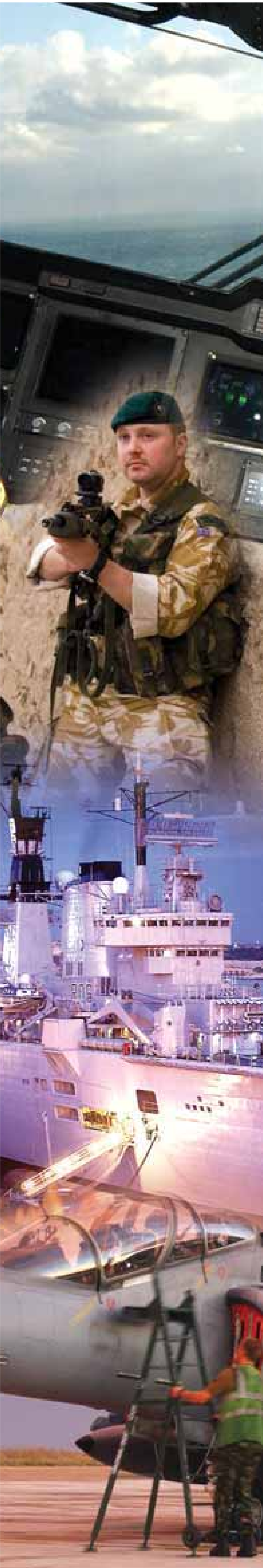
In line with Departmental guidance, the following processes have been established:

- A Management Board which meets in 10 months of the year to consider and approve the plans and strategic direction of the organisation. It will comprise the senior members of the DSDA and has two external independent members, both of whom are also members of the Audit Committee and one is Chairman.

- A weekly meeting between myself and my Executive Directors, to discuss daily business and potential problems.
- A series of bilateral meetings with Head Office Directors and Business Unit Directors.
- For the Financial Year 2005/06 a Corporate Governance Unit was established within the Agency. This brought together the workstreams of SHEF, Internal Assurance, Technical Inspection, Materiel Accounts Control, and Business Continuity. The Head of Corporate Governance is a member of the Audit Committee. For Financial Year 2006/07 the functions will be divided and the Assurance role will be the responsibility of the DCE and the remainder will be the responsibility of the Director Operations.
- The Agency has various internal sources of assurance, which include an Inspection & Audit Team, a Munitions Compliance Group and Finance Health Checks. Further to this, Letters of Delegation are issued to all Directors and Heads of Establishment on their arrival in post. I will be looking to see how I can better target these activities towards mitigating the risks to the achievement of objectives.
- Business Continuity Plans are widely in use across the Agency and this area is recorded in the Agency and Business Unit Risk Registers.
- A Fraud and Theft Policy is communicated throughout the Agency and reviewed annually. All incidents are investigated and reported.

The role of the Audit Committee will be reviewed by Mr Michael Maher the newly appointed Non-Executive Director. He will gain advice from both the National Audit Office and Defence Internal Audit to assist in re-establishing it with revised Terms of Reference. It is a priority for the Agency to appoint a second Non-Executive Director at the earliest opportunity and discussion with DLO is currently ongoing on this subject.

Mr N A Firth
Chief Executive
17 July 2006



Statement of Agency's and Chief Executive's Responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000 HM Treasury has directed the Defence Storage and Distribution Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in their Accounts Direction dated 16 January 2006. The Financial Statements are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to:

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

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

Foreword to the Accounts

Basis of Accounts and Audit Arrangements

Introduction

The Accounts cover the period from 1 April 2005 to 31 March 2006. They have been prepared in accordance with the Government Financial Reporting Manual (the FreM) and the Direction given by the Treasury in pursuance of section 7(2) of the Government Resources and Accounts Act 2000.

Audit Arrangements

The Accounts of the Agency are audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000. A notional fee of £75,000 has been included in the non-cash costs.

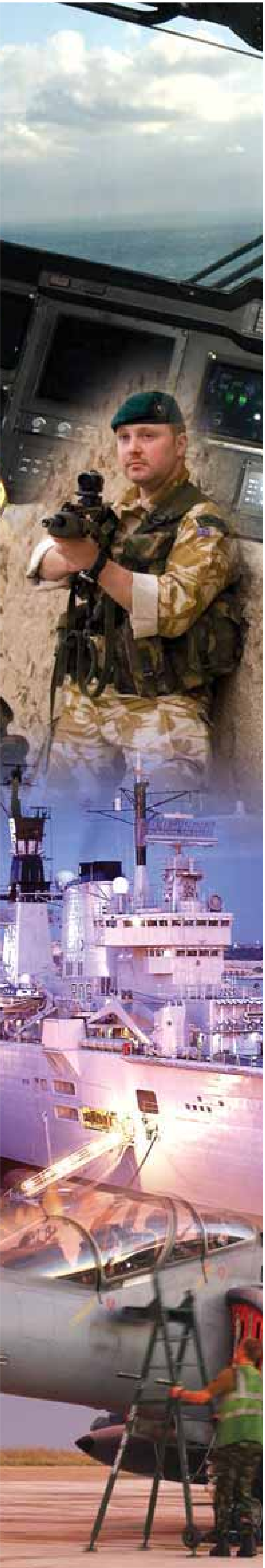
Members of the Management Board at 31 March 2006

