Defence Science and Technology Laboratory

Annual Report
and Accounts

2016/17

HC 83

Defence Science and Technology Laboratory

Annual Report and Accounts 2016/17

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HC 83

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

On 1 April 2017, in accordance with the Statutory Instrument 2017 No. 148, the Defence Science and Technology Laboratory Trading Fund Order 2011 (S.I. 2011/1330) was revoked; Dstl continuing as an Executive Agency within the ambit of the defence vote but no longer operating as a Trading Fund.

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Contents

A taste of what we do

Supporting the British Criminal Justice System

Scientists from Dstl's Forensic Explosives Laboratory (FEL) provide expert testimony in support of the UK's Criminal Justice System, examining thousands of items of evidence each year for features of forensic explosives significance. Support has been provided this year to a number of counter-terrorism operations. These include: a complex investigation involving a series of explosive devices recovered in both Northern Ireland and England; a device deployed at a London Underground station in October 2016 that caused widespread disruption; and, supporting inquests held into the deaths of British citizens killed in terrorist attacks in Tunisia in 2015 and in Brussels in 2016.

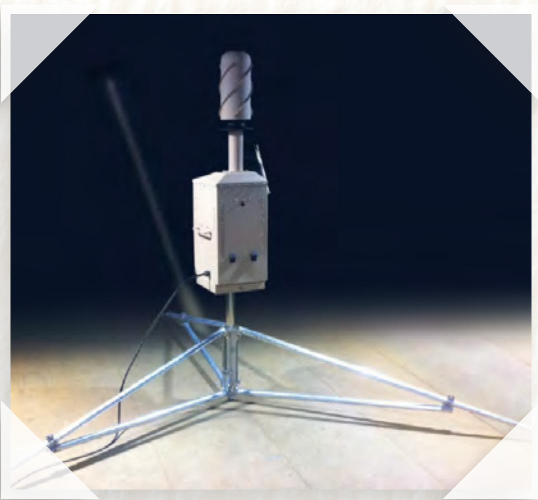
Evidence generated by FEL is also used to update UK Government understanding of terrorist threats in support of the PREVENT strand of CONTEST, the UK Government's counter-terrorism strategy. Dstl uses information about current and emerging threats to ensure its science and technology (S&T) focuses on the highest priority issues.

UK Government detection dogs play a particular role in the PREVENT strand by detecting terrorist threats before they are used, and in the PURSUE strand by identifying critical evidence after an incident.

Dstl's multidisciplinary Canine and Biosystems team, which consists of specialists in the fields of animal behaviour, performance and olfaction, conducts research to enhance the effectiveness of detection dogs. Central to the team's work is regularly testing dogs' ability to detect emerging threats, and where necessary, developing training tools and advice to gain the winning edge against terrorism.

▲ **A detection dog in action.**

This year, the Department for Transport required an understanding of how detection dogs could be used to enhance the screening for explosives and firearms inside vehicles. Dstl conducted two large-scale trials to assess how best to use dogs in these scenarios, including one at the Eurotunnel terminal near Folkestone. Outputs of this work are being used to develop transport security policy and enhance UK security.



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◀ **A collector, part of the Biological Surveillance and Collection System, which samples air for biological material.**

Protecting the UK against biological threats

The threat from the use of biological agents is one that the UK needs to prepare for – both within the UK and for military personnel abroad. Dstl scientists have been at the forefront in helping to develop an enhanced system for detecting and identifying potential biothreats in a timely manner to save lives.

The system's design has been developed under the MOD S&T Programme, which is owned by MOD's Chief Scientific Adviser, and the concept used at the London Olympics 2012. It includes remote collectors that can surround a site to help to protect it from all angles of possible attack and a central

Cutting-edge technology for close-combat soldiers

The success of military operations can often be dependent upon personnel and leaders having the right information at the right time. Not only could this be critical for meeting objectives, it could also be the difference between life and death. Dstl has been collaborating with industry to develop cutting-edge technology to benefit close-combat troops.

Most of us will be familiar with the error message 'No GPS signal' on our smart phones and satellite navigation systems – a minor albeit frustrating inconvenience. However, on military operations, loss of signal could be life-threatening.

Working with Roke Manor Research, QinetiQ, and Systems Engineering and Assessment (SEA), Dstl has developed ground-breaking Dismounted Close Combat Sensors (DCCS) to improve navigation, automatically detect threats and share this information with other soldiers and commanders.

The DCCS system uses a combination of sensors (imaging, GPS, accelerometers) to determine an individual's position in complex urban environments (inside buildings, tunnels, multiple levels etc) then determine and transfer targets to other troops and platforms at the press of a button. The integrated sensing approach is quicker, easier and less confusing than giving verbal instructions and can be extremely accurate down to the level of a specific window in a building. The system can be used in a number of ways, such as identifying the position of wounded colleagues, the location of civilians or areas suitable for helicopter landings.

Credit: Soldier Magazine

▲ **The DCCS combines data from sensors and video images.**

Dstl has also been working with Qioptiq, Leonardo and Insitu to provide ground troops with unprecedented night vision capability. Traditionally, high-quality night vision over long ranges requires heavy and bulky imaging equipment, which is infeasible for soldiers on the front line. Novel technology has been developed that gives outstanding image quality in a compact and light-weight piece of kit. Soon, MOD will be able to deliver extended detection and recognition ranges directly into the hands of the dismounted soldier.

laboratory hub to analyse material collected. Dstl scientists have been instrumental in developing this capability.

As well as making the initial recommendations to Defence Equipment and Support (DE&S) as to what technology was needed to build such a system, Dstl scientists were able to take advantage of the laboratory's unique status as the UK's only organisation licensed to test the effectiveness of new equipment with real biological agents. With this superior test and evaluation capability, Dstl played a crucial role in the procurement of this potentially life-saving system.

Dstl drew upon expertise across the organisation to provide this support, from microbiology, working in high containment and knowledge of biological detection systems through to sophisticated computer modelling. Engagement with DE&S and industry supplier Thales ensured that this first-of-its-type system was future-proofed through the use of the latest technology and well matched to the British Armed Forces' requirements, as well as being robust and affordable.

Dstl scientists will be on hand when the system is deployed to provide support, advice and assistance with the interpretation of results. They will also help to train future specialists, ensuring the UK is protected now and in the future against biothreats.

Providing evidence for major decisions in Government

From multi-billion pound procurements to landmark rulings that change the face of the UK's Armed Forces, Dstl's scientists and analysts are often at the heart of Government decisions.

In July 2016, two major defence announcements were made, both of which were backed up with extensive evidence provided by Dstl experts.

The first announcement related to the lifting of the ban on women serving in ground close-combat roles. This decision was supported by research into areas of potential risk to women on the front line. Working alongside industry and academia, our scientists contributed world-leading knowledge to Army Command's evidence base for this significant policy change. Women are now granted equal opportunities to serve in the Army in close combat, in addition to the other front-line roles in which they already serve, and our Armed Forces will benefit from the widest possible pool of talent and skills.

The second announcement related to a deal with the US Government worth £3 billion over the next decade, which included confirmation that the UK would buy nine Boeing P-8A maritime patrol aircraft. Dstl staff had undertaken rigorous analysis to inform this decision, covering areas such as anti-submarine warfare, anti-surface warfare and long-range search and rescue.

© US Navy

▲ **The P-8A Poseidon.**

The UK can be confident that the P-8A is the right choice for protecting vital UK capabilities, including the nuclear deterrent and the new Queen Elizabeth Class aircraft carriers. The importance of operational analysis in this major procurement decision highlights the crucial role of scientific expertise in the defence and security of the UK.

◀ **A Bladerunner craft fitted with the MAST system.**

Transforming Royal Navy capability with unmanned systems

The use of autonomous systems is growing rapidly and is expected to make a significant difference to the UK's maritime capability. At Unmanned Warrior 2016, the largest event of its kind, Dstl joined the Royal Navy and 40 other organisations in demonstrating the latest in these exciting technologies in realistic operational scenarios.

Dstl led one of the largest demonstrations of Unmanned Warrior, known as Hell Bay 4, which focused on marine mine countermeasures and disposal. Mine operations are slow, difficult and dangerous so, in collaboration with industry and the Royal Navy, Dstl is developing technology that will allow unmanned systems to perform these tasks.

Elsewhere during Unmanned Warrior, Dstl and ASV Ltd trialled the Maritime Autonomy Surface Testbed (MAST), an unmanned surface vehicle from which to test and evolve Royal Navy tactics. Capable of reaching speeds of more than 50 knots, MAST could help develop an unmanned fleet of surveillance and reconnaissance vessels with the ability to operate safely at high speed, autonomously generating and executing routes to track or survey other vessels while avoiding collision.

Dstl was also involved in several other aspects of the exercise, including the use of underwater and wave gliders to detect sub-surface oceanographic features and feed this data back in near real-time to aid operations. This type of information is fundamental to the success of an autonomous capability.

Unmanned Warrior not only showcased the breadth and skills of Dstl scientists but also Dstl's resolute commitment to ensuring that the Royal Navy has the very finest equipment and resources both now and for the future.

PERFORMANCE REPORT

Dstl's Performance Report is designed to help the users of our annual report and accounts understand our organisation's story. On the following pages, we provide information about Dstl, our strategy, the principal risks that we face in the delivery of that strategy, and analysis of our performance. These pages will complement the details in our Financial Statements, which begin on page 61.

Our Performance Report contains two sections:

An **Overview**, which begins on page 6, is a short summary that we hope provides enough information to understand what we do and why we do it, our purpose, our key risks and how we have performed over the past year.

A **Performance Analysis** section, which begins on page 18, is a more detailed summary explaining how we measure our performance. The section uses information from other parts of our annual report and accounts, and provides longer-term trend analysis.

OVERVIEW

Chief Executive's statement

I am pleased to introduce the Dstl Annual Report and Accounts 2016/17

Despite a challenging year financially, we have continued to deliver outstanding cutting-edge scientific support to our customers in the United Kingdom Armed Forces, the Ministry of Defence (MOD) and across security sector departments and agencies. This report provides some examples of the ways in which we support front-line operations, counteract terrorist threats, enable better decisions, and protect and equip our Armed Forces. We do this through a range of programmes and projects delivered in close partnership with companies, universities and other Government laboratories, both in the UK and overseas. However, much of what we do cannot be shared in reports such as these because that classified work rightly needs to be kept secret from our adversaries.

In our *Corporate Plan 2014-2019*, we set out a new ambition to understand better and to harness a range of emerging 'disruptive' technologies for the benefit of our customers. Three years on, it is satisfying to see that strategy bearing fruit. For example, our leadership at the heart of the UK's quantum initiative has catalysed significant national investment and ground-breaking advances with partner universities and laboratories and now offers potentially game-changing opportunities in quantum sensing, navigation and timing. Similarly, our work in autonomy and unmanned systems has underpinned a number of seminal trials that demonstrate to our Armed Forces the opportunities to deliver defence capability in a radically different way. Finally, our work on directed energy has reached the point where we are working to field a high-powered laser weapon at sea – offering the Royal Navy a more cost-effective means of protecting warships from missile threat. We expect to continue investing in new technologies and innovative solutions, guided by MOD's Chief Scientific Adviser.

This past year, we have commemorated 100 years of defence science and technology at Porton Down. This included inviting the BBC to film a documentary on our history in chemical and biological warfare, which achieved record viewing figures and gave, I believe, a well-balanced sense of how the Dstl of today helps to protect our Armed Forces and the British people from a wide variety of harms and threats.

Although owned by MOD, we provide vital support to a wide range of security sector customers, in line with priorities set out in the 2015 *Strategic Defence and Security Review* and the *National Security Strategy*. Therefore, we are delighted that MOD and the Home Office (HO) have agreed to integrate the HO's Centre for Applied Science and Technology (CAST) with Dstl. Detailed planning for this is well advanced and, when complete, will provide more coherent, resilient and vibrant capability for our customers.

Finally, our success as an organisation depends on the rich, diverse talent and exceptional dedication of our workforce. In an uncertain and dangerous world, I am hugely grateful for their wholehearted professional commitment, as public servants, to harness science and technology for the defence and security, and prosperity, of the UK.

Jonathan Lyle

Jonathan Lyle | Chief Executive
7 June 2017

Who we are and what we do

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

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

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

We deliver politically sensitive projects and those of national security from our sites at Porton Down, Wiltshire; Portsdown West and Alverstoke, Hampshire; and Fort Halstead, Kent. We deliver other work in close partnership with industry, universities and international partners. This year, we have continued to make progress on our Helios Project to transfer key capabilities from Fort Halstead to Porton Down and Portsdown West.

Our major customer is MOD's Chief Scientific Adviser (CSA), who currently places approximately £350 million of work with and through us every year (the MOD S&T Programme). We also provide in-Government S&T support on highly sensitive issues of national security to non-MOD customers – the Home Office; the Department for Transport (DfT); the Centre for the Protection of the National Infrastructure (CPNI); and, the National Cyber Programme with MOD and the Cabinet Office. During 2016/17, as a Trading Fund Agency, cash receipts against all these customers' contracts entirely funded our activities.

Since 1 April 2017, we have ceased operating as a Trading Fund but remained an Executive Agency of MOD, which has brought some changes to our governance and funding arrangements. Charges for our work on MOD programmes

Continued over page ▶

This year, our work has continued to focus on nine key capability areas:

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

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

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

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

Cyber. We find ways to defend against cyber attacks and to outsmart our adversaries in the digital age.

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

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

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

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

are recorded directly against customers' budget areas within MOD's accounting systems, while we continue to trade and be paid on a contractual basis with our non-MOD customers. Our charges are still set to recover fully our operating costs (excluding depreciation), and we receive a separately defined annual expenditure budget from MOD for our capital expenditure.

Dstl is also home to the Defence and Security Accelerator (the Accelerator). Announced as part of the Defence Innovation Initiative, the Accelerator was established on 8 December 2016 to help Government defence and security departments collaborate with industry, academia and allies to develop innovative solutions to the UK's most pressing national security challenges.

Building on the success of its predecessor, the Centre for Defence Enterprise (CDE), the Accelerator funds proof-of-concept research that offers a high-potential benefit to defence and security, opening up defence and security challenges to the widest possible audience of providers including those new to defence and to small and medium-sized enterprises (SMEs). The Accelerator also helps to take Accelerator-funded projects towards market and funds innovations for defence and security that support economic growth and prosperity in the UK.

CDE provided a strong starting point for the Accelerator – in the eight years since it was established, CDE placed more than 1,000 contracts, 43 per cent with SMEs, 29 per cent with industry and 28 per cent with academia. Since its inception during 2016/17, the Accelerator has received 355 proposals of ideas for research and development; however, due to its infancy, no funding was allocated during 2016/17.

We have a duty to maximise the benefit to the UK of the new technologies and knowledge that are developed during the course of our defence work, by licensing the Intellectual Property (IP) or creating new spin-out companies. Since 2005, our wholly owned technology transfer company, Ploughshare Innovations Ltd (PIL), has carried out this role, in partnership with our IP Group. In that time, PIL has commercialised more than 124 technologies and spun out 12 companies; it currently manages more than 50 licensees. PIL's activities have also led to the creation of more than 585 jobs, £75 million of exports and £130 million of inward investment attracted by the spin-out companies.

2016/17 was our second year as an Easy Access IP organisation. Easy Access IP supports the sharing of IP free of charge with other organisations. During 2016/17, our diverse portfolio grew to 12 technologies, including technologies relating to ultra-wideband antenna, a decontamination device and synthetic skin.

We also have an interest, with New Sarum Enterprises and GWE BusinessWest, in the Tetricus Business Incubator, which brings together experience and expertise to benefit new and growing science companies at its laboratories at Porton Down. In 2017/18, the companies that are incubated by Tetricus will move to purpose-built accommodation on a new science park at Porton Down, the building of which Wiltshire Council began in 2016 and which is due for completion in 2017.

From April 2017, following the quinquennial review of our Executive Agency status (*Trading Fund Review*) conducted in 2015, we no longer operate as a Trading Fund but remain as an Executive Agency of MOD, reflecting the secure and sensitive nature of work that we do. The Government's 2015 *Strategic Defence and Security Review* set out the approach to the UK's economic and national security, with many challenges and opportunities that continue to align well with the work that we do and the expertise that we provide or are developing. This, together with our new governance framework from MOD (see page 35), gives us a clear mandate for the S&T we will deliver for UK defence and security – now and into the future.