P D Foxton CBE – Chief Executive up to 31 March 2006
R Godbold
Gp Capt W Mahon
C Scott
S Chapman
R B Blaxland (Non-Executive)
T R Sermon (Non-Executive)

Mr Neil Firth was appointed Chief Executive on 3 April 2006 by open competition, as was his predecessor Mr Foxton. Military members of the Board were appointed by normal service posting procedures. Mr Godbold was appointed by MOD Civil Service standard procedures. The Non-Executive members are independent appointments by the Agency. Remuneration is decided at national level by MOD, based on the Armed Forces Pay Review Body 32nd Annual Report, and on negotiation between MOD and Civil Service trades unions. Mrs Scott and Mr Chapman were made board members following a review of the Board structure in readiness for the outcome of the FDSC initiative.

Creditor Payment Policy

The Agency's creditors are paid either by the Defence Bills Agency or through local MOD Imprest accounts. In order to comply with departmental requirements, and to reduce pressure on local systems, wherever possible bills payable are passed to the Defence Bills Agency. For 2005/06, following the implementation of the Late Payment of Commercial Debt (Interest) Act 1998, the Defence Bills Agency has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. Actual performance during the year against this target was 99.9%, and all except one payment relating to DSDA were made within the contractually agreed credit period, or 30 days if not stated.



Statement on Disclosure to Auditors

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

Mr N A Firth
Chief Executive
17 July 2006

Defence Storage and Distribution Agency

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

I certify that I have audited the financial statements of Defence Storage and Distribution Agency for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Agency, the Chief Executive and Auditor

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

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

I report to you my opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 27 to 29 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

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

Basis of Audit Opinion

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2006 and net expenditure, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

John Bourn
Comptroller and Auditor General

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

18 July 2006

Operating Cost Statement

For the year ended 31 March 2006

	Note	2005–06 £000	2004–05 Restated £000
OPERATING COST			
Staff costs	2	129,499	127,038
Supplies and Services consumed	3	61,711	68,019
Accommodation costs	4	76,441	73,147
Administration costs	5	46,579	13,679
Loss on Revaluation of Land and Buildings		0	24,705
Stock Consumption		15,004	5,769
TOTAL OPERATING EXPENDITURE		**329,234**	**312,357**
INCOME			
From non-MOD customers	8	(26,596)	(24,217)
From MOD Trading Funds & OGDs	8	(1,277)	(1,399)
NET OPERATING EXPENDITURE		**301,361**	**286,741**
Cost of Capital Charge	6	19,369	19,639
NET EXPENDITURE	15	**320,730**	**306,380**

Statement of Recognised Gains and Losses

For the year ended 31 March 2006

	2005–06 £000	2004–05 Restated £000
Unrealised surplus on revaluation of fixed assets	4,004	90,327
RECOGNISED GAINS AND LOSSES FOR THE YEAR	**4,004**	**90,327**

The notes on pages 39 to 58 form part of these accounts

Balance Sheet

As at 31 March 2006

	Note	2005–06 £000	2004–05 Re-Stated £000
FIXED ASSETS			
Tangible fixed assets	10	586,257	613,525
Assets Under Construction	11	0	350
TOTAL FIXED ASSETS		**586,257**	**613,875**
CURRENT ASSETS			
Stocks		1,352	1,585
Debtors	12	6,007	6,818
TOTAL CURRENT ASSETS		**7,359**	**8,403**
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	13	(8,180)	(10,192)
NET CURRENT LIABILITIES		(821)	(1,789)
TOTAL ASSETS LESS CURRENT LIABILITIES		**585,436**	**612,086**
Provisions for Liabilities & Charges	14	(32,582)	(5,058)
NET ASSETS		**552,854**	**607,028**
TAXPAYERS' EQUITY			
General Fund	15	(281,459)	(350,830)
Revaluation Reserve	16	(237,169)	(237,355)
Donated Asset Reserve	17	(34,226)	(18,843)
GOVERNMENT FUNDS	18	**(552,854)**	**(607,028)**