▶ *See page 35 for our new governance framework*

Our plans for the future

As a Government organisation, we are uniquely placed to understand current and future threats and counter threats, and to provide innovative solutions using internal and external expertise. We will continue to deliver high-impact S&T to keep UK Armed Forces and the British people protected from harm

The 2015 *National Security Strategy* and the *Strategic Defence and Security Review 2015* (SDSR15) clearly describe a rapid and fundamental change to the world. We are seeing long-term shifts in the balance of global economic and military power along with continuing competition between nations and the emergence of more powerful non-Government controlled organisations. Continued globalisation and rapid advances in technology, while bringing huge opportunities to the UK and its allies, result in an increase in the scale, diversity and complexity of the threats that the UK faces.

There are four key challenges for us that arise from this strategic context:

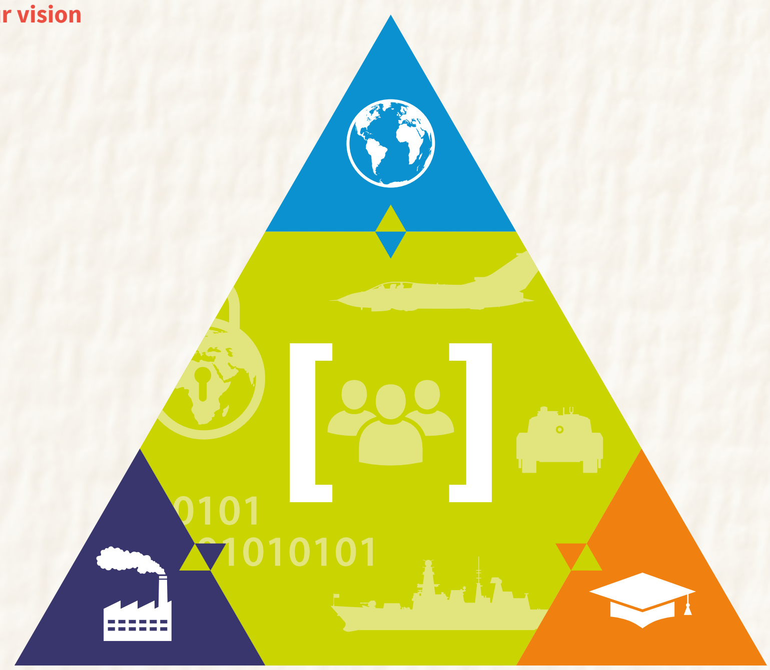
1. the increasing threat posed by terrorism, extremism and instability
2. the resurgence of nation-based threats and intensifying wider competition between nations
3. the impact of technology, especially cyber threats and wider technological developments
4. the erosion of the rules-based international order, making it harder to build consensus and tackle global threats.

We will continue to support a number of defence and security operations around the world, providing critical advice and technological solutions. In addition, we will continue to provide research and development across the full breadth of S&T capabilities within Dstl and our partners and suppliers.

The key drivers that are vital for tackling growing defence and security challenges continue to be:

- cost reduction (more effective use of capability and better use of people)
- innovation (generating ideas and putting them into practice to overcome challenges and seize opportunities)
- robust analysis to support key decisions
- ensuring the delivery of solutions across all the Defence Lines of Development (Training, Equipment, Personnel, Information, Doctrine and Concepts, Organisation, Infrastructure and Logistics).

Our vision



Our purpose and vision

From 1 April 2017, we have a renewed purpose, which supports the recommendations from the 2015 *Science Capability* and *Trading Fund* reviews. MOD's Defence Science and Technology (DST) Directorate, under the guidance of MOD's Chief Scientific Adviser and the direction of the MOD Research, Technology and Innovation Board (RTIB), leads the work to commission the S&T portfolio of work resulting from the MOD S&T Strategy. Our focus is to deliver S&T for the defence and security of the UK, and carefully and responsibly manage and protect the current and future S&T capabilities to do this, working with others wherever possible.

Continued over page ▶

Our renewed purpose is:
to deliver high-impact S&T for the UK's defence, security and prosperity.

Our vision, which describes the organisation we aspire to become during the lifetime of our *Corporate Plan 2017–2022*, is:
to be recognised and respected for the impact S&T has on the defence, security and prosperity of the UK. Working safely and easily with others from industry, academia and allies, we will develop and deliver solutions with sustainably healthy defence and security S&T capabilities. Dstl will be an inclusive place to work with a strong team of engaged, impartial and motivated employees who understand how their work makes a difference.

Our strategic objectives

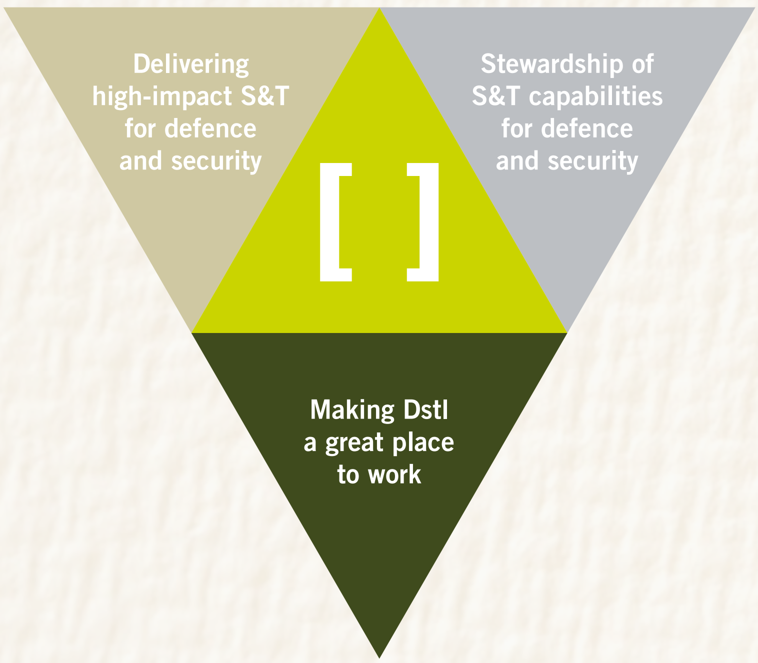
To achieve our vision, we have three strategic objectives:

To deliver high-impact S&T for defence and security
Continuing to deliver high-impact S&T for defence and security will play a critical part in maintaining the UK's advantage over its adversaries and contributing to the broader UK economy. We will continue to deliver high-impact S&T for all our customers, and in collaboration with colleagues in DST, we will demonstrate the value of our work to all our stakeholders. A key component to successful delivery is consistency: quality and environmental objectives have been established to deliver our strategic objectives.

To steward S&T capabilities for defence and security
We are charged by MOD to steward S&T capabilities – both inside Dstl and in industry, universities and other partners – so that the right capabilities are ready and available now and in the future for the UK's defence and security. Stewardship means taking responsibility for overseeing and protecting these S&T capabilities. This objective places a renewed emphasis on this activity.

To make Dstl a great place to work
Continuing to make us a great place to work will help to have a diverse, engaged and motivated workforce that excels at delivering high-impact S&T, feels listened to and valued, and feels able to contribute to the best of their abilities. Not only does this benefit our delivery of S&T, we become an organisation that is attractive to our customers, partners and suppliers. Also by investing in our estate, we will keep our facilities up to date and attractive to our workforce and to potential future employees.

Our strategic objectives



Our underpinning corporate strategy

In achieving our vision through our three strategic objectives, there is one issue that is fundamental to our future success: sustainment of S&T capabilities. These capabilities, whether in Dstl or in the wider supply chain, are all needed to counter the rapidly evolving and increasing number of threats to the UK.

We have developed a key corporate strategy – Working With Others – which builds on our past and present success, and delivers a strategic shift in the way we will work in the future.

Successful delivery of the Working With Others strategy will have benefits such as:

- increased innovation
- increased number of experienced people
- improved careers
- improved financial resilience
- improved exploitation.

What could stop us achieving our objectives

This year, we have continued to develop our risk management system to drive the effective delivery of our business. Risk discussions are a key component of Board and Executive business, with members regularly reviewing our Corporate Risk Register (CRR) to ensure it captures the threats and opportunities that we face as an organisation and to enable sufficient and appropriate management action

Our CRR comprises two tiers of risk: strategic risks – those risks that threaten (or enhance) the existence of Dstl and/or the defence and security of the UK; and, operational risks – those risks that threaten (or enhance) the effective operation of Dstl.

To facilitate the management of our CRR, each corporate risk has a lead Executive Director who is responsible for the risk and its treatments. Our Corporate Affairs Function holds quarterly Risk Review Working Groups, comprising representatives of the Dstl Executive, to review and update the CRR. An updated version is then brought to the Executive team for review and approval.

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

As at Quarter 4 2016/17, our CRR comprised seven strategic risks (six threats and one opportunity) and five operational risks (threats only). See the table below for Dstl's strategic risks.

Further information on our operational risks and our risk rating criteria, and about our risk management process more generally, is provided in our Governance Statement on page 40.

Strategic risks
Strategic risk 01 (S01) – Threat **Significant drop in funding.** A significant drop in funding (including capital and resource) as a result of Government spending constraints results in the loss of critical and/or key S&T capabilities for the defence and security of the UK.
Strategic risk 02 (S02) – Threat **Change in MOD strategic direction.** A change in MOD strategic direction limits Dstl's ability to make an impact across both defence and security.
Strategic risk 03 (S03) – Threat **Limited operating freedoms.** Dstl operating freedoms are constrained post establishment as an Executive Agency that its ability to deliver its Purpose, Role and Strategic Objectives as directed by MOD is inhibited.
Strategic risk 04 (S04) – Threat **Loss of customer confidence.** A loss of customer confidence reduces Dstl to a necessary but non cost-effective niche supplier.
Strategic risk 05 (S05) – Threat **Change in international or national Government policy.** A change in international policy or national Government policy weakens Dstl's delivery ability and reputation.

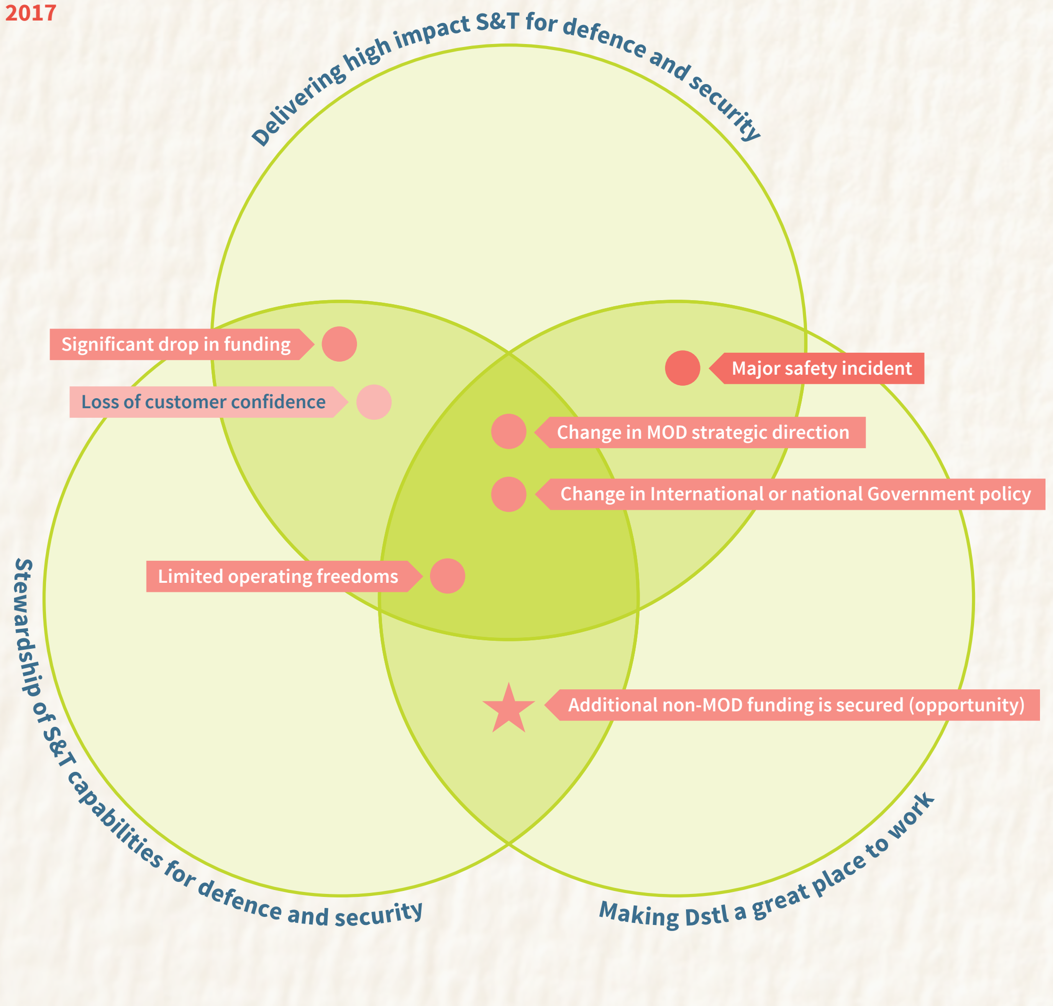
Continued over page ▶

Strategic risks (continued)

Strategic risk 06 (S06) – Threat
Major safety incident. Inadequate controls and an immature safety culture result in a major safety incident leading to the cessation of Dstl operations at one or more of its sites, severe reputational damage, and an inability to deliver against current and future customer requirements.

Strategic risk 07 (S07) – Opportunity
Additional non-MOD funding is secured. Dstl is able to secure additional funding from other Government departments (i.e. non MOD) and non-Exchequer sources ensuring the continuity of its purpose and role and demonstrating its ability to deliver impact across Government.

Our strategic risks at 31 March 2017



▶ *See page 42 for our operational risks*

Our sales and costs

Our overall financial performance remained strong despite the challenge of short term constraint to our customers' programme funding

David English | Finance Director

Sales

Sales for the year decreased by 4.1 per cent to £587 million (2015/16: £612 million) following last year's decrease of £41 million. An analysis of key top-level customer groups is set out in the table below:

	2016/17 £ million	2015/16 £ million
MOD		
Chief Scientific Adviser	351	382
Other	185	182
	536	**564**
Non-MOD		
Wider UK Government	33	31
Non-Exchequer	11	10
Estates	5	5
Intellectual Property	2	2
Total	**587**	**612**

MOD accounted for 91 per cent of sales (2015/16: 92 per cent). The majority of MOD sales are attributable to the MOD S&T Programme, which is owned by MOD's Chief Scientific Adviser, where sales decreased by £31 million to £351 million (2015/16: £382 million). This programme represents 60 per cent of total sales (2015/16: 62 per cent).

Other MOD sales represent continuing strong demand for work that needs to remain within Government. The largest element relates to Defence Equipment and Support (DE&S), which decreased slightly to £107 million (2015/16: £110 million). Sales to Joint Forces Command increased to £37 million (2015/16: £31 million) with sustained priority given to responding to rapidly emerging and ever-changing threats. Business with the rest of MOD remained similar at £41 million (2015/16: £41 million) reflecting the financial constraint affecting all customer budgets.

Non-MOD sales increased to £51 million (2015/16: £48 million) due to an increase in security-related work such as homeland security and cyber defence, which continue to receive prioritised funding within constrained Departmental expenditure budgets. Non-Exchequer income relates mainly to collaborative and jointly-funded work on behalf of defence allies and alliances.

Cost of sales

Cost of sales decreased by £36 million to £239 million (2015/16: £275 million), representing 42 per cent of all work delivered in the year (2015/16: 47 per cent). Funding uncertainties led to delays in the placement of external research contracts, and unforeseen short-term constraints within the year led to temporary pausing of work already committed. While we continue to aspire to conducting a greater proportion of our programme through industry and academia partners, this requires stability of longer-term funding to underpin commitments to undertake such work.

Operating expenses

Operating expenses increased by £20 million to £327 million (2015/16: £307 million). Staff costs have decreased by £1 million to £200 million (2015/16: £201 million) and account for 61 per cent of total operating expenses (2015/16: 65 per cent). This results from a higher average staff cost, applied to an average total workforce 2.1 per cent lower than last year. Non-permanent staff at year-end accounted for 8 per cent of total headcount (2015/16: 8 per cent). Most of the reduction in total staff was achieved through the non-replacement of staff leaving as part of natural turnover.

The recovery of payroll costs for Dstl staff seconded to other Government departments both in the UK and overseas (£7 million) is offset within staff costs.

	2016/17 £ million	2015/16 £ million
Staff costs	200	201
Non-staff costs	107	98
Depreciation and amortisation	23	19
Other operating income	(3)	(11)
Total	**327**	**307**

Non-staff costs increased to £107 million (2015/16: £98 million). There was a net £3 million increase in infrastructure expenditure due to higher IT licensing and operating costs, and non-recurring mobilisation costs for a new facilities management services contract, offset by a £2 million reduction in estates running costs. The previous year also included circa £5 million of windfall credits relating to the favourable resolution of long standing rent, rates and service charge disputes. The £4 million increase in depreciation resulted principally from the impairment of an asset as disclosed under Losses and Special Payments on page 58.