The notes on pages 39 to 58 form part of these accounts

Mr N A Firth
Chief Executive
17 July 2006

Cash Flow Statement

For the year ended 31 March 2006

	Note	2005–06 £000	2004–05 Re-Stated £000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	9	**160,139**	**189,173**
CAPITAL EXPENDITURE			
Fixed Asset Additions – Capitalised Spend		564	571
Net Cash Outflow from Capital Expenditure		**564**	**571**
NET CASH OUTFLOW BEFORE FINANCING		**160,703**	**189,744**
FINANCING			
Net Cash Inflow from Defence Resource Account		160,703	189,744
Net Cash Inflow from Financing		**160,703**	**189,744**
NET CHANGE IN CASH		**0**	**0**

The notes on pages 39 to 58 form part of these accounts

Notes to the Accounts at 31 March 2006

1. Accounting Policies

Basis of Accounting

The accounts for the Defence Storage & Distribution Agency (DSDA) have been prepared in accordance with the Accounts Direction issued by HM Treasury on 16 January 2006 pursuant to Section 7(2) of the Government Resources and Accounts Act 2000. The accounts have been prepared under the historical cost convention, modified to include revaluations of fixed assets in accordance with the Government Financial Reporting Manual and applicable accounting standards. Without limiting the information given in the accounts, and subject only to compliance with the requirements set out in the Accounts Direction, they also:

(a) comply with the accounting and disclosure requirements of the Companies Act 1985, in so far as they are consistent with the status of an Executive Agency of the Ministry of Defence; and

(b) comply with accounting standards issued by the United Kingdom Accounting Standards Board, except to the extent they are advised as inapplicable by HM Treasury.

Merger with Defence Freight Distribution Group (DFDG), Engineer Wing (Eng Wg) and Part of Supply Chain Services (Customer Support) (SCS (CS))

With effect from 1 April 2005 DSDA took over command and control of DFDG, Eng Wg and part of SCS (CS).

		Pre-Merger		Pre-Merger	
	2004/05 Restated £000	2004/05 DSDA £000	2004/05 DFDG £000	2004/05 Eng Wg £000	2004/05 SCS (CS) £000
Net Expenditure:	306,380	285,155	8,900	10,453	1,872
Recognised Gains and Losses:	90,327	90,327	0	0	0
Net Assets:	607,028	606,874	(260)	414	0

Average number of employees during 2005/06 were 4516 for DSDA and 184 DFDG, 68 SCS (CS) and 207 Eng Wing.

All figures for FY 2005/06 are inclusive of all organisations.

Value Added Tax

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

Income

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

Notional Charges

(a) Interest on Capital
A notional charge for interest on capital is included in the Operating Cost Statement. This is calculated as 3.5% of the simple average of total assets, exclusive of Donated Assets, less liabilities at the start and end of the year.

(b) Audit Fee
DSDA is not charged an audit fee by the National Audit Office. The audit fee in these accounts represents a notional charge to reflect the cost of the service provided.

(c) Communicated charges
Notional communicated charges are included in the Operating Cost Statement in respect of services provided from and to other areas of the MOD. The amounts so charged are calculated to reflect the full cost of providing these services.

Pensions

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

Fixed Assets and Valuation

The MOD has embarked upon a Quinquennial review of Land and Buildings Fixed Assets. 20% of land and buildings are to be re-valued each year with the remaining 80% subject to a desktop valuation. The valuations were orchestrated by Defence Estates, on behalf of the Agency. Plant & Machinery, transport and computers are revalued every five years by professional valuation. All assets are revalued annually using approved indices. The life span of each asset has been assessed by professional surveyors, and is periodically reviewed.

Land and Buildings – Dwellings and Non Dwellings

All the UK land is freehold. Where the Agency is the principal user of Departmental Estate, such estate is treated as an asset of the Agency, although legal ownership rests with the Secretary of State for Defence.

Plant and Machinery

Plant and machinery, which includes non-leased mechanical handling equipment (MHE) is capitalised when the cost of acquisition, inclusive of installation, is greater than £10,000 and where the useful life is greater than one year.

Transport

Transport equipment is capitalised when the cost of acquisition, inclusive of installation, is greater than £10,000 and where the useful life is greater than one year.

IT

All computer hardware expenditure is capitalised when the cost of acquisition, including installation, is greater than £10,000.

Assets Under Construction (AUC)

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

Donated Assets

Fixed assets that have been donated in the UK or by foreign governments have been accounted for in accordance with the Government Financial Reporting Manual. Depreciation charges are matched in the Operating Cost Statement (OCS) with an equal release from the donated asset reserve. The effect of releasing an amount equal to the depreciation charge means that no charge is borne for the use of the asset through the OCS.

Depreciation

Freehold land is not depreciated. Depreciation on fixed assets is calculated to write off the cost, or valuation, less any estimated residual value, of assets by equal installments over their useful lives. The life span of each asset has been assessed by professional surveyors, and is periodically reviewed.