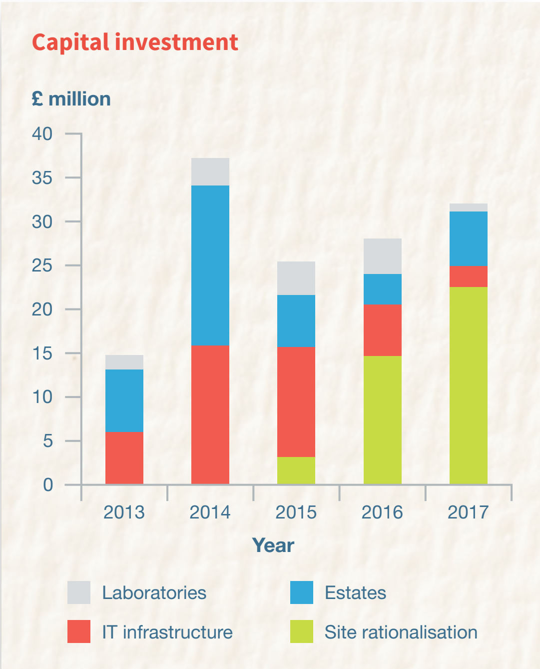
Other operating income is offset against operating expenses and decreased to £3 million (2015/16: £11 million). This principally comprises the recovery of service charges for other MOD staff occupying Dstl premises and making use of Dstl site services and amenities. Last year's figure was inflated by a one-off funding contribution from a MOD customer of £8 million towards a specialist scientific capability.

Group operating profit

Group operating profit decreased to £21 million (2015/16: £31 million). The sales decrease of £25 million and operating cost increase of £20 million, was offset by a decrease of £36 million in cost of sales, The movements are explained in more detail in the preceding paragraphs. Net profit reduced by £10 million compared to prior year.

Capital investment

Capital investment was £32 million (2015/16: £28 million). The Helios Project accounted for £23 million, with the majority of expenditure (£18 million) related to the creation at Porton Down of new experimentation and technical evaluation facilities to accommodate activities that will transfer from Fort Halstead. Other estates projects amounted to £6 million and included completion of a building life extension for biology laboratories, furnishing our flexible office working environment, and the relocation or refurbishment of trials capabilties at Porton Down. IT investment of £2 million covered replacement of network hardware and upgrades to the storage architecture. The remaining £1 million covered laboratory equipment and instruments.



Funding and treasury management

We have been funded by a loan from MOD of £32 million, which was fully drawn down in 2009/10. Repayment of the loan commenced in 2010/11 and, as preparation for the change to our Executive Agency status, was fully repaid ahead of schedule in March 2017. The average interest rate on the loan was fixed at 3.9 per cent. We ended the year with cash and short-term investments of £7 million (2015/16: £78 million), having already repaid Public Dividend Capital of £50 million.

Supplier payments
During the year, we paid 95 per cent of approved invoices within five days (2015/16: 91 per cent), against the target set by Government of 80 per cent.

Dividend
An ordinary dividend of £58.0 million was declared in March 2017, covering the balance of distributable reserves for the last three financial years.

Events after the reporting date
Other than our change of agency status, as noted elsewhere in this document, there have been no other significant events since the end of the financial year that affect the results for the year or the year-end financial position.

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

Outlook
From April 2017, Dstl ceased to be a Trading Fund and is now an Executive Agency within MOD. Our core purpose is unchanged and we continue to charge for our services and outputs. We will continue to operate in specialist areas where there are often few private sector suppliers or no effective commercial market. We have a different governance structure and a modified pricing model for MOD customers to reflect changes to our capital funding regime.

We expect continued growth in collaboration, including the possibility of sharing our specialist S&T facilities with other Government and private sector organisations. This will ensure that we derive the best return and value from significant investments in infrastructure, and help to recover such costs fairly from across our customer base.

Our Helios Project will drive further capital infrastructure investment at our Porton site over the next three years. New facilities must be commissioned before we can transfer activities from Fort Halstead to ensure no break in capability or service.

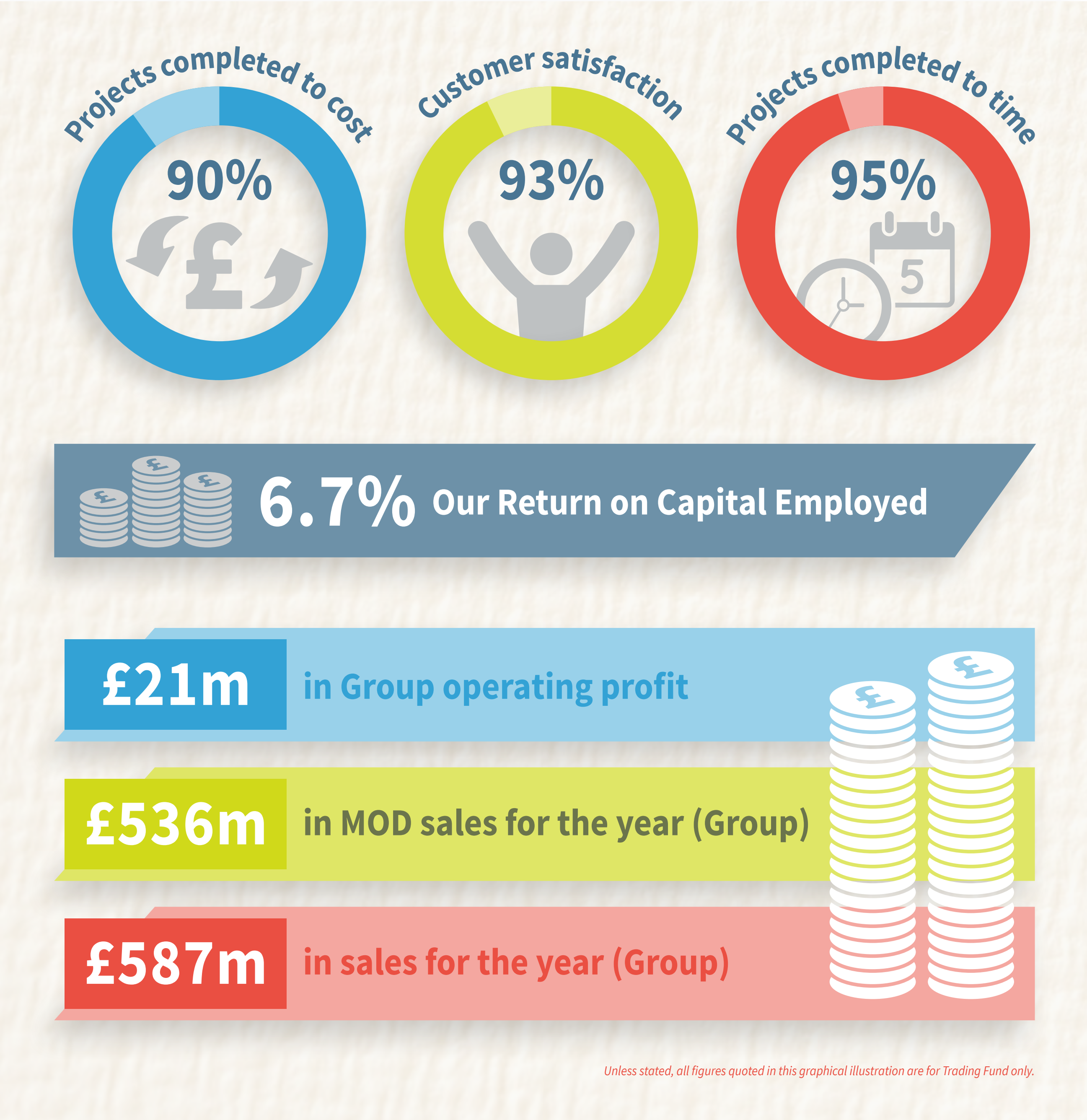
We continue to seek reductions in our running costs through our Sustainable Value for Money programme. Effective management and periodic re-competing of the contracts with our major outsourced service partners also provide opportunities to reset scope of service provision and cost benchmarks, taking advantage of wider Government procurement frameworks where possible.

We expect customer budget pressures to endure, and will need to achieve continued efficiency improvements. This will ensure that our nationally critical and highly specialised capabilities are viewed as both valuable and affordable, and support the prioritisation and preservation of customers' S&T expenditure for the long term.

How we have performed

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

Despite another challenging year where we have continued to implement the recommendations arising from both the 2015 *Science Capability* and *Trading Fund* reviews, the demand for our unique and highly specialised science and technology expertise has remained high. The following pages are a summary of our performance; this is followed by a more detailed analysis of our performance on pages 18 to 21.



2.4% of hours have been lost to sickness absence. This is the same as last year and remains below our threshold

6.5% Our permanent staff turnover has reduced from 8.5 per cent last year as the effects of 2015/16's corporate headcount reduction initiatives stabilise

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

Employee Engagement

55% Our employee engagement index was 55 per cent. This is a 1 per cent increase on last year and reversed a declining trend over the past five years

305 The number of non-permanent staff we employed at 31 March 2017

3,762 the number of Full-Time Equivalent staff at 31 March 2017

100% of official correspondence was answered on time

£11,873 raised by our staff for corporate charities

57.4% Chargeable Utilisation has decreased from 57.6 per cent last year. It has been above budget for the majority of the year

PERFORMANCE ANALYSIS

Measuring how we are doing

Business performance management and reporting has continued to evolve this year to reflect changes to our organisation and to our governance. The changes are improving accountability for business performance across the organisation

During 2016/17, our business performance management and reporting focused on embedding and improving on the changes implemented over the past two years, as well as preparing for our transition from operating as a Trading Fund from 1 April 2017.

During this period, our performance continued to be measured against the strategic objectives set out in our *Corporate Plan 2015 – 2020* and against business performance targets set out in our *Framework Document* dated 31 July 2014.

Since 1 April 2017, our performance has been measured against the strategic objectives detailed in our *Corporate Plan 2017 – 2022* and our new *Framework Document*. New or revised key performance indicators were agreed with our Board on 15 May 2017; our quarterly business performance report, demonstrating our performance since 1 April, will be presented to the Executive in August 2017.

During 2016/17, our performance assessment framework consisted of a monthly review of our key performance indicators and a quarterly business performance review, both conducted by our Executive. The business performance reviews feed into a business performance report, which is reviewed quarterly by our Board.

Positioning

Acting as an S&T hub for defence and security, we continued to place a significant proportion of our entire portfolio with partners and suppliers during 2016/17. The proportion of work delivered externally this year was 42.4 per cent, which represents a decrease compared to last year (2015/16: 46.5 per cent) due to in-year substantial unforeseen reductions to customer funding.

	Performance	Threshold
External cost of sales (%)	42.4	> 48

Delivery

As in previous years, we have maintained high delivery performance based on delivering to time, to cost and to customer satisfaction, consistently exceeding the performance targets agreed with MOD. We continued to experience high demand for our expertise, although at £585 million there was a significant shortfall in total budgeted sales and a decrease in sales compared to £610 million last year.

This shortfall was across the MOD S&T Programme, wider Government and non-exchequer sales.

	Performance	Threshold
Overall customer satisfaction with delivery (%)	93	> 93
Products delivered to time (%)	95	>85
Projects completed to cost (%)	90	>85

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

Capability

During 2016/17, we continued to ensure that we had the right capabilities for the future while also recognising the importance of meeting cost-reduction plans. We are committed to reshaping ourselves in line with future customer requirements and to ensure that our Corporate Plan remains financially viable. A preference to not replace non-permanent staff while continuing to recruit/replace permanent staff led to a decrease in the percentage of non-permanent staff this year.

	Performance	Threshold
Total staff (Full-time Equivalent as at 31 March 2017)	3,762	3,741
Non-permanent staff (%)	8.1	>12
Permanent staff turnover (%)	6.5	

Critical enablers

This year, our staff engagement index increased to 55 per cent – the first increase in the past five years (2015/16: 54 per cent; 2014/15: 57 per cent). Eight out of the nine engagement themes saw an increase in score compared to last year – with the largest increase achieved in the 'My Manager' theme. Our staff sickness absence has remained below the public sector average but has increased slightly above the threshold set out by our Owner (MOD). Operating safely continues to be our highest priority. Improvements initiated last year under the Safety Improvement Programme are now becoming embedded in our business-as-usual operations. Our Health and Safety reportable injuries per 100,000 hours worked remained low compared to other (comparable) organisations.

	Performance	Target / Threshold
Employee Engagement Index	55	> 60
Hours lost to sickness absence (%)	2.4	< 2.1
Health and Safety reportable injuries per 100,000 hours worked	0.13	As low as reasonably practicable
Greenhouse gas emissions – Scope 1 and 2 (%) (See page 22)	17	32

Our corporate financial target

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

We define our ROCE as:

a. Return – modified historic cost profit on ordinary activities before interest and dividends

b. Capital employed – average capital and reserves, being public dividend capital, long-term loans, and reserves.

	Group	Trading Fund
ROCE 2017 – 5-year average 1 April 2012 to 31 March 2017 (%)	6.7	6.7
ROCE 2016 – 4-year average 1 April 2012 to 31 March 2016 (%)	7.5	7.4
ROCE 2015 – 3-year average 1 April 2012 to 31 March 2015 (%)	7.5	7.5

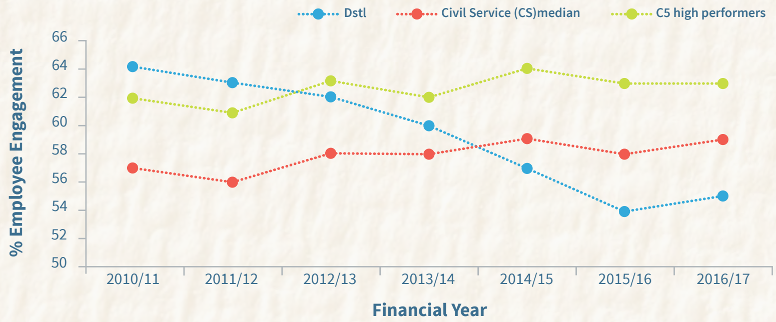
Long-term expenditure trends

Dstl's expenditure is driven by the demands of our customers and therefore future expenditure trends cannot be anticipated accurately. In the three years to 31 March 2017, Dstl's annual expenditure decreased by 12 per cent from a peak in 2013/14 (see graph below for Trading Fund only). Future expenditure will depend on our future income, and is expected broadly to follow the underlying trend in defence and security expenditure across Government. No significant increase is expected. Further details on our finances begin on page 61.

Trend analysis

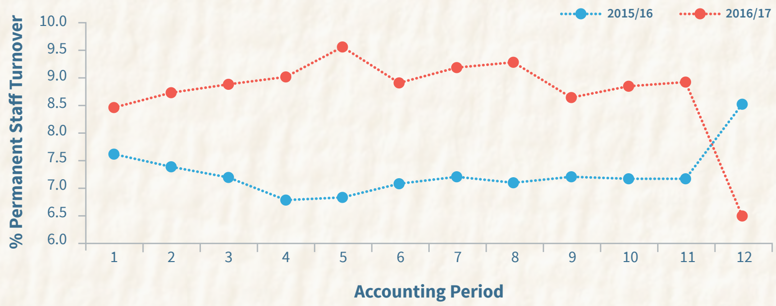
55%
was our Employee Engagement Index

Our Employee Engagement Index increased for the first time in five years, with scores increasing in eight out of the nine engagement themes.



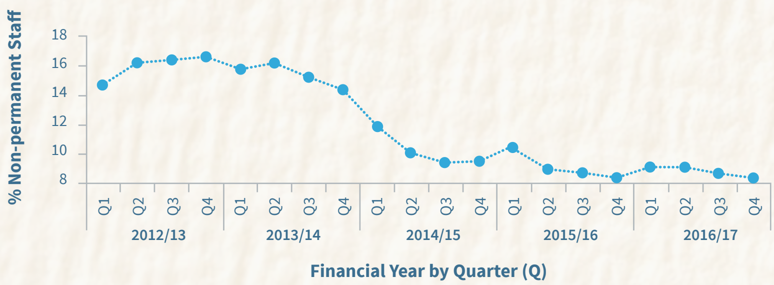
6.5%
Permanent staff turnover

Our turnover rate decreased at year end because the large number of 2015/16 early exit leavers were no longer included in the 12-month rolling average. Numbers will continue to flux in line with plans to resize and reshape Dstl.



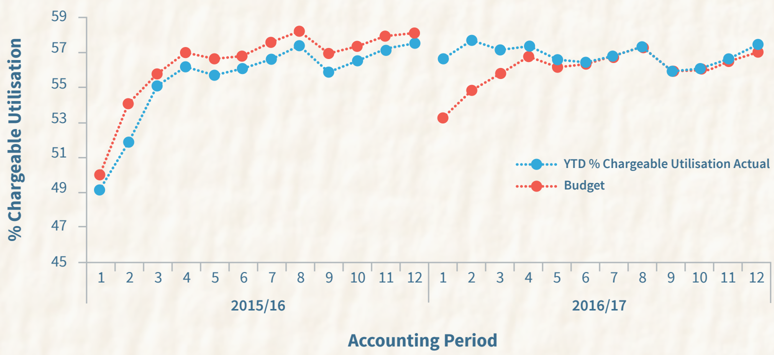
8.1%
Non-permanent workforce

Our percentage of non-permanent workers has seen some flux over the past five years decreasing by 8 per cent. This is indicative of a reduction in our flexible workforce.



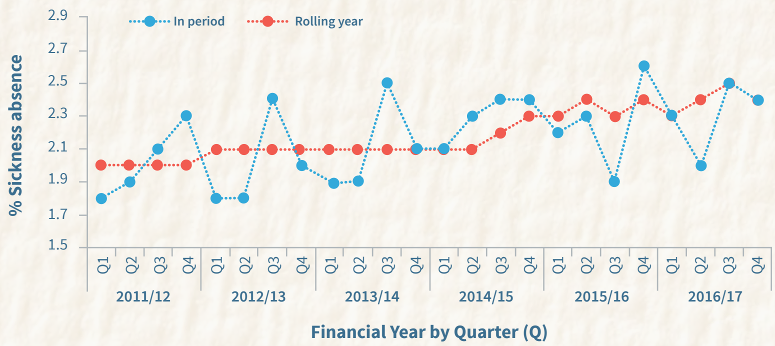
57.4%
Chargeable Utilisation

Our Chargeable Utilisation has remained above budget for the majority of the year.



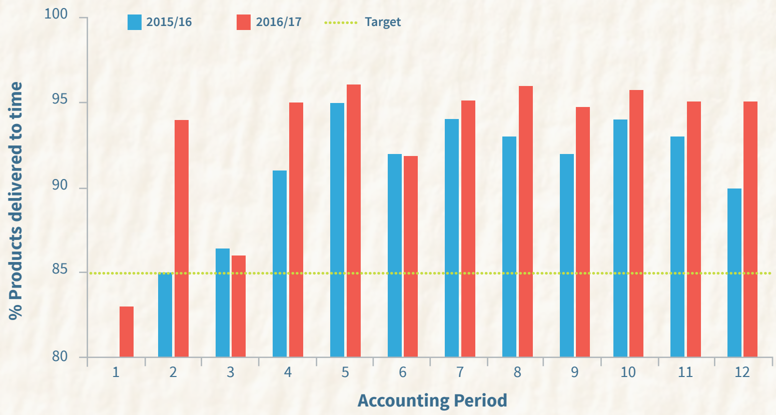
2.4%
Rolling-year sickness absence

The percentage of staff being absent through sickness has been increasing over the past six years.



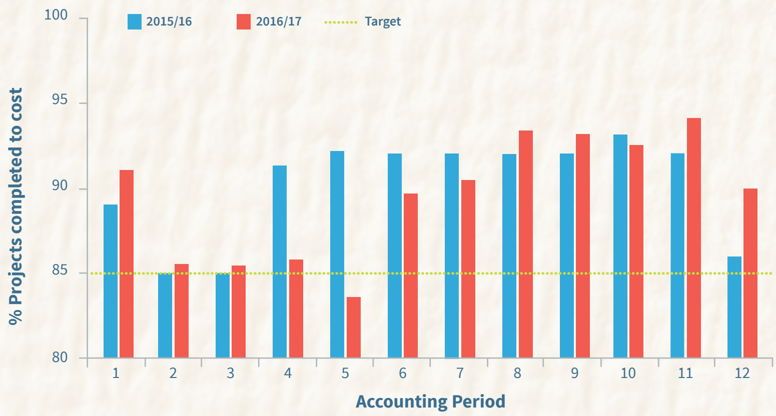
95%
Products delivered to time

We continue to see a high percentage of our products delivered to time. In most cases, this is an increase on the same periods last year.



90%
Projects completed to cost

We have experienced an increase in delivering products to cost by year end (2015/16: 86%) and remain above our set threshold.



Managing the impact of our activities

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

This year, we continued to run a sustainability programme that included environmental management, procurement, green travel, charitable giving and education outreach, while maintaining the necessary capability and infrastructure for the efficient and effective delivery of S&T.

Additionally, we have created an Environment and Sustainability Safety Technical Authority to continue to improve our activities in this area. Our sustainability policy supports the wider environment and sustainability aspirations of the UK Government and MOD. We recognise that our activities can have both negative and positive impact on the environment, people and wider communities, and we consider environmental, social and economic impacts when making decisions.

In line with MOD environmental sustainability priorities, we embed environmental and sustainability thinking into our everyday activities and we require the same of our partners and suppliers.

Environmental management

During October 2016, AFNOR UK undertook a routine surveillance of our environmental management system; it verified that we satisfy the requirements of the ISO 14001:2004 Standard. The audit identified a number of issues that have been addressed through the application of appropriate management interventions. This audit utilised a fully integrated approach to the delivery of our third-party assurance across all three of our certificated management systems (ISO 9001, ISO 14001 and TickIT Plus). This allowed for efficient and cost-effective delivery of assurance by our certification

Greening Government Commitment	2019/20 Government Operational Targets[1]	Our position at 31 March 2017	Our position at 31 March 2016
Greenhouse gas emissions (Scope 1 and 2)	32% reduction from the whole estate and UK business transport	7.1%	7.0%[2]
Greenhouse gas emissions (Scope 3 – business travel)[3]	32% reduction from the whole estate and UK business transport	17.0%	3.9%
Waste	Reduce the amount of waste going to landfill to less than 10%[4]	6.5% as landfill	7.4%
Total waste	Target is 25% reduction on baseline	55.5%	47.2%
Water	Continued reduction in water consumption[5]	15.0% water increase from 2009/10 baseline	1.9% water saving from 2009/10 baseline
Paper[6]	50% reduction	28.0%	34.0%
Domestic business flights[7]	30% reduction[8]	4.5% increase on baseline	8.5% increase on baseline

[1] Compared to a 2009/10 baseline.

[2] Greenhouse gas emissions figure for 31 March 2016 differs to the prior-year signed accounts due to greater accuracy in the data capturing process. We have restated the figure for 2016 accordingly.

[3] Data quality for baseline year was limited as it was spread over disparate systems and sources and, as such, the baseline used for comparison purposes is 2011/12 when consolidated data position was achieved rather than 2009/10. This figure includes all transport.

[4] Plus continued reduction in the waste generated and increased recycling.

[5] Internal Dstl target not set. Each Government Department sets internal targets and should continue to improve on the reductions that had been made by 2014/15. Our consumption increased at Fort Halstead this year due to some significant water leaks.

[6] Paper usage relates to supplies procured via Government contracts. Our strategic supply chain partners also use additional paper but this is not included. See page 25.

[7] Business travel is driven by the delivery activities of Dstl in response to our customer demands and needs. There were 1,098 domestic flights during 2016/17, which only accounts for 3 per cent of our overall travel CO_2 emissions. Overall travel-related CO_2 emissions have been falling.

[8] Excludes MOD Front Line Command flights.

body. Since the October audit, we have been working towards verifying our ability to comply with the ISO 14001: 2015 revision of the Standard; we are due to seek re-certification to this version during July 2017.

Our new Environment and Sustainability Safety Technical Authority was created as an element of our wider Safety Improvement Programme. This Authority has reviewed and set revised environmental objectives and targets in line with our identified significant environmental aspects and the overarching Greening Government Targets.

As reported last year, the Helios Project is still on track to deliver significant reduction in Greenhouse Gas Emissions through reduced need for inter-site travel, commissioning of more carbon-efficient building stock, improved energy monitoring and tracking, and improved ways of working.

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

Greenhouse gas emissions[1]		2013/14	2014/15	2015/16	2016/17
Non-financial indicators (tCO_2e)	Gross emissions for scopes 1 and 2 energy				
	Oil[2]	5,904	6,978	6,580	7,055
	Electricity consumed	22,317	22,468	21,743	20,521
	Gas	7,753	8,686	8,258	8,799
	LPG	123	121	84	92
	Diesel[3]	320	372	604	754
	Fugitive gases	879	872	959	869
	Electricity transmission and distribution	1,908	1,921	1,859	1,856
	Total gross emissions for scopes 1 and 2 energy[4]	**39,204**	**41,418**	**40,087**	**39,946**
	Gross emissions for scope 3 energy				
	Business travel[5] (Air, road and rail)	9,302	9,080	9,961	8,655
	Water[6]	546	535	446	478
	Total gross emissions for scope 3 energy	**9,848**	**9,615**	**10,407**	**9,133**
Financial indicators (£'000)	Expenditure on energy	6,621	6,517	6,373	5,832
	Expenditure on official business travel	9,555	9,942	10,583	8,917
	Total expenditure on energy and business travel	**16,176**	**16,459**	**16,956**	**14,749**

[1] Emissions accounting includes all scope 1 and 2 emissions along with separately identified emissions related to scope 3 emissions, which include official travel. The Department for the Environment, Food and Rural Affairs (Defra) conversion rates have been used throughout, where relevant. Conversion rates for previous years have been amended to reflect the latest Defra guidance. Where new information has become available, previous years' data has been amended.

[2] Oil for the current and previous reporting years has been split between heavy and light types.

[3] Diesel usage increased in 2015/16 as it included the red and white diesel used by vehicles for on-site activities.

[4] The total gross emissions figure for 2015/16 differs slightly to the prior-year signed accounts due to estimated data for consumed, and transmitted and distributed electricity being replaced with actual data.

[5] Air Travel carbon conversion factors now include radiative forcing, as per the latest guidance. This is a measure of the additional environmental impact of aviation, which includes emissions of nitrous oxides and water vapour at high altitude.

[6] Water figure for 2015/16 has been amended to show updated data. This impacts on the scope 3 gross emissions total for that year, which has also been restated.

Data in this section has been prepared in accordance with HM Treasury's public sector sustainability reporting guidance 2016/17 at www.gov.uk/government/publications.

Waste management

We changed our Facilities Management Supplier during the year to EMCOR UK with whom we have worked to ensure a smooth transition of waste management processes. We have initiated a root-and-branch review of our waste process and practices, including the collection and verification of waste data. The outcome of this activity will be realised during the next financial year.

This year, 70 per cent of our waste across all three core sites was reported as being recycled or used for energy generation, and 93 per cent of our waste was diverted from landfill. Dstl currently exceeds the Greening Government Target for waste destined for landfill (which is that less than 10 per cent of waste goes to landfill). This reporting year, Dstl sent less than 7 per cent of waste via this disposal route. Opportunities for further improvement are being addressed as part of the waste process and practice review.

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

Waste			2013/14	2014/15	2015/16	2016/17
Non-financial indicators (tonnes)	Hazardous waste, internal incineration, solid		207	126	121	211
	Hazardous waste, internal incineration, wet		8	20	32	8
	Hazardous waste, external disposal		61	162	468	15
	Total hazardous waste		**276**	**308**	**621**	**234**
	Non-hazardous waste	Landfill	106	118	87	64
		Reused/recycled	1,078	849	727	519
		Incinerated/energy from waste	242	204	182	166
		Composted	0	0	0	0
		IT equipment [7]	0	0	0	0
	Total non-hazardous waste		**1,426**	**1,171**	**996**	**749**
	Total waste		**1,702**	**1,479**	**1,617**	**983**
Financial indicators (£'000)	Total disposal cost		347	395	437	225
	Hazardous waste – total disposal cost		190	289	252	122

[7] Dstl disposes all of its IT equipment via the MOD Defence Disposals Agency and therefore to prevent double counting this information is excluded from this report.

Utilities

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

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

Paper. Our paper usage and expenditure data in the table below relates to supplies procured by Dstl via Government contracts. Additional paper is also used by Dstl's strategic supply chain partners but this has not been included, as the volumetric data is not available. Since December 2016, our in-house Imagery Services capability, which was previously part of our former strategic supply chain partner, sources its paper supplies from the Dstl account. This has resulted in an increase to our paper consumption figures, which has reversed a declining trend over the past four years.

Finite resource consumption – energy[8]			2013/14	2014/15	2015/16	2016/17
Non-financial indicators	Energy consumption (Kwh)	Electricity – non-renewable[9]	50,096,086	50,434,508	48,808,038	49,803,236
		Electricity – renewable	4,385	3,343	4,821	4,662
		Gas	42,134,973	47,197,533	44,872,873	47,822,305
		LPG	17,696	17,379	12,091	13,206
		Oil	22,092,749	26,128,486	25,402,163	26,358,533
Financial indicators (£'000)	Total energy expenditure		6,621	6,517	6,373	5,832
Finite resource consumption – water			**2013/14**	**2014/15**	**2015/16**	**2016/17**
Non-financial indicators	Water consumption (m^3)[10]	Supplied	188,716	165,954	168,565	215,549
		Abstracted	230,665	254,774	254,248	267,560
Financial indicators (£'000)	Water supply costs		1,316	1,876	1,582	1,519
Finite resource consumption – paper			**2013/14**	**2014/15**	**2015/16**	**2016/17**
Non-financial indicators	Volume metric tonnes (t)		40.71	37.92	32.52	35.23
Financial indicators (£'000)	Total paper expenditure		48	43	37	40

[8] The energy emissions data in this report relates to Dstl's operations from its three core sites in the UK. Dstl also has tenanted accommodation on one small MOD site – emissions from this site are reported as part of the wider MOD Sustainability Report. Dstl also has a minor number of small tenanted areas in commercially owned properties that are not included in this report. Emissions relating to our strategic partners or their supply chains are not included.

[9] Non-renewable electricity data for 2015/16 now includes actuals rather than estimated data. This figure has been restated.

[10] Water consumption and supply costs for 2015/16 now include actual rather than estimated data. The figures have been restated accordingly.

Travel

This year, to complement our existing Nissan Leaf pool car fleet funded via a grant by the Office of Low Emission Vehicles (LEV), we introduced 29 hybrid electric/petrol vehicles into our pool fleet for longer business journeys through our pool fleet provider.

To encourage staff to consider the most appropriate forms of travel when travelling in the UK, later this year we will be introducing a self-booking tool for official vehicles that explores with the booker the most cost-effective car travel option for that specific business requirement. Further development in this area is planned to maximise the use of LEVs.

Our Travel Plan Co-ordinator's achievements were recognised at this year's MOD GEMS awards, for implementing and promoting Ultra Low Emission Vehicles and Charging Infrastructure within an MOD environment. GEMS is MOD's ideas management scheme; the awards recognise ideas received throughout the year that have had the biggest impact on the environment, business processes, operations and safety.

Our travel management services are now procured through the Crown Commercial Service Framework and provide us with improved management information to enable us to understand better the travel habits of our staff, and to devise interventions that improve the use of low-carbon travel options and minimise cost.

In addition to our TelePresence video conferencing facilities, which saved 21,231 hours of travel time this year, we introduced a Voice Over Internet Protocol telephone system that allows staff to make multiple person conference calls (voice and video) and collaborate using shared work environments.

Three of our four sites are located in rural locations, with limited public transport services. In order for us to meet the needs and interests of our staff, we have this year recommissioned bus services to provide transport links between our sites and key public transport hubs located within reach of our staff.

Conservation and biodiversity

The Porton Down Site of Special Scientific Interest (SSSI) comprises 1,519 hectares and constitutes one of the largest uninterrupted tracts of semi-natural chalk grassland in Britain. The Porton Down SSSI supports rare grassland and scrub communities, together with significant populations of nationally rare plants, invertebrates and birds. An ongoing and challenging programme of scrub clearance is being undertaken by Dstl to reach the targets set by Natural England that will assist in the Porton Down SSSI achieving 'Favourable Condition' status as part of Government biodiversity 2020 targets.

We are progressing well with a major conservation project for the stone curlew bird, which looks to improve management techniques of specially created nesting plots within the Dstl Porton Down estate. The main objective of the project is to improve productivity and achieve a sustainable Porton Down stone curlew population. Historic interests on our estate are addressed with a long-term programme designed to halt any deterioration of ancient monuments caused by natural events.