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

Permanent Buildings	useful economic life
Temporary Buildings	between 5 and 20 years
Standard Plant & Machinery	between 5 and 15 years
Specialised Plant & Machinery	useful economic life
Vehicles	between 3 and 5 years
IT Equipment	between 3 and 7 years

Private Finance Initiative (PFI) Commitments

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

Stocks

Stocks include consumable stocks such as general consumables, packaging and protective clothing, and are valued at the lower of cost, or net current replacement cost if materially different, and net realisable value. Equipment held in storage on behalf of other MOD entities is not included in the accounts. The value held of consumable stores at year end for Balance Sheet purposes only includes two sites where the balances are considered material (Beith and Gosport) as the values at other sites was deemed immaterial. The charges for stock consumption have increased due to the change in policy. Previously, only stock consumed directly on DSDA services were included whereas now all stock costs incurred are incorporated.

Cash/Imprest Account

Apart from minor transactions through local imprest accounts, which are cleared to nil balances at the balance sheet date, DSDA does not pay or receive money on its own account. The majority of cash payments are made, and receipts collected, by the MOD's central accounting organisations on behalf of DSDA. All transactions, both locally and centrally processed, are brought to account by the MOD in the Department Resource Account and are disclosed in aggregate in the Cash Flow Statement. The MOD charges DSDA during the year, with the gross payments, inclusive of PAYE and National Insurance contributions, due to DSDA employees. The Department, therefore, is liable for the payment of any liabilities, which may be due to the HM Revenue & Customs or Department for Works and Pensions, at the balance sheet date. These are not disclosed in DSDA's balance sheet.

Foreign Currencies

Transactions in foreign currencies are recorded at the appropriate Official Government Accounting Rate. In respect of unsettled transactions or other monetary assets and liabilities as at 31 March 2006, these have been recorded at the spot rate for the year ending 31 March 2006, the rate at which these assets and liabilities will be settled.

Reserves

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

Provisions for Liabilities and Charges

Provisions for liabilities and charges have been established under the criteria of FRS12 and are based on realistic and prudent estimates of expenditure required to settle future legal or constructive obligations that exist at the Balance sheet date. Provisions are charged to the operating cost statement. All long-term provisions are discounted at current prices by use of the Treasury's Discount Rate, currently 2.2% (3.5% in 2004/05). The discount is unwound over the remaining life of the provision and is shown as an Admin charge in the Operating Cost Statement.

2. Staff Numbers and Costs

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

	2005–06	2004–05 Restated
Permanent employees		
Service (Officers)	54	55
Service (Other Ranks)	184	188
Civilian (Non Industrials)	1,652	1,764
Civilian (Industrials)	3,085	3,235
Sub Total	**4,975**	**5,242**

Casual employees		
Civilian (Non Industrials)	42	26
Civilian (Industrials)	21	58
Sub Total	**63**	**84**
Total employees	**5,038**	**5,326**

There were 4,974 permanent staff and 70 casual staff employed at 31 March 2006.

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

	2005–06 £000	2004–05 Restated £000
Wages and Salaries	106,513	107,796
Social Security Costs	6,937	7,053
Superannuation and Other Costs	16,049	12,189
Total	**129,499**	**127,038**

1. Staff costs for casual employees, included in wages and salaries above, were £624,284 for the year.
2. Staff costs for short term temporary employees, included in wages and salaries above, were £988,234 for the year.

(c) Pension and Gratuity Arrangements

Staff are covered by the provisions of the Armed Forces Pension Scheme (AFPS) and the former Principal Civil Service Pension Scheme (PCSPS), now the Civil Service Pension arrangements (CSP).

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

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

For 2005–06, employers' contributions of **£15,916k** were payable (2004–05 **£12,113k**) at rates in the range 16.2 to 34.3 per cent of pensionable pay, based on salary bands as highlighted below.

Employer contributions for the CSP are reviewed every four years following a full scheme valuation by the Government Actuary. Following revalorisation of the salary bands, rates have increased during 2005–06.

The AFPS has had a full scheme review and new employer contribution rates have been introduced in 2005–06.

For each class of member the employer's contribution rates for FY 2005/06 and FY 2004/05 were as shown below.

Scheme and class of member	2005–06 %	2004–05 %
CSP – Non-Industrial Staff	16.2–24.6	12.0–18.5
CSP – Industrial Staff	16.2–24.6	12.0–18.5
AFPS – Officers	34.3	33.8
AFPS – Other Ranks	21.3	18.2

(d) Chief Executive's Remuneration

During the period 1 April 2005 to 31 March 2006, Mr P D Foxton received total remuneration of £94,320, (£97,938 in 2004/05).

Mr P D Foxton was a Premium member of the CSP.

(e) Civil Service Pension Arrangements (CSP)

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

1. Classic Scheme

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

2. Premium Scheme

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

3. Classic Plus Scheme

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

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

4. Partnership Pension Account

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

(f) Higher Paid Staff

The numbers and remuneration of higher paid staff, excluding the Chief Executive and Management Board members at 31 March 2006 are shown below. The salary bands exclude pension contributions and ERNIC. All staff are members of either the AFPS or the CSP.