Sustainable procurement

We apply the MOD Joint Service Publication (JSP) 418 (*Management of Environmental Protection in Defence*) and the MOD *Sustainable Procurement Commercial Policy Statement*, which details MOD's Commercial Policy and Guidance on Sustainable Procurement, to our activities. In line with our ISO 14001 (Environmental Management) accreditation action-planning, we are seeking to further our approach to sustainable procurement across the business starting with a clear internal strategy; the MOD policy provides the baseline for our approach. We will adapt the MOD approach, which works well when running the business (tangible goods), to our business where we are procuring significant S&T intellectual effort and research (intangible goods). Our strategy is intended to create a culture of sustainable procurement across our whole business; this includes our suppliers, of which 64 per cent are small businesses at the time of reporting. During 2016/17, approximately 31 per cent of our contracts were awarded to small to medium-sized enterprises.

Community

As a defence organisation, we are keen to support charities that help military personnel and their families. Until the end of May 2016, we continued our corporate commitment to raising funds for SSAFA (Soldiers, Sailors, Airmen and Families Association). Over our three years of support, Dstl's fundraising activities raised more than £30,000 for the charity. Since June 2016, our staff have voted to support the Forces Children's Trust and the air ambulances local to each of our sites for the next three years. At the time of reporting, we have raised £9,673 for these causes. Each November we also raise funds for the Royal British Legion poppy appeal, which this year raised a further £2,200.

We encourage staff to undertake community volunteering. This delivers many benefits in terms of building closer community links and helping staff to develop team working and leadership skills. We also encourage and support members of staff who are Reservists in the Armed Forces.

Dstl's STEM (Science, Technology, Engineering and Maths) Ambassadors work on a voluntary basis in schools local to our main sites. They promote careers in STEM and careers in Dstl, and support teachers to increase young people's engagement with the STEM subjects. Regional STEM Ambassador Hubs, which are run by STEM Learning UK, distribute the work opportunities for our STEM Ambassadors. In 2016/17, our Ambassadors supported more than 50 events in schools and colleges close to our sites. We also provided employer support to two specialist STEM schools, the South Wiltshire University Technical College (UTC) and the UTC Portsmouth.

Jonathan Lyle

Jonathan Lyle | Chief Executive
7 June 2017

ACCOUNTABILITY REPORT

Our Accountability Report is designed to meet Dstl's key accountability requirements to Parliament as the primary user of our annual report and accounts.

This report is divided into three main sections:

A **Corporate Governance** section demonstrates that we have the governance structure in place to meet our objectives and that we are compliant with the activities and codes of good corporate governance. As well as an introduction from our Chair of the Board and information about our leadership at Dstl, our comprehensive Governance Statement begins on page 35.

A **Remuneration and Staff Report** begins on page 47. This section will show how Dstl has complied with the key rules and requirements related to the remuneration of our Directors and other staff, as well as demonstrating a little of the flavour of what it is like for our staff working at Dstl.

Our **Parliamentary Accountability and Audit** section is a summary of the main information relating to resource and capital spending set by Parliament, and details about our organisation that are useful to readers of this annual report for accountability and decision-making purposes. This section begins on page 57.

CORPORATE GOVERNANCE

Directors' report

The Dstl Board has aimed to help the Executive bring stability during a turbulent year

Chair's introduction

The role of the Dstl Board is to provide advice, support and constructive challenge to the Executive, and to scrutinise organisational performance and risk on behalf of the Minister for Defence Procurement and the MOD Permanent Secretary. We have met regularly through the year, supported by an Audit Committee, chaired by a non-executive. At the end of March 2016, one of our non-executives, Liz Astall, stepped down having completed her statutory period of service; she has been replaced by Jeremy Monroe.

The year has been a turbulent one for Dstl and its Executive team. Our Board agenda has again been dominated by the 2015 *Science Capability* and *Trading Fund* reviews; their implementation has not been straightforward and has been exacerbated by repeated in-year budget constraints and savings measures applied to our customers. We sought to support the Executive in its efforts to resolve the challenges without disrupting Dstl's day-to-day work. Despite all the uncertainty, we have been impressed by the quality and quantity of Dstl's output. We have seen repeated examples of the ways in which Dstl staff contribute to the work of our security and defence forces, and of staff commitment and calibre.

As a result of the reviews, there is a new governance context in which the Board operates, though new arrangements will crystallise fully only in 2017/18. Implicit in the new model is a greater formalisation of the Board's status and a stronger role in performance scrutiny – changes that we welcome.

In April 2016, we received the report of an independent external review conducted by an experienced Board coach. It was very positive about the way the Board works, and gave us pointers to a further increase in effectiveness. In particular, we are strengthening our performance management processes in order to meet the new governance requirements. One non-executive is also chairing Dstl's new process for technical capability review. Another major programme of work has been the Helios Project to transfer the specialist work at Fort Halstead to Porton Down. We have been pleased with the way construction work has been kept on schedule through the year, and, latterly, we have supported the team's efforts to manage the costs of the final complex stages.

Looking to the future, the Board has helped to shape an organisational strategy that will provide resilience against an expectation of continued funding uncertainty. Central to this will be new ways of exploiting partnerships with external suppliers and collaborators. We look forward to continuing to support Dstl through these developments, so that it can continue to play a vital role in national defence and security.

David Pepper

Sir David Pepper KCMG | Chair of the Dstl Board
7 June 2017

Our Leadership

The Dstl Board and Executive (for the financial year 2016/17)
Our Board provides strategic leadership in delivering our objectives. It provides a forum for independent, non-executive, support and constructive challenge to our Chief Executive and our Executive Directors.

Members of the Dstl Board as at 31 March 2017		
Sir David Pepper KCMG	Non-Executive Chair	-
Gerard Connell	Independent Non-Executive Director	-
Sir David Grant	Independent Non-Executive Director	-
Dame Wendy Hall	Independent Non-Executive Director	-
Jeremy Monroe	Independent Non-Executive Director	With effect from 1 February 2017
Mark Preston	Non-Executive Director (MOD)	With effect from 2 May 2016
Jonathan Lyle	Chief Executive (CE)	-
David English	Finance Director	-
Bryn Hughes	Technical Director	-
David Marsh	Capability and Delivery Director	Appointed 18 April 2016
Joanne Peel	People and Business Services Director	-
Former members of the Dstl Board who served during financial year 2016/17		
David Marsh	Non-Executive Director (MOD)	From 1 January 2016 to 17 April 2016
Former members of the Dstl Board who served during financial year 2015/16		
Elisabeth Astall	Independent Non-Executive Director	Completed service on 31 March 2016

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

Members of the Dstl Executive as at 31 March 2017		
Jonathan Lyle	Chief Executive	-
Graham Balmer	Infrastructure Director	-
David English	Finance Director	-
Jennifer Henderson	Transformation Director (job share)	-
Bryn Hughes	Technical Director	-
Alexander Lambert	Transformation Director (job share)	-
David Marsh	Capability and Delivery Director	Appointed 18 April 2016
Joanne Peel	People and Business Services Director	-

Our Board: Non-Executive Directors of the Dstl Board (as at 31 March 2017)

Sir David Pepper KCMG
Chair

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

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

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

Declarations of Interest – other appointments and memberships
Trustee of Gloucestershire Wildlife Trust.

Gerard Connell
Non-Executive Director

Appointed to the Board on 1 October 2011

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

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

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

Sir David Grant
Non-Executive Director

Appointed to the Board on 1 June 2012

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

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

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

Dame Wendy Hall
Non-Executive Director

Appointed to the Board on 1 June 2012

Key Strengths
Scientist; leadership; strategic overview; Government relations; innovation and start-up experience.

Experience
Dame Wendy is a Professor of Computer Science at the University of Southampton where she started her career as a lecturer in 1984. She was Dean of the Faculty of Physical Sciences and Engineering from 2010 to 2014, and is currently the Executive Director of the Web Science Institute.

During her career, Dame Wendy has been involved in several start-up and spin-out companies.

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

Jeremy Monroe
Non-Executive Director

Appointed to the Board on 1 February 2017

Key Strengths
Transformation and management of change; IT strategy; programme design; customer relationships.

Experience
Jeremy started in the manufacturing industry and changed to management consultancy, becoming a partner in PricewaterhouseCoopers (PwC) and a member of its Supervisory Board.

On the sale of PwC's consulting business, Jeremy became a vice-president in IBM's public sector consulting and systems integration business.

Declarations of Interest – other appointments and memberships
Deputy Chair NHS Blood & Transplant; Trustee Seafarers UK.

Mark Preston
Non-Executive Director (MOD)

Appointed to the Board on 2 May 2016

Key Strengths
Leadership, ability to engage at all levels; strategic thinking; organisational analysis.

Experience
Mark's career in MOD spans more than 31 years. Joining as a mathematician in 1986, he subsequently joined the Fast Stream programme. He has held various senior positions in MOD including Director of Business Resilience, Director of Acquisition Reform and Director of Management and Organisation. In May 2016, he was appointed MOD's Director for Commissioning Services and was the Acting Director General for the Head Office and Commissioning Services. Mark is a Senior Civil Servant Ambassador with the 11th Signal Brigade.

Declarations of Interest – other appointments and memberships
Company Director at Sealand Support Services Ltd.

Our Board: Executive Directors of the Dstl Board (as at 31 March 2017)

Jonathan Lyle
Chief Executive

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

Key Strengths
Leadership; engineering; strategic overview; Government relations.

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

Declarations of Interest – other appointments and memberships
Non-Executive Director, Compound Semiconductor Applications Catapult Limited (with effect from 1 April 2017); Membership of the Trade Union Prospect.

David English
Finance Director

Appointed Finance Director on 1 April 2016. He joined the Board on 30 May 2015 as the MOD Non-Executive Director

Key Strengths
Finance; Government relations; governance.

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

Declarations of Interest – other appointments and memberships
Non-Executive Director of Ploughshare Innovations Ltd; Dstl Representative on the Board of Tetricus Ltd, a business incubator and associate company of Dstl.

Bryn Hughes
Technical Director

Appointed to the Board on 1 October 2015

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

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

Declarations of Interest – other appointments and memberships
Lay clerk, Portsmouth Cathedral Choir.

David Marsh
Capability and Delivery Director

Appointed Capability and Delivery Director on 18 April 2016. He joined the Board on 1 January 2016 as the MOD Non-Executive Director

Key Strengths
Leadership; programme and project delivery; commercial; scientific.

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

Declarations of Interest – other appointments and memberships
None declared.

Joanne Peel
People and Business Services Director

Appointed to the Board on 25 January 2016

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

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

Declarations of Interest – other appointments and memberships
Chair of Governors, South Wiltshire University Technical College.

Total length of service by the Board's Non-Executive Directors at 31 March 2017

	Total length of service	Date of most recent appointment	Date of expiry
Sir David Pepper [1]	2 years, 7 months	1 August 2016	31 July 2019
Gerard Connell [2]	5 years, 6 months	1 October 2016	30 September 2017
Sir David Grant [3]	4 years, 10 months	1 August 2016	31 December 2018
Dame Wendy Hall [4]	4 years, 10 months	1 August 2016	31 January 2018
Jeremy Monroe	0 years, 2 months	1 February 2017	31 January 2020
Mark Preston	0 years, 11 months	2 May 2016	N/A

[1] Sir David Pepper's initial two-year tenure as Chair of the Dstl Board expired on 31 July 2016. A three-year extension to his appointment, to 31 July 2019, was approved by the Minister for Defence Procurement (Min(DP)) on 1 August 2016. The extension is to see Dstl through its early transition from a Trading Fund.

[2] After Gerard Connell's original three-year appointment, he was reappointed for a further two years, to 30 September 2016. A further one-year extension to 30 September 2017 was approved on 1 October 2016, which will conclude his maximum six-year term as a Non-Executive Director.

[3] Sir David Grant's original three-year appointment expired on 31 May 2015; he was reappointed on 1 June 2015 for a further 14 months to 31 July 2016. On 1 August 2016, Min(DP) approved his reappointment for a further 2 years and 5 months, to 31 December 2018. This represents an exceptional extension of 7 months beyond the maximum six-year term as a Non-Executive Director, in order to see Dstl through its early transition from a Trading Fund.

[4] Dame Wendy Hall's original three-year appointment expired on 31 May 2015; she was reappointed on 1 June 2015 for a further 14 months to 31 July 2016. On 1 August 2016, Min(DP) approved her reappointment for a further 1 year and six months, to 31 January 2018.

Statement of the Accounting Officer's responsibilities

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

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

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

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

▶ *See page 61 for our financial statements*

Governance Statement

As Accounting Officer, I, Jonathan Lyle, the Chief Executive of Dstl, have responsibility for maintaining a sound system of corporate governance and internal control that supports the achievement of Dstl's purpose, role and strategic objectives, while safeguarding the public funds and MOD assets for which I am personally responsible. Our corporate governance and control arrangements are explained in more detail below

Corporate governance

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

Dstl's governance framework. We were established as an Executive Agency of MOD in 2001, operating as a Trading Fund. As per Cabinet Office guidance, all Trading Funds are subject to quinquennial reviews by their owning Departments; our last review was conducted in 2015/16. As a result of this review, we were delighted for the confirmation that we would remain part of MOD, as an Executive Agency, although, as expected, we would no longer remain a Trading Fund. We are now part of MOD's Head Office and Commissioning Services (HOCS) budgetary area. This has necessitated some changes to our governance framework, which came into effect on 1 April 2017.

I have outlined the key principles of our revised governance framework below. Although this framework was not in effect for the majority of this Governance Statement, we started to adhere to the new requirements in the last quarter of 2016/17. Our governance framework was otherwise unchanged from that reported in my previous Governance Statement, which is available to view online at www.gov.uk.

- The Secretary of State for Defence is ultimately accountable to Parliament for all aspects of Dstl's activities and performance.
- The Minister for Defence Procurement (Min(DP)) is the Responsible Minister who, on behalf of the Secretary of State for Defence, sets the strategic aims for Dstl, provides strategic oversight and direction, and accounts for Dstl's business in Parliament.
- As the MOD Principal Accounting Officer, the MOD Permanent Secretary is responsible for the overall operation of MOD and its arms-length bodies, and for sponsoring its aims in central Government.
- The Director General for HOCS (DG HOCS) is Dstl's sponsor: the senior official in MOD who supports the Responsible Minister and the Permanent Secretary by leading the executive aspects of the ownership role, including ensuring that appropriate mechanisms are in place for Dstl to operate efficiently and effectively, and is subject to appropriate corporate governance.
- MOD's Chief Scientific Adviser (CSA) supports the Responsible Minister and the Permanent Secretary by leading the commissioning function for the S&T portfolio, providing expert advice on S&T issues, and working alongside the rest of Government on wider S&T development.
- The Chief Executive of Dstl is responsible for leading Dstl and its Executive team, ensuring it is well managed, delivers its commissioned services efficiently and effectively, and complies with all necessary Departmental and corporate governance policies and standards. The Chief Executive is the Accounting Officer for Dstl.
- The Chair of the Dstl Board is a non-executive appointment from outside MOD. The Chair's role is to support the Responsible Minister and Permanent Secretary in leading the Dstl Board, setting the Board's agenda, and ensuring that the Board provides support and challenge to the Dstl Executive team in developing Dstl's strategy and delivering against Dstl's Corporate Plan.

Dstl Board

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

Sir David Pepper, as Chair, continues to be of the view that, collectively, Board members have the appropriate balance of skills, experience and qualities to discharge the Board's role and responsibilities. Indeed, last year's independent review of Board effectiveness found that "Dstl's Executive and NEDs collectively have the skill, knowledge and experience needed to effectively guide and oversee Dstl's current and future performance and capability". A summary of members' key strengths and experiences was provided on pages 30 to 33.

Dstl Board activity for 2016/17. The Board held six regular meetings during the year. In addition, it convened for an Away Day in July at the Defence Academy, Shrivenham, Wiltshire, to focus on Board development, and a special in-depth strategy-setting session in September, to discuss strategy, external factors and the broad direction of business. Those of my Executive team who are not on the Board also attended this meeting.

The majority of Board meetings were held at Dstl's headquarters at Porton Down but we also met at our sites at Fort Halstead and Portsdown West. The Chair and I were present at all meetings and there were high levels of attendance by other Non-Executive and Executive Directors.

Key business at Dstl Board meetings throughout the year. The business taken at our Board meetings reflects the responsibilities of the Dstl Board. It also reflects the implementation of our strategic objectives and the management of our corporate risks. Standing items include my CE Update and an update from the Audit Committee (AC) Chair following the quarterly AC meetings.