Salary Band	2005–06	2004–05
£40,000 – £49,999	30	24
£50,000 – £59,999	6	8
£60,000 – £69,999	8	4
£70,000 – £79,999	1	0
£80,000 – £89,999	0	0

(g) Non-Executive Directors

The Non-Executive members of the Board were entitled to the following amounts in respect of Fees. Additonal travel expenses are reimbursed as appropriate.

	2005–06 £	2004–05 £
Mr R Blaxland	Consent for disclosure withheld	
Mr R Sermon	Consent for disclosure withheld	
Total	**Consent for disclosure withheld**	

1. Both NEDs relinquished their appointments on 31 March 06.

3. Supplies and Services Consumed

	2005–06 £000	2004–05 Restated £000
Office and Administration Supplies	3,048	3,686
Consultancy Support	3,343	3,483
Third Party Distribution	9,933	7,755
Security and Fire Service Costs	24,227	21,968
Externally Procured Stores and Services	1,703	1,080
Supplies and Services provided by the MOD	154	6,440
Petrol, Oils and Lubricants	2,427	2,249
Information Technology related expenditure	3,772	5,671
Vehicles and Equipment Supply and Maintenance	7,212	9,483
PFI Contract	5,892	6,204
Total	**61,711**	**68,019**

1. Increased Security due to alert state and threat of terrorism in the UK led to increase in Security Manpower and Costs.
2. Increased costs for Defence Fire Service due to operational overtime payments.
3. Supplies and Services have fallen due to support costs for Eng Wing fall directly to DSDA rather than a service in charge from RAF STC. The service in charges from DTMA for additional services are now charged directly to DSDA.
4. IT expenditure has fallen due to projects being cancelled following financial strictures.

4. Accommodation Costs

	2005–06 £000	2004–05 Restated £000
Accommodation Services	2,809	3,105
Works, Estate Maintenance and Property Management Fees	20,129	24,437
Accommodation Services provided by MOD	331	233
Domestic Fuels	15,822	11,285
Non Domestic Rate Demand	8,482	7,403
Depreciation (see Note 7)	28,136	27,104
Fixed Asset write off	2,241	0
Notional Rentals	(1,509)	(420)
Total	**76,441**	**73,147**

1. Property Management costs include £14.4m communicated costs from Defence Estates for Regional Prime Contracting.
2. Notional Rental has increased due to increase in COCC and Depreciation following Asset Revaluation.

5. Administration Costs

	2005–06 £000	2004–05 Restated £000
Medical and Welfare	235	166
Education and Training	2,802	2,525
Travel and Subsistence	2,249	1,979
Share of MOD Overheads	10,652	7,165
Charges for Provisions	29,037	582
Other Administration Costs	671	605
Permanent Diminution in value – Information Technology	858	590
Audit Fee	75	67
Total	**46,579**	**13,679**

1. Share of MOD Overheads previously included the charge in year for early departures (see Note 14). MOD overheads also reflect the changes in the capitation rates.
2. Provisions were previously shown as a share of MOD overhead but now shown separately due to the new provision created to cover the redundancies resulting from the FDSCI outcome.

6. Cost of Capital Charge

	2005–06 £000	2004–05 Restated £000
Cost of Capital	**19,369**	**19,639**

1. The Cost of Capital Charge is based on the average total net assets of the Agency exclusive of Donated Assets.

7. Depreciation Charges

	2005–06 £000	2004–05 Restated £000
Buildings excl. dwellings	24,172	25,140
Dwellings	455	368
Plant and machinery	2,728	1,036
Transport equipment	822	758
Information technology	783	876
	28,960	**28,178**
Less total charges for Donated Assets	(824)	(1,074)
Total	**28,136**	**27,104**

8. Income

	2005–06 £000	2004–05 Restated £000
Storage Facilities	5,187	3,435
Miscellaneous	21,409	20,782
From non-MOD customers	**26,596**	**24,217**
Other Government Departments	31	18
Agreed Reverse Tasking with Trading Funds	1,246	1,381
From MOD Trading Funds & OGDs	**1,277**	**1,399**
Total	**27,873**	**25,616**

1. Within miscellaneous income £17.3m relates to processing contracts with BAe systems & MBDA.
2. Agreed Reverse Tasking relates to the Army Base Repair Organisation (ABRO), which was granted Trading Fund Status on 1 April 2002, and the Defence Scientific Technology Lab (DSTL) which was granted Trading Fund status on 1 July 2001. The income is split £1.217m ABRO and £28k DSTL.