Attendance at Board meetings for 2016/17	
Sir David Pepper (Chair)	8 (8)
Gerard Connell	8 (8)
Sir David Grant	8 (8)
Dame Wendy Hall	7 (8)
Jeremy Monroe *(with effect from 1 February 2017)*	1 (2)
Mark Preston (MOD NED)	8 (8)
Jonathan Lyle	8 (8)
David English	8 (8)
Bryn Hughes	8 (8)
David Marsh	7 (8)
Joanne Peel	8 (8)

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

Key business at Dstl Board meetings throughout the year

June 2016 (Porton Down)	September 2016 (Porton Down)	October 2016 (Porton Down)
• End-of-year finance report • Approve *Dstl Annual Report and Accounts 2015/16* • Update on *Science Capability* and *Trading Fund Reviews* • Dstl Board – review of effectiveness • Dstl future vision and strategy • Update on Safety Improvement Programme • Update on Facilities Management Strategic Partner contract • Quarter (Q) 4 Business Performance Report • Update on Helios Project	• Update on *Trading Fund Review* • Q1 Business Performance Report • Review of Away Day actions • Full-year forecast update 2016/17 • Update on Facilities Management Strategic Partner contract	• Update on *Trading Fund Review* • Update on Future Defence Civilian Programme • Review of Dstl draft Business Strategy • Pay 2016 and pay freedoms 2017 • Discussion on merger with Home Office Centre for Applied Science and Technology (CAST) • Managing Dstl's 'Governing' stakeholders • Update on future S&T strategy and portfolio • Update on Facilities Management Strategic Partner contract • Update on Helios Project • Ploughshare Innovations Ltd – reappointment of Chair

Key business at Dstl Board meetings throughout the year *(continued)*		
November 2016 (Fort Halstead)	**February 2017 (Porton Down)**	**March 2017 (Portsdown West)**
• Update on Ploughshare Innovations Ltd Business Plan 2017/18 • Update on MOD S&T Programme • Q2 Business Performance Report • Update on *Trading Fund Review* • Update on MOD and Dstl innovation activity • Corporate risk deep-dive: people • Update on Helios Project • Review of Dstl Infrastructure Strategy • Annual review of Capital Plan • Review of *Financial Plan 2017-2022*	• Update on *Trading Fund Review* • Update on Helios Project • Update on Facilities Management Strategic Partner contract • Update on S&T Strategy, implementation and portfolio laydown • Q3 Business Performance Report • Finance update and budget 2017/18 • Update on Corporate Plan, Business Plan and Business Strategy update • Update on employee engagement • Chief Information Officer/Senior Information Risk Owner update	• Update on *Science Capability* and *Trading Fund Reviews* • Budget 2017/18 • Update on Helios Project • *Corporate Plan 2017-2022* • Approve Ploughshare Innovations Ltd *Business Plan 2017/18* • P3MS (Portfolio, Programme and Project Management System) review • Annual review of Dstl Corporate Risk Register

Annual review of Board effectiveness. In the last quarter of 2015/16, Executive coaching company Praesta conducted an independent review of Board effectiveness, which reported in the first quarter of 2016/17. The main findings included:

- The Board runs efficiently. The main opportunity to enhance effectiveness is to change what it does rather than how it does it.
- The Chair is well respected by the Directors for his style of chairmanship and robust, legitimate pursuit of his duty of care to Dstl.
- MOD-driven strategic reviews, informed by Dstl but largely outside its influence and control, were a legitimate subject of the Board's attention during the 12-month cycle analysed by the review. This affected the subject matter of the Board's agenda and work.
- Going forwards, Directors want the Board to concentrate on the main business of ensuring that Dstl is performing well as a delivery organisation while maintaining and enhancing its capabilities.
- To do that, the Board needs to see more regular and reliable means of verifying that the relationships between Dstl and its key stakeholders are working well and generating the outcomes required by all parties.

The review concluded that: "The leadership of Dstl has been through a challenging time. During that period, the Board erred on the side of providing it with needed and welcome support. The reviewer senses that the Board itself was also pushed on to the back foot during that time and, despite retaining a sure hand on its duties and responsibilities, lost some momentum as a consequence. The Board now has an outstanding opportunity to re-group around Dstl's delivery and future capability agenda so as to ensure it continues to make a vital and valued contribution to the nation's defence and security."

Board members discussed the main findings and recommendations at their June 2016 meeting, and devoted time to agreeing how best to action these at their July Away Day. They agreed to deliver the actions shown in the table on page 38, by December 2016.

The Board identified a further set of actions to deliver by the end of 2017/18; we will report progress against these actions in next year's Governance Statement.

Actions arising from the annual review of Board effectiveness	
Action	**RAG status as at 31 March 2017**
Identify and produce a list of Dstl key stakeholders	
Clarify the capital processes and delegations and the role of the Dstl Board in the Executive Agency	Awaiting confirmation of the capital processes and delegations from MOD
Incorporate the role of Board members in stakeholder management into the revised Dstl *Framework Document*	
Agree which Board members will map to which key stakeholder	
Each NED to have met with at least one of their assigned key stakeholders	In progress but diary commitments have proved a challenge
Develop a basic understanding of what key customers think of Dstl and review at the Board	Linked to the above
Incorporate an update on progress against delivering the S&T Portfolio within Board agendas	
Identify the top six S&T programmes across Dstl for Board monitoring	Awaiting confirmation of the S&T Portfolio 2017/18 from MOD Defence Science and Technology (DST)
Reshape the Chief Executive Update and Business Performance Report to better inform the Board of business issues and implications	
Produce an evidenced-based view on Dstl's performance in the round to support the Chair and CE at future performance reviews with DG HOCS	Ongoing

Audit committee

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

The role of the Dstl Audit Committee is to support the Dstl Board and me, as Accounting Officer, in monitoring the organisation's corporate governance and control systems, and in reviewing the Financial Statements.

The Audit Committee is chaired by Gerard Connell and during this financial year has comprised up to three NEDs – Sir David Grant, Jeremy Monroe and Mark Preston. I attend by invitation, as do my Finance Director, my Head of Internal Audit, and representatives from the National Audit Office or its subcontracted partner. This year, my Infrastructure Director, Head of Finance, and Head of Corporate Affairs also attended meetings, as did representatives from Defence Internal Audit, who attended as observers.

This year, the Audit Committee continued to oversee the outcomes and outputs from our audit activities. Regular reviews of corporate risk prompted other subjects of focus, which included reviewing value for money in terms of our strategic partnerships; information technology risk; Dstl's counter-fraud and resilience planning; health and safety arrangements; and, security.

Annual review of effectiveness. As at year end, an independent review of effectiveness for 2016/17 was due to report in June 2017. This differs from the statement made in last year's report, which referred to an ongoing assessment at year end 2015/16. Last year's reference was specifically about the Board's review of effectiveness (see page 37) not to our Audit Committee. We will report the full results of the 2016/17 review and the actions against its findings in next year's Governance Statement.

Audit Programme. Since 1 April 2016, as well as our regulatory Security and Safety, Health, Environment and Fire (SHEF) audit programmes, we carried out 17 internal audits, which were completed by our contracted internal audit provider Grant Thornton. My Executive Team and the Audit Committee considered the majority of these internal audits throughout the year. From April 2017, MOD Defence Internal Audit will deliver our internal audit programme for 2017/18. This is in line with our status as an Executive Agency of MOD.

Our Audit Committee met four times this financial year.

Attendance at Audit Committee meetings for 2016/17	
Gerard Connell (Chair)	4 (4)
David Grant	4 (4)
Jeremy Monroe *(with effect from 1 February 2017)*	0 (1)
Mark Preston (MOD NED)	2 (4)

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

Remuneration and Nomination committees

This year, there has been one meeting of our Remuneration Committee and no meetings of our Nomination Committee. The Remuneration Committee met on 2 June 2016 to discuss the performance of our Level 9s, making decisions that were reflected in pay outcomes. Members also noted the recommendations made for our Senior Civil Service (SCS) members of staff, for subsequent decision within MOD. Members present were the Chair Sir David Pepper, NEDs Gerard Connell, Sir David Grant, Dame Wendy Hall, Mark Preston, and me.

The appointment of Jeremy Monroe to the Board during the last quarter of 2016/17 as a new Non-Executive member was made through a MOD-managed process, approved by lead MOD NED Sir Gerry Grimstone and MOD Permanent Secretary Stephen Lovegrove. Therefore, there was no requirement for the Dstl Nomination Committee to meet.

Control environment

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

Dstl policies. We have a suite of overarching policies published on the MS, comprising 10 strategic policies, each sponsored by one of my Executive team, and a number of supporting operational policies owned by a Head of Function or other senior manager. In the last quarter of 2016/17, as a result of the significant change introduced by the *Science Capability* and *Trading Fund* reviews, we reviewed and updated our strategic policies.

Key processes. This year, we developed and implemented new governance arrangements for the ownership and management of our business processes. We have aligned these governance arrangements with the requirements of ISO 9001:2015, managing our business as a system of interrelated and integrated processes. We are implementing a process hierarchy that will provide strategic direction and intent to the process, sub-processes and process activities.

We have also introduced new standards for process design, to ensure our processes focus on understanding the desired outcomes and environment in which the process needs to operate – designing the process based on risk and defining the controls that need to be implemented to control those risks.

Key accountabilities and delegations. This year, we continued to establish key accountabilities through role and responsibility definitions provided through an agreed set of corporate role profiles (for example, Division Head, Business Manager, Project Manager, and Process Owner). Role profiles supplement letters of delegation and performance management objectives to reflect the specifics of the business, capability or delivery area.

External accreditation. Our Integrated Management System is externally certified to the international standard ISO 9001:2008 for quality management and ISO 14001:2004 for environmental management. The requirements of these standards are applied to all our business processes, activities, products and services. In addition, we are also certified to TickITplus Foundation Level for the validation and management of software to support analytical, research, technical assurance and consulting activities. Independent external review by AFNOR UK confirmed the effectiveness of our MS controls through our ISO 9001, ISO 14001 and TickITplus certifications. The review recommended continued certification for all three standards. The ISO 14001 certificate expires in October 2017; the ISO 9001 and TickITplus certificates expire in December 2017. A re-certification audit is scheduled for July 2017, which will also be our first attempt to transition to the revised ISO 9001:2015 and ISO 14001:2015 standards. We have until October 2018 to transition to the revised standards.

Risk management

As a result of the *Science Capability* and *Trading Fund Reviews*, we undertook a fundamental review of our Corporate Risk Register during the latter quarter of the financial year. We also developed a revised set of principles by way of managing corporate risk within the organisation.

We are now focusing on ensuring the adoption of these principles through the development of a revised Risk Management Strategy and Implementation Plan. These will build on the strong foundations we have already established and ensure that we align with MOD's Joint Services Publication (JSP) 892 on Risk Management. We will also seek to adopt other emerging Government best practice on risk management, including a new framework for the management of risk in Government.

Corporate Risk Register. Our Corporate Risk Register comprises:

- Strategic risks – those risks that threaten (or enhance) the existence of Dstl and/or the defence and security of the UK
- Operational risks – those risks that threaten (or enhance) the effective operation of Dstl.

Aside from undertaking a thorough review of our corporate risks, we also reformatted our Corporate Risk Register to align with the format suggested by JSP 892. This has included updating our Risk Rating Criteria and Risk Responses:

Dstl risk rating criteria

Impact						
	Critical	High	High	High	High	High
	Severe	Medium	Medium	Medium	High	High
	Major	Low	Low	Medium	Medium	High
	Moderate	Negative	Low	Low	Medium	Medium
	Minor	Negative	Negative	Low	Low	Low
		Very low	Low	Medium	High	Very high
		Likelihood				

Likelihood (over the lifetime of Dstl; probability trumps occurrence)	Impact (financial, reputational, outputs/capability and SHEF; based on area with highest impact)
Very high – a common past occurrence; probability > 90 per cent	**Critical:** Significant long-term reputation impact; > £50 million in funding; critical constraint on our ability to deliver customer outputs/capabilities; multiple fatalities or severe injuries; permanent loss or damage to an important natural resource.
High – has occurred on many occasions in the past; probability between 51 per cent and 50 per cent	**Severe:** Significant short- to medium-term reputation impact; between £35 million and £50 million in funding; significant constraint on our ability to deliver customer outputs/ capabilities; single fatalities or severe injuries; severe damage to an important natural resource.
Medium – has occurred on several occasions in the past; probability between 26 per cent and 50 per cent	**Major:** Minor customer/Government attention and/or persistent local media coverage; between £20 million and £35 million in funding, major constraint on our ability to deliver one or more customer outputs/capabilities, serious injury, but recoverable; environmental damage requires external remediation.
Low – has occurred on a small number of occasions in the past; probability between 11 per cent and 25 per cent	**Moderate:** Local media coverage and/or minor stakeholder group interest; between £10 million and £20 million in funding; moderate constraint on our ability to deliver one or more customer outputs/capabilities; significant injury, but not of a long-term nature; environmental damage that can be remediated with MOD resources.
Very low – has occurred once/never in the past, probability less than 10 per cent	**Minor:** No reputational impact; < £10 million in funding; minor constraint on our ability to deliver one or more customer outputs/capabilities; no injury; no environmental damage.

Dstl risk rating responses

Risk response type	Examples
Terminate: Exiting the activities giving rise to risk as the risk is unacceptable	• Avoiding/eliminating the risk by deciding not to start or continue with the activity that gives rise to the risk, or by doing something differently e.g. substitution with an alternative step or activity.
Treat: Action taken to reduce risk likelihood or impact, or both	• Changing the likelihood through implementing additional controls. • Changing the potential impacts through implementing additional mitigations.
Transfer: Reducing the risk likelihood or impact by transferring or otherwise sharing a portion of the risk	• Common techniques include outsourcing activities to the private sector or purchasing insurance products (Note: transferring does not necessarily eliminate or remove accountability or the effects of the risk e.g. outsourcing a process may not reduce the reputational impact to MOD if something goes wrong).
Tolerate: No action is taken to affect residual risk likelihood or impact. This means the residual risk exposure is accepted	• Taking the risk in order to pursue an opportunity or achieve a benefit/return. • Retaining the risk by informed decision.
Take the opportunity: Action taken to exploit an opportunity	• Undertaking an action or managing a set of circumstances to increase the likelihood of realising a positive outcome or upside.

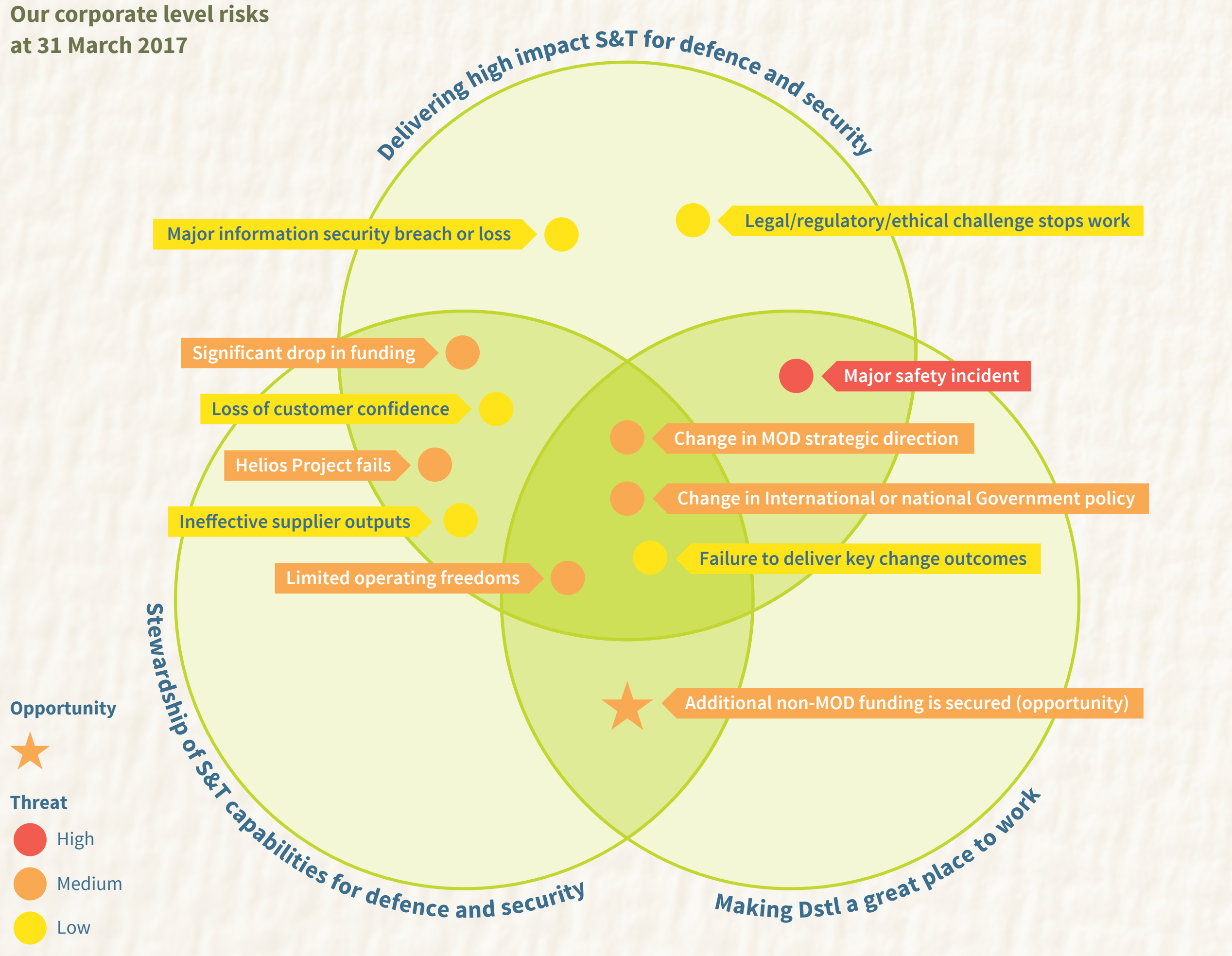
As at Quarter 4 2016/17, our Corporate Risk Register was as follows:

Sponsor	Risk	Target Risk Ratings (Likelihood and impact)
STRATEGIC		
Chief Executive	**S01: Significant drop in funding**. A significant drop in funding (including capital and resource) as a result of Government spending constraints results in the loss of critical and/or key S&T capabilities for the defence and security of the UK.	**Medium, Severe**
Chief Executive	**S02: Change in MOD strategic direction**. A change in MOD strategic direction limits Dstl's ability to make an impact across both defence and security.	**Medium, Major**
Chief Executive	**S03: Limited operating freedoms**. Dstl operating freedoms are constrained post establishment as an Executive Agency that its ability to deliver its Purpose, Role and Strategic Objectives as directed by MOD is inhibited.	**Medium, Major**
Chief Executive	**S04: Loss of customer confidence**. A loss of customer confidence reduces Dstl to a necessary but non cost-effective niche supplier.	**Low, Major**
Chief Executive	**S05: Change in international or national Government policy**. A change in international policy or national Government policy weakens Dstl's delivery ability and reputation.	**Medium, Major**
Chief Executive	**S06: Major safety incident**. Inadequate controls and an immature safety culture result in a major safety incident leading to the cessation of Dstl operations at one or more of its sites, severe reputational damage, and an inability to deliver against current and future customer requirements.	**Low, Critical**
Chief Executive	**S07: Additional non-MOD funding is secured (opportunity)**. Dstl is able to secure additional funding from other Government departments (i.e. non MOD) and non-Exchequer sources ensuring the continuity of its purpose and role and demonstrating its ability to deliver impact across Government.	**Low, Moderate**

Continued over page ▶

Sponsor	Risk	Target Risk Ratings (Likelihood and impact)
OPERATIONAL		
Infrastructure Director	**O01: Helios Project fails**. The Helios Project is unable to deliver full outcomes as a result of escalating costs or significant slippage impacting the realisation of anticipated financial savings and the sustainment of core MOD capability into the future.	**Low, Severe**
Infrastructure Director	**O02: Major information security breach or loss**. A major information security breach or loss compromises highly classified or commercially-sensitive information and leads to legal/financial sanctions.	**Low, Moderate**
Capability and Delivery Director	**O03: Legal/regulatory/ethical challenge stops work**. Legal/regulatory/ethical challenge stops key elements of Dstl's work and leads to financial/legal sanctions.	**Low, Major**
Capability and Delivery Director	**O04: Ineffective supplier outputs**. Third-party suppliers deliver ineffective outputs as a result of poor supplier engagement or contract management leading to sub-optimal defence and security outcomes and the fragility of key S&T capabilities.	**Low, Moderate**
Transformation Director	**O05: Failure to deliver key change outcomes**. An overheated transformation portfolio results in a failure to deliver key change outcomes undermining the viability of Dstl's future operating model.	**Low, Major**

Our corporate level risks at 31 March 2017



Control activities

Our control activities aim to ensure that our corporate governance, control environment and approach to risk management are efficient and effective.

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

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

Fraud management. During 2016/17, our fraud risk-reduction activities continued to focus on control and monitoring of the procurement process, and encouragement of disclosure via existing channels for whistleblowing and incident reporting. We received two reports of unusual activity from the Defence Fraud Referral Unit. We used our investigation process to investigate the activities, which were both satisfactorily resolved.

Incident investigations. We actively promote the reporting of near-misses and incidents. Incidents are investigated proportionately based on the potential the incident could have had and not just proportionate to the actual harm or damage caused. The responsible business unit locally investigates all incidents classified as 'medium'. Incidents classified as 'high' are subject to an independent, corporate investigation.

During the year, we have investigated 61 high potential/actual incidents – 35 SHEF, 10 business, six HR, six whistleblowing and four security. Eight of the SHEF incidents were reportable to the Health and Safety Executive under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations). One HR allegation was dropped and five additional incidents were reported as 'high' but on review were re-assessed as 'medium', and investigated within the Division or Function.

Whistle-blowing. We are committed to achieving the highest possible standards of service and ethics in public life. This is demonstrated by our whistle-blowing process, which is written in line with the Public Interest Disclosure Act 1998, the Fraud Act 2006, and the Bribery Act 2010. This year, we had six incidents raised via our whistle-blowing process. We take such incidents extremely seriously, and, in each instance, an assessment of the issues raised was undertaken followed by a local management investigation or an independent corporate investigation. Five incidents were concluded satisfactorily and reported to the Chair of the Audit Committee; the sixth remains under investigation.

Strategic Security and Information Assurance (IA). We continue to maintain focus on effective risk management across the spectrum of security, defensive cyber and IA across Dstl estate. We have delivered Level 2 assurance for security and IA under the Senior Information Risk Owner (SIRO) and maintained Level 3 assurance through relevant external capabilities including accreditation and release authorities. We remain alert to the current range of threats and manage these as effectively as we can within capabilities and resources. In relation to cyber threats, we manage the IA and security baseline controls through our Information and Communication Technology (ICT) service partner, Sopra Steria, and for broader threats we coordinate this through the Dstl Threat Coordination Group, which includes terrorism, espionage, sabotage, Serious and Organised Crime and Counter Intelligence. SIRO and the Principal Security Adviser have the full support of my Executive team and Board, and have the necessary resources to undertake proportional and risk-balanced IA and security within a climate of tight headcount and financial constraint.

We coordinate with the relevant MOD capabilities including the Defence Counter Intelligence Analysis Team, Joint Cyber Unit and the Joint Security Coordination Centre where all IA incidents are reported in accordance with MOD requirements. This year, we have had no incidents that require escalation to the Defence Board (red incidents), and have had 16 broader incidents that range from low-level malware detection to network contaminations. There have been no critical incidents relating to compromise of classified information; there has been one incident when a weakness within our internal controls was detected and rectified, and the remainder are all of a low-impact nature. Dstl's programme of site rationalisation is identifying a number of legacy issues for classified holdings and SIRO has implemented a system where these are fully assessed and investigated and declared at the end of each year between now and closure of our Fort Halstead site.

We have strengthened our governance and assurance around the management of highly sensitive classified material through oversight and controls under SIRO that monitor, test and assure compliance against a range of controls. We placed emphasis and effort this year on successfully implementing the National SAFEGUARD requirements for all of our relevant systems within the required MOD timelines; there is a range of follow-up work required to enhance those controls that have been incorporated into Dstl's forward ICT programme.

Protected personal data-related incidents. Within the reporting period, there were no incidents where personal data was lost or compromised. There was one internal incident that was contained within our protected network boundaries when Dstl detected an instance of a data source not being appropriately secured within an appropriate permission model. This was quickly remediated and fully investigated in order to identify and learn lessons.

Quality assurance of analytical models. Every six months, we declare our business-critical models – as defined following the Macpherson Review in 2013 – to MOD. A model is a way to appraise, assess, evaluate, plan or forecast future responses or outcomes by processing a variety of input data and assumptions. Our Modelling and Simulation Strategy Group, chaired by the Dstl Technical Director, manages the coherence and governance of our modelling. We continue to interface and share best practice with MOD and wider Government, and constantly improve our operation of such models.

Official correspondence from members of the public. During 2016/17, Dstl received 60 letters direct from members of the public, to which Dstl responded within the mandated 20-working day deadline in 100 per cent of cases. We answered or contributed to 79 Freedom of Information (FOI) requests during the financial year, on time, in accordance with the FOI Act.

Dstl responded to eight ministerial correspondence or business requests to time, and handled seven Subject Access Requests under the Data Protection Act, all of which we answered on time. Additionally, we completed seven enquiries to the Porton Down Former Volunteers Helpline, to time.

Holding to account

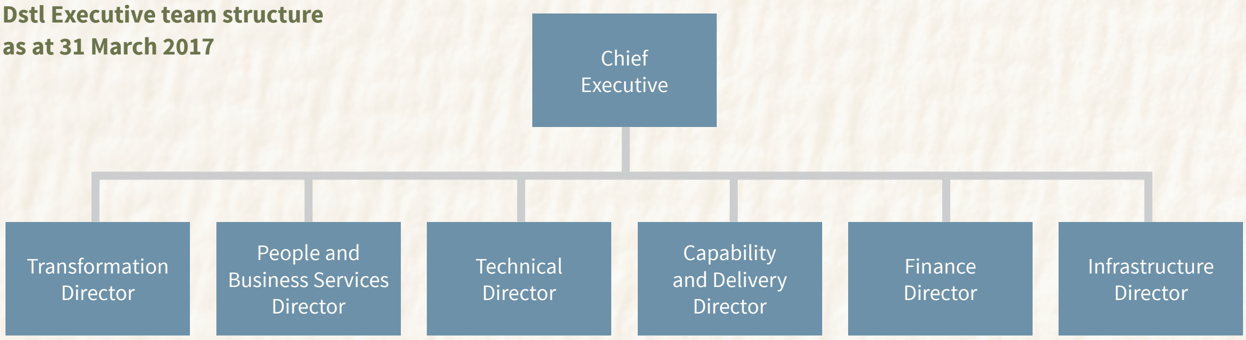
In order to ensure the successful delivery of our strategic objectives, I have robust holding-to-account arrangements in place throughout Dstl.

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

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

My Executive team routinely meets twice each month; at the first monthly meeting, there is a technical presentation as a standing item, and, at the second monthly meeting, there is a regular standing item update on health and safety. There are also standing agenda items to provide updates on key operational issues, current external reviews and feedback from the Executive sub-committees. During this financial year, I held 26 scheduled meetings with my Executive team.

Dstl Executive team structure as at 31 March 2017



Executive sub-committees. As I outlined in last year's Governance Statement, I have retained my Stewardship Executive Sub-Committee, which continues to be an effective means of balancing our investment priorities with that of maintaining and developing our capabilities. The Investment Panel and SHEF (Safety, Health, Environment and Fire) Management Committee are the other formal sub-committees of my Executive team.

Although not a formal sub-committee, a Transformation Portfolio Direction Group is attended by me and my Executive team every month, led by my Transformation Director. This has helped to bring focus and rigour to the management of our change activities.

Business performance reporting. An audit of decision making and key performance indicators concluded that the Board and its sub-committees receive sufficient, relevant and timely information. The audit noted that significant investment in the development of our key performance indicators was postponed while waiting for *Trading Fund Review* and other organisational changes to be confirmed. Now that these are known, we will further develop our key performance indicators to drive the right behavioural change at the working level, linking them to our strategic risks and priorities.

Division and Function performance reporting. Dstl currently comprises five Divisions focused on operational delivery. These are supported by a number of corporate Functions. Each Division and Function documents its in-year expected business performance against our Corporate Plan in the form of a Business Unit Agreement (BUA). I and my Executive Team review progress against these BUAs on a quarterly basis, with any key issues arising from the reviews subsequently discussed and resolved at full Executive team meetings.

Head of Internal Audit's summary

The overall assurance is based on the scope of the audit work carried out and the actual detailed testing undertaken.

Our Head of Internal Audit has concluded that: "The 2016/17 financial period has seen Dstl being inevitably impacted by the implementation of the *Science Capability Review* and the recommendations from the *Trading Fund Review*, which caused governance and structural uncertainty and risks.

Set against these significant externally driven changes that impact on Dstl and its internally driven improvement and transformation programme, my **moderate** assurance assessment reflects that Dstl has appropriate action plans in place to achieve appropriate governance, risk and internal control arrangements. Rapid progress against the action plans is vital and is central to the audit opinion expressed. Progress against these action plans will be closely monitored as part of the internal audit plan for 2017/18.

There are important and significant exceptions to the aforementioned assurance rating, where our assessment remains **limited** assurance. These are:

- commercial and procurement arrangements, which remain weak. This is informed by a number of reviews during the year, including project compliance, the Knowledge and Information Systems' Intelligent Client Capability, and the Facilities Management Services reprocurement, which suggest that while progress has been made, there remain significant capability, process design and control execution issues. As discussed at previous Dstl Audit Committee meetings, commercial risk management remains a broader MOD issue as well, and therefore the observed development requirements should be read in that context
- aspects of formal programme and project governance, which cover:
    - infrastructure projects. This is informed by the important findings during the year over the Energetics Analysis Centre and Remote Enclosure projects, although we understand that the short-term key actions were completed.
    - legacy transformation and related projects. This acknowledges that significant investment has been made over the past 18 months in strengthening transformation programme governance and management, and is informed by findings from the Project ROAD benefits realisation review, and also accounts for the underlying project governance issues identified due to the cancellation of a key Information Systems project during the year. (See Losses and Special Payments in Parliamentary Accountability and Audit on page 58).

There remain some areas of risk and management control where Dstl has applied significant management time and effort to mitigate risks, with evidence of the right direction of travel, but where arrangements still require significant improvement. These are:

- transforming commercial capability, capacity and processes. This is both in the commercial team but also in the broader business to enable the key risks in specifying, procuring and managing the supply chain to be effectively understood and mitigated

- governance and control over enabling programmes and projects. Dstl especially needs to ensure that these programmes and projects are effectively challenged and held to account on affordability, costs and expected benefits/outcomes
- more effective management oversight, grip and control over implementation of audit and assurance (from whatever source) recommendations. This is so that recommendations are implemented on a timely basis and with appropriate effectiveness.

It is important to note that there was evidence of some real progress in implementing recommendations in some areas such as safety and technical quality assurance processes but this is not yet a consistent picture with there being less-effective control in allocating responsibilities for executing actions and holding people to account for completing them effectively.

In giving my opinion, it should be noted that assurance can never be absolute. The most the Internal Audit Provider can provide to Dstl is reasonable assurance that there are no major weaknesses in Dstl's internal control processes and systems."

Chief Executive's summary

This year, we have continued to develop the internal governance of our operational business activities. This, together with our increasingly risk-informed approach, has built on the good foundations established over the past few years and means I am satisfied that we are working towards an increasingly effective system of internal control.

I am supported by appropriate challenge from the independently chaired Audit Committee, which is essential to enable me to discharge my responsibilities as Chief Executive and Accounting Officer, particularly given the significant changes facing Dstl in what continues to be a challenging defence and economic context.

Despite the significant activities undertaken to address the concerns raised last year regarding our commercial capability, it continues to be an area for further action. Work to establish effective commercial controls and enhance contract management remains a focus for improvement now and in the future. Likewise, we are working to strengthen certain aspects of our programme and project governance, particularly with regards to our holding-to-account arrangements. Our recent work in better technical assurance processes will also continue to be an area of management focus as we embed the approaches across the S&T Enterprise to meet not just our own requirements but also those of wider MOD.

Our internal audit partner has continued to provide us with insightful audit findings throughout the year, and this, coupled with the challenge and support of our NEDs, is enabling us to tackle those parts of our business that we need to improve as we continue to deliver impact and value to our customers.

REMUNERATION AND STAFF REPORT

Dstl Board and Executive remuneration

Remuneration policy

Dstl has no pay costs for ministers. Six Directors employed during the year were Senior Civil Servants (SCS) and subject to SCS terms and conditions, including the remuneration policy. These Directors were: Jonathan Lyle; David Marsh; David English; Joanne Peel; Jennifer Henderson; and, Alexander Lambert. As SCS, their pay is set through recommendations made by the Review Body on Senior Salaries (SSRB). The SSRB provides independent advice to the Prime Minister and Secretary of State for Defence on the remuneration of the SCS. Further information about the SSRB's work can be found at www.gov.uk/government/organisations/review-body-on-senior-salaries. Their Non-Consolidated Performance Awards arrangements fall under SCS rules rather than the Dstl performance-award system.

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

Performance conditions

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

Service contracts

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

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

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

There were no awards made to past senior managers.