9. Reconciliation of Net Expenditure to Net Cash Outflow from Operating Activities

	2005–06 £000	2004–05 Restated £000
NET EXPENDITURE	**320,730**	**306,380**
Non Cash Items		
Depreciation	28,136	27,104
Revaluation of Land and Buildings	0	24,705
Movement in Bad Debt Provision	(71)	0
Cost of Capital Charge	19,369	19,639
Write off of Stock	202	0
Write off of Fixed Assets	3,099	590
Notional Items		
Notional Costs	54,120	53,496
Notional Provisions	29,108	582
	133,963	**126,116**
Other Movements		
(Increase)/Decrease in stock balance	233	(229)
(Increase)/Decrease in debtors	811	(2,608)
Increase/(Decrease) in creditors	(2,012)	(2,031)
Increase/(Decrease) in provision for liabilities	27,524	(4,041)
(Increase)/Decrease in Capital Creditors	72	0
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**160,139**	**189,173**

10. Fixed Assets

	Land and buildings excl. dwellings £000	Dwellings £000	Plant and machinery £000	Transport equipment £000	Information technology £000	Total £000
COST OR VALUATION						
As at 1 April 2005	655,483	8,840	34,757	11,649	6,244	716,973
Transfers	(1,139)	0	(45)	(339)	(11)	(1,534)
Additions	0	0	36	0	456	492
Disposals	(1,127)	(30)	(546)	(138)	(77)	(1,918)
Reclassification	(4,647)	0	11,543	(6,546)	0	350
Revaluation in year	5,225	416	824	531	(1,544)	5,452
At 31 March 2006	**653,795**	**9,226**	**46,569**	**5,157**	**5,068**	**719,815**
DEPRECIATION						
As at 1 April 2005	91,560	1,441	6,106	1,876	2,465	103,448
Charged during year	24,172	455	2,728	822	783	28,960
Transfers	(213)	0	(111)	(302)	(8)	(634)
Disposals	(303)	(6)	(254)	(50)	(67)	(680)
Revaluation in Year	2,911	65	151	24	(687)	2,464
Reclassification	(3,096)	0	4,071	(975)	0	0
At 31 March 2006	**115,031**	**1,955**	**12,691**	**1,395**	**2,486**	**133,558**
NET BOOK VALUE						
As at 1 April 2005	**563,923**	**7,399**	**28,651**	**9,773**	**3,779**	**613,525**
At 31 March 2006	**538,764**	**7,271**	**33,878**	**3,762**	**2,582**	**586,257**

Additions to Fixed Assets comprise:	£000
Capitalised Spend	492
Transfer from other Management Groups	129
	621

Disclosure Note:

1. The change in categorisation of Plant and Machinery into Plant Machinery and Transport has been further refined; this has resulted in a reclassification between the two categories of £6.5m. A further reclassification of rail track and temporary buildings has taken place from Land and Buildings to Plant and Machinery. The balance on reclassification reflects the movement on the Assets Under Construction.

11. Assets Under Construction

	2005–06 £000	2004–05 Restated £000
AT COST		
Balance brought forward	350	2,467
Additions in year	0	551
Capitalised in year	(350)	(2,668)
As at 31 March 2006	**0**	**350**

1. There are no outstanding commitments relating to assets under construction at 31 March 2006.

12. Debtors

	2005–06 £000	2004–05 Restated £000
Trade Debtors	4,727	5,328
MOD Trading Funds & OGDs	1,227	1,130
	5,954	6,458
Prepayments	53	360
Total	**6,007**	**6,818**

1. All Agency Debtors at 31 March 2006 are due within one year.
2. 90% of the debtors are expected to crystallise within three months.

13. Creditors: Amounts Falling Due Within One Year

	2005–06 £000	2004–05 Restated £000
Trade Creditors	2,664	3,618
Capital Creditors	0	67
Capital Accruals	0	5
Other Accruals	5,516	6,502
Total	**8,180**	**10,192**

14. Provisions for Liabilities and Charges

	DSDA Early Retirement £000	FDSCi Scheme £000	Total £000
Balance as at 1 April 2005	5,058	0	5,058
Charge for year (unwinding)	350	0	350
Increase	682	27,601	28,283
Utilised	(1,109)	0	(1,109)
Balance as at 31 March 2006	**4,981**	**27,601**	**32,582**

1. **DSDA Early Retirement Provision** represents the future liability to pay early pensions and lump sum payments for personnel who have left the Agency.
2. The impact of the **DLO Early Release Scheme** is not included in the DSDA schemes shown above. The impact of the 41 who left under Year 1 is assessed at an in year charge of £1.4m and a provision of £1.809m. The second year of this scheme has been announced and another 28 will leave the Agency during 2006/07.
3. As part of the IAB endorsed solution to the FDSC Initiative, DSDA were allocated a redundancy provision to implement the closure of two sites and the manpower savings required to achieve the savings target of £441m over 10 years.
4. Unwinding of the Discount £350k includes £173k due to a change in discount rate from 3.5% in 2004/05 to 2.2%.

15. General Fund

	£000
At 31 March 2005	350,830
Net cash inflow from financing	160,703
Non Cash Charges:	
Audit Fee	75
Cost of Capital	19,369
Other Notional Charges	83,228
Transfer from Revaluation Reserve	2,187
Transfer to Revaluation Reserve	(14,203)
Net Operating Cost	(320,730)
General Reserve at 31 March 2006	**281,459**

16. Revaluation Reserve

	£000
At 31 March 2005	237,355
In year revaluation of Fixed Assets	3,399
Transfer to Donated Asset Reserve	(15,601)
Transfer to General Fund	(2,187)
Transfer from General Fund	14,203
Revaluation Reserve at 31 March 2006	**237,169**

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

17. Donated Asset Reserve

	£000
At 31 March 2005	18,843
Revaluation	606
Transfer from Revaluation Reserve	15,601
Release to OCS	(824)
Donated Asset Reserve at 31 March 2006	**34,226**

18. Reconciliation of Movement in Government Funds

	General Reserve £000	Revaluation Reserve £000	Donated Asset Reserve £000	Total £000
Government Funds at 31 March 2005	350,830	237,355	18,843	607,028
General Fund Movement	(69,371)	0	0	(69,371)
Revaluation Reserve Movement	0	(186)	0	(186)
Donated Asset Reserve Movement	0	0	15,383	15,383
Government Funds at 31 March 2006	**281,459**	**237,169**	**34,226**	**552,854**

19. Related Party Transactions

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

20. Private Finance Initiative (PFI) Commitments

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

Project Title and Description	Contract Start Date	Contract End Date	Charges to OCS in 2005–06 £000
Pathfinder – Barloworld contract for the provision of Material Handling Equipment.	1 August 2002	31 July 2010	5,892
			5,892

Annual payments which the Agency is committed to make during 2006–07 and future years, analysed by period in which the commitment is due to expire, are as follows:

Contract expiring within:	less than one year	2–5 years £000	5–10 years £000	10–15 years £000
Pathfinder	5,327	17,757	0	0
	5,327	**17,757**	**0**	**0**

1. The estimated Capital Value of the contract is £9,039k.

21. Post Balance Sheet Events

Post 31 March 2006 the following is disclosed as having an effect on the Agency:

Accounting for Fixed Asset – Transfer of Responsibility to Defence Estates

On 1 April 2006 the Ministry of Defence transferred responsibility for accounting for fixed assets from the Defence Storage and Distribution Agency to other parts of the Ministry of Defence. Where the Agency retains the risks and rewards of ownership of these assets they will continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21. In other cases the costs of the use of these assets will be communicated to the Defence Storage and Distribution Agency by the asset owners and charged to the operating cost statement. Consequently, these centrally accounted for assets will not be included on the Agency's balance sheet as they will be accounted for as operating leases under SSAP 21. There is no effect on the 2005/06 accounts as a result of this change, and as a result no adjustments have been made to these financial statements.

22. Non-Operational Heritage Assets

As at 31 March 2006 the Agency had the following non-operational heritage assets:

Historic Gun Collection, DSDC (North) Donnington

The museum currently has responsibility for a collection of 750 items and includes many types of small arms of British and Foreign origin. Examples of the items held are pistols, revolvers, flintlocks, rifles, air rifles, sub-machine guns, shotguns, humane killers, chain guns, anti-tank weapons, bayonets, knives, grenade dischargers, sabres and swords. A replica of the Victoria Cross Medal together with some larger weapons (consisting of a 3.7 Howitzer, Harrier Jet, 25lb Field Gun and a Royal Navy Sea Mine, located outside the DSDC (North) (Donnington HQ Building) form part of the museum holdings.

Edgehill Battlefield, DMC Kineton

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

Fort Elson, DMC Gosport

Fort Elson lies within the boundary of DMC Gosport. It was constructed between 1858 and 1860 as part of the Palmerston Fortifications built to defend against a land attack on Portsmouth Harbour and is the oldest remaining fortification of its type. The current management plan for the fort expires in 2006. A new plan for the next four years is being drawn up by the DE Environment Support Team, which will commence in 2007.

Ernesettle Fort, DMC Plymouth

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

23. Financial Instruments

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

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

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

Interest Rate Risk

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

Currency Risk

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

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

Liquidity Risk

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

24. Intra-Government Balances

	Debtors amounts falling due within one year £000	Debtors amounts falling due after more than one year £000	Creditors amounts falling due within one year £000	Creditors amounts falling due after more than one year £000
Balances with other central Government bodies	90	–	–	–
Balances with local authorities	68	–	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	1,222	–	–	–
Total Intra Government Balances	1,380	–	–	–
Balances with bodies external to Government	4,627	–	8,180	–
Total as per Note 12 (debtors) and 13 (creditors) at 31 March 2006	**6,007**	**–**	**8,180**	**–**
Balances with other central Government bodies	24		–	–
Balances with local authorities	907		–	–
Balances with NHS Trusts	–		–	–
Balances with public corporations and trading funds	1,106		–	–
Total Intra Government Balances	2,037		–	–
Balances with bodies external to Government	4,781		10,192	–
Total as per Note 12 (debtors) and 13 (creditors) at 31 March 2005	**6,818**		**10,192**	**–**

25. Losses

During the year constructive losses amounted to £2,820 for fruitless payments and £16,531 for claims that were abandoned and waived.

Longtown Roof

Advance disclosure is given for the write off that will be processed in the next reporting year. The write off for £140k is the result of a legal claim for poor workmanship on a project, however the company has since gone into receivership. The payments for the work totalled £182k but were abated by a dividend payment of £42k.

26. Contingent Liabilities

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

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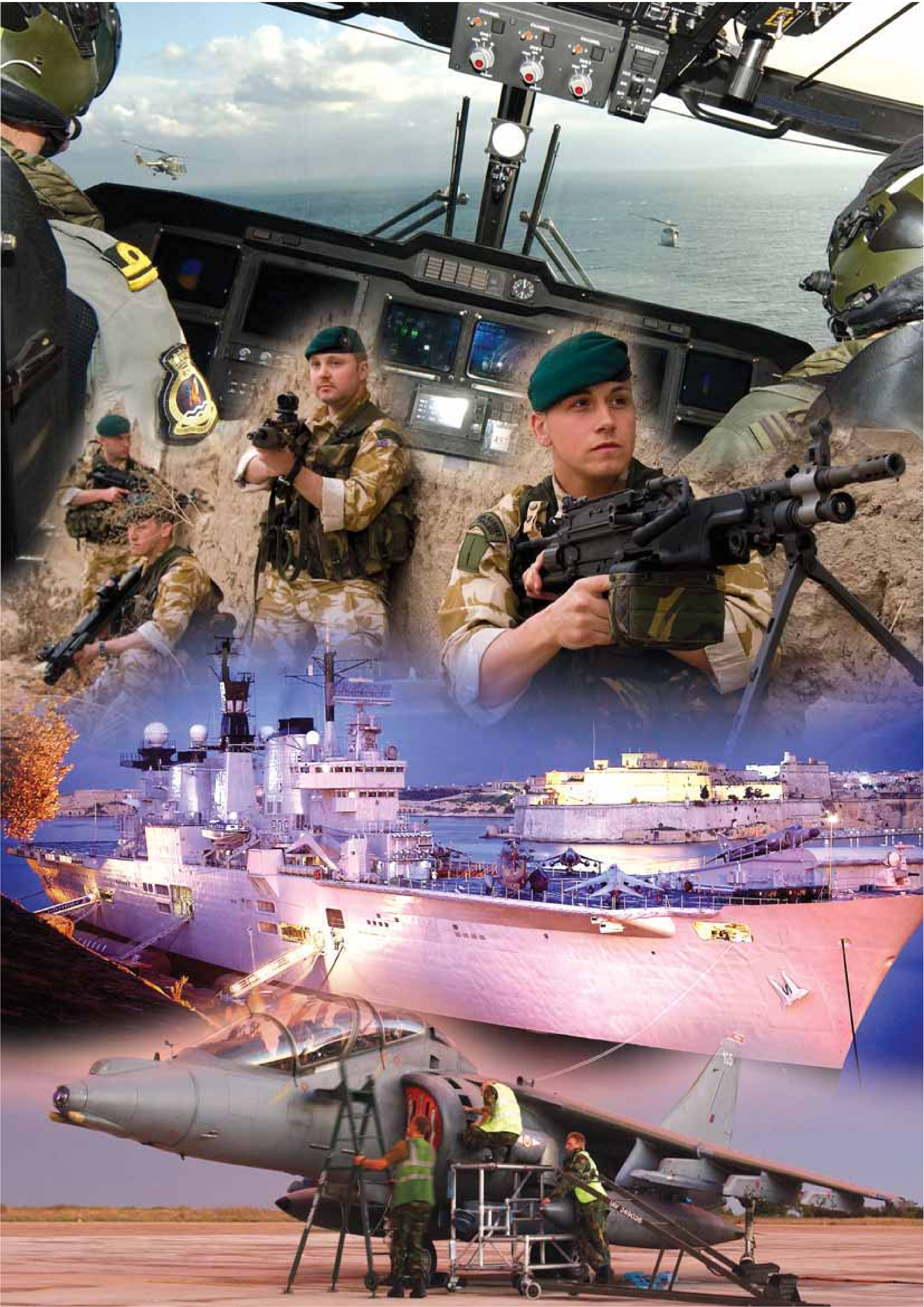

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