Dstl Board remuneration

This information is subject to audit opinion.	Salary Band 2016/17 £'000	Salary Band 2015/16 £'000	NCPA* 2016/17 £'000	NCPA 2015/16 £'000	Fee 2016/17 £'000	Fee 2015/16 £'000	Pension benefits 2016/17 Nearest £'000	Pension benefits 2015/16 Nearest £'000	Total 2016/17 £'000	Total 2015/16 £'000
Sir David Pepper KCMG					25-30	25-30			25-30	25-30
Gerard Connell					15-20	15-20			15-20	15-20
Sir David Grant					15-20	15-20			15-20	15-20
Dame Wendy Hall					15-20	15-20			15-20	15-20
Jeremy Monroe					0-5				0-5	
					15-20					
Mark Preston[1]										
Jonathan Lyle	130-135	130-135					9	53	135-140	180-185
David English	75-80	15-20	5-10				58	7	140-145	25-30
		75-80								
Bryn Hughes	75-80	40-45	0-5	0-5			15	12	95-100	60-65
		80-85[2]								
David Marsh[3]	95-100						125		220-225	
	100-105									
Joanne Peel	75-80	10-15					58	13	135-140	25-30
		75-80								

Figures in italics denote full-year equivalent salary

* Non-Consolidated Performance Awards (NCPAs)

NCPAs have been awarded as indicated for 2016/17. NCPAs are paid based on Performance Evaluation Criteria scores that are awarded in line with the performance management rules.

Fees have been paid as indicated for 2016/17.

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

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

[1] Mark Preston received no fee; he represents MOD as a Non-Executive Director. This is a related party with which Dstl has material transactions. Please see Related Party Note at note 24 on page 91. Mark Preston was appointed on the board on 2 May 2016.

[2] This figure included a Temporary Withdrawable Addition of £7494 per annum, which has now been removed for 2016/17.

[3] David Marsh received no fee from 1 January 2016 to 17 April 2016 when he represented MOD as a Non-Executive Director. This is a related party with which Dstl has material transactions. Please see Related Party Note at note 24 on page 91. David Marsh was appointed Dstl's Capability and Delivery Director, and was appointed to the Board, on 18 April 2016.

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

Trading Fund Board members' emoluments

We have shown the details of members' emoluments in the table on page 48. They are summarised as follows:

This information is subject to audit opinion.	2017	2016
Salaries, NCPAs and fees (£'000)	783.8	783.1

Dstl Board pension provision

This information is subject to audit opinion.	Real increase in pension *[and related lump sum at pension age]* £'000	Total accrued pension at pension age at 31/03/17 *[and related lump sum]* £'000	Cash equivalent value at 31/03/17 £'000	Cash equivalent value at 31/03/16 £'000	Real increase in cash equivalent transfer value as funded by employer £'000
Jonathan Lyle	0-2.5	80-85	1,613	1,538	8
David English	2.5-5	25-30	333	288	29
Bryn Hughes	0-2.5	30-35	704	691	14
	[2.5-5]	*[95-100]*			
David Marsh	5-7.5	30-35	665	531	107
	[15-17.5]	*[100-105]*			
Joanne Peel	2.5-5	15-20	291	239	38
	[2.5-5]	*[40-45]*			

Pension information is provided by MyCSP, the administrators of Civil Service Pensions. With the exception of Jonathan Lyle, who belongs to the *premium* Civil Service pension scheme, all Directors belong to the *classic* or *alpha* Civil Service pension schemes. All schemes are part of the Civil Service pension arrangements. See pension information on page 56.

Dstl Executive Committee remuneration

This information is subject to audit opinion.	Salary Band 2016/17 £'000	Salary Band 2015/16 £'000	NCPA* 2016/17 £'000	NCPA 2015/16 £'000	Pension benefits 2016/17 Nearest £'000	Pension benefits 2015/16 Nearest £'000	Total 2016/17 £'000	Total 2015/16 £'000
Jonathan Lyle	130-135	130-135			9	53	135-140	180-185
Graham Balmer	75-80	75-80	0-5		26	36	110-115	110-115
David English	75-80	15-20	5-10		58	7	140-145	25-30
		75-80						
Jennifer Henderson	50-55	45-50	5-10	0-5	24	28	80-85	80-85
	70-75	*70-75*						
Bryn Hughes	75-80	40-45	0-5	0-5	15	12	95-100	60-65
		80-85[1]						
Alexander Lambert	70-75	70-75	5-10	0-5	31	69	110-115	140-145
David Marsh	95-100				125		220-225	
	100-105							
Joanne Peel	75-80	10-15			58	13	135-140	25-30
		75-80						

Figures in italics denote full-year equivalent salary / NCPA.

* Non-Consolidated Performance Awards (NCPAs)

NCPAs have been awarded as indicated for 2016/17. NCPAs are paid based on Performance Evaluation Criteria scores which are awarded in line with the performance management rules.

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

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

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

[1] This figure included a Temporary Withdrawable Addition of £7494 per annum, which has now been removed for 2016/17.

▶ *See page 53 for our staff costs*

Dstl Executive Committee pension provision

This information is subject to audit opinion.	Real increase in pension *[and related lump sum at pension age]* £'000	Total accrued pension at pension age at 31/03/17 *[and related lump sum]* £'000	Cash equivalent value at 31/03/17 £'000	Cash equivalent value at 31/03/16 £'000	Real increase in cash equivalent transfer value as funded by employer £'000
Jonathan Lyle	0-2.5	80-85	1,613	1,538	8
Graham Balmer[1]	0-2.5	30-35	473	441	11
	[-2.5-0]	*[30-35]*			
David English	2.5-5	25-30	333	288	29
Jennifer Henderson	0-2.5	20-25	315	290	10
	[0-2.5]	*[55-60]*			
Bryn Hughes	0-2.5	30-35	704	691	14
	[2.5-5]	*[95-100]*			
Alexander Lambert	0-2.5	15-20	219	196	11
	[0-2.5]	*[35-40]*			
David Marsh	5-7.5	30-35	665	531	107
	[15-17.5]	*[100-105]*			
Joanne Peel	2.5-5	15-20	291	239	38
	[2.5-5]	*[40-45]*			

Pension information is provided by MyCSP, the administrators of Civil Service Pensions. With the exception of Jonathan Lyle, who belongs to the *premium* Civil Service pension scheme, all Directors belong to the *classic*, *classic plus* or *alpha* Civil Service Pension Schemes. All schemes are part of the Civil Service pension arrangements. See pension information on page 56.

[1] The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension will increase from one year to the next by virtue of any pay rise during the year. Where there is no or a small pay rise, the increase in pension due to extra service may not be sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce, hence the negative values.

Relationship between the highest-paid Director and the workforce median

This information is subject to audit opinion.	2016/17	2015/16
Band of highest-paid Director total remuneration	£130,000-£135,000	£130,000-£135,000
Median total remuneration	£36,173	£35,721
Ratio	3.60	3.68

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

The banded remuneration of the highest-paid director in Dstl in the financial year 2016/17 was £130,000-£135,000 (2015/16: £130,000-£135,000). This was 3.60 times (2015/16: 3.68) the median remuneration of the workforce, which was £36,173 (2015/16: £35,721).

In both 2015/16 and 2016/17, no employees received remuneration in excess of the highest-paid director.

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

Our People

Dstl must recruit, develop and retain a diverse workforce to ensure it meets current and future defence and security capability needs. Our staff are committed to being agile and responding appropriately to the rapidly changing world around us in a professional and open way

We are very proud of our people who work at the heart of defence science and technology. They are dedicated to the contribution they make to national defence and security and to harnessing cutting-edge S&T to counter the known and new threats to UK Armed Forces and British citizens. The impact we have as a result of the S&T we deliver continues to be celebrated. This financial year saw the commemoration of 100 years of defence science at Porton Down. Our staff came together to acknowledge this centenary milestone, inviting families and friends to our Porton Down site to experience our unique working environment.

Our general recruitment is governed by the Civil Service, ensuring our people policies, procedures and employment contracts are in line with the *Civil Service Management Code* and that these reflect and promote the fundamental principles of the Human Rights Act 2000. This year saw 3,300 applicants for Dstl's exciting career opportunities, with an additional 1,500 graduates and 800 students applying to join us.

We have embraced and supported the Government's commitment to developing apprenticeships for all levels and occupations. We are truly supportive of the Government's stance on apprenticeships, and have worked hard to reach our target of 80 new-starts for this year. We offer apprenticeships at all levels from those joining us as new entrants to those striving for a Master's degree, as well as providing development opportunities for our current employees.

We continue to use alternative attraction and advertising methods to ensure that we recruit the best people, from the widest pool and build talent pipelines to support us in the drive for STEM talent. We spent £175,269 on our social media and recruitment advertising activity last year – we have no other publicity or advertising costs at Dstl.

This year, we were winners of the Public Sector People Managers Association Social Media Recruitment Campaign of the Year, Graduate campaign 2016 and a finalist in a number of other awards.

Dstl continues to be a member of The 5% Club, which is a group of public and private sector companies committed to working towards having a minimum of five per cent of members' workforces enrolled on formal apprenticeship programmes, graduate development schemes or sponsored student schemes over the next five years. Currently, Dstl has on average 236 apprentices and students on various schemes across the organisation in any given month, which represents 6 per cent of our employed workforce.

Our workforce is at the heart of everything we do

This year, we have worked with MOD colleagues to refine and clarify our role within the S&T Enterprise (Dstl and Defence Science and Technology (DST), our S&T partners and suppliers), ready for full operating capability by April 2017. Throughout this, we have collaborated with our people to utilise their extensive expertise and knowledge and to ensure that Dstl's refined role is clear and well understood. We know that better partnerships across the S&T Enterprise are critical to the role and purpose of Dstl as we evolve.

To ensure that the skills and expertise of our people remain current, we have streamlined our processes to allow better and more efficient movement of people across the S&T Enterprise and have established a new mobility agreement for 2017 with our MOD colleagues. We have also continued to work with our key partners across the S&T Enterprise to develop niche skills by cross training people in Government, industry and academia – we call this pilot programme STEM Futures.

Equally, we continue to invest in the health and well-being of all our employees, and this year's average days lost to sickness per employee was 6.3 days.

Workforce

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

Group	Permanent (UK) employment contract 2017	Permanent (UK) employment contract 2016	Agency and short-term contract staff 2017	Agency and short-term contract staff 2016	Inward secondees 2017	Inward secondees 2016	Total 2017	Total 2016
Professional and technical staff	2,846	2,861	214	241	70	76	3,130	3,178
Administrative and industrial staff	491	534	52	38	0	1	543	573
Total	**3,337**	**3,395**	**266**	**279**	**70**	**77**	**3,673**	**3,751**

Trading Fund	Permanent (UK) employment contract 2017	Permanent (UK) employment contract 2016	Agency and short-term contract staff 2017	Agency and short-term contract staff 2016	Inward secondees 2017	Inward secondees 2016	Total 2017	Total 2016
Professional and technical staff	2,832	2,848	214	241	70	76	3,116	3,165
Administrative and industrial staff	488	531	52	38	0	1	540	570
Total	**3,320**	**3,379**	**266**	**279**	**70**	**77**	**3,656**	**3,735**

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

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Wages and salaries	144.0	144.3	143.1	143.5
Social security costs	15.8	12.3	15.7	12.2
Other pension costs	28.7	28.7	28.6	28.6
Inward secondees	7.4	8.2	7.4	8.2
Agency and contract staff	11.5	11.7	11.5	11.7
Less recoveries in respect of outward secondments	(7.0)	(4.7)	(7.0)	(4.8)
Total	**200.4**	**200.5**	**199.3**	**199.4**

During the year, £1.3 thousand staff costs were capitalised (2015/16: £0.3 thousand).

Off-payroll engagements

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

Table 1. All off-payroll engagements

Existing engagements, as of 31 March 2017, for more than £220 per day and that last for longer than six months	173
Of which	
Those that have existed for less than one year	65
Those that have existed for between one and two years	53
Those that have existed for between two and three years	54
Those that have existed for between three and four years	1
Those that have existed for four or more years	0

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

Table 2. New off-payroll engagements

New off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than six months	65
Of the above, those that include contractual clauses giving Dstl/MOD the right to request assurance in relation to income tax and National Insurance obligations	65
Those for whom assurance has been requested	65
Of which	
Those for whom assurance has been received	65
Those for whom assurance has not been received	0
Those whose contracts have been terminated as a result of assurance not being received	0

Table 3. Off-payroll and on-payroll engagements of Board members and/or senior officials

Off-payroll engagements of Board members and/or senior officials with significant financial responsibility, between 1 April 2016 and 31 March 2017	0
Individuals on payroll and off-payroll that have been deemed Board members and/or senior officials with significant financial responsibility, between 1 April 2016 and 31 March 2017	14

Reshaping and resizing Dstl

In line with our Corporate Plan, Business Plan and with Government austerity measures, we will be a smaller organisation in the future. Project ROAD (the reorganisation of Dstl's previous 12 delivery Departments into five Divisions) released additional staff from non-chargeable activities to perform revenue-generating technical work, and corporate support Functions will deliver a headcount reduction of 25 per cent (from a March 2013 base level) by the end of 2018/19. However, at the heart of this, is our desire to retain the right specialist skills, experience and knowledge mix for our customers.

Despite limits on increasing our total pay-bill, we have successfully worked with our Trade Union colleagues to create a more flexible approach to rewarding performance, with a focus on team contribution. We continue to promote our Total Reward Package, with flexible working seen as a key element. Our people clearly value our learning and development opportunities, and appreciate this ongoing investment in their careers, in conjunction with Civil Service Learning. Our Staff Survey indicated a 1 per cent increase in staff engagement this year.

Our commitment to diversity and inclusivity

We know that good ideas can come from anywhere and that is why we value difference in our people and want to include everyone. The Dstl Executive is committed to embedding diversity and inclusion as 'business as usual' by valuing our diversity, creating a culture where everyone feels included and ensuring Dstl stands up for fairness and equality in the workplace. The Executive team endorses and supports delivery of our *Diversity and Inclusion Strategy* and acts as sponsors for our Employee Support Networks. We actively promote inclusion of colleagues with protected characteristics as set out in the Equality Act 2010. Five Employee Support Networks with more than 100 active volunteers support our Diversity Action Plan, which is regularly reviewed by our Executive team. We hold regular discussions with our colleagues and this year created our own Diversity awards to recognise colleagues' contributions. This year, we were shortlisted for the Championing Gender Award at the Civil Service Diversity Awards 2016.

We continue to support people with disabilities by interviewing all disabled applicants for our vacancies who meet essential job criteria. The Equality Act 2010 places a requirement on employers to make adjustments for their staff to help them overcome disadvantages resulting from their disability; our equality and diversity policy sets the overall framework of how we promote and support those with protected characteristics. This year, we relaunched our workplace adjustment process to ensure that adjustments are available for the continuation of employment of anyone who becomes disabled or has a condition that requires additional support within Dstl. We apply this process during the assessment of new recruits and during employment to accommodate all our people. This year, we spent more than £20,000 on adjustments to help people with disabilities to progress their careers. We also have taken a positive approach to supporting neurodiversity. This includes individual support and awareness raising for our management population, through training and professional advice.

Exit packages

This year, a voluntary exit scheme for those employed at Fort Halstead affected by the Helios Project resulted in five exits. Dstl also began the process for two further exit schemes to assist reshaping Dstl and meeting headcount targets. The exits from these two schemes will not be realised until 2017/18.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme, made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the Trading Fund has agreed early retirements, the additional costs are met by the Trading Fund and not by My Civil Service Pension (MyCSP). Ill-health retirement costs are met by the pension scheme and are not included in the table below.

Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or *alpha*, which provides benefits on a career-average basis with a normal pension age equal to the member's State Pension Age (SPA) or 65 if higher.

From 1 April 2015, all newly appointed civil servants and the majority of those already in service joined *alpha*. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three (*classic*,

This information is subject to audit opinion.

Exit packages cost band	Number of other departures agreed 2017	2016
Less than £10,000	1	7
£10,000-£25,000	27	38
£25,001-£50,000	20	43
£50,001-£100,000	11	32
£100,001-£150,000*	0	1
£150,001-£200,000	1	0
More than £200,000	0	0
Total number of exit packages	**60**	**121**
Total cost of exit packages (£)	**2,040,321**	**4,555,598**

In addition, there was a net charge of £130,813 that related to adjustments made for previous years. There were no compulsory redundancies during the year.

* During 2015/16, Dstl did not receive Cabinet Office approval for one Helios Voluntary Early Exit payment in excess of £100,000, which should have been completed in line with Employer Pension Notice 392 (effective August 2014). See Parliamentary Accountability and Audit Report on page 58.

premium, *classic plus*) provide benefits on a final-salary basis with a normal pension age of 60, and one (*nuvos*) provides benefits on a whole-career basis with a normal pension age of 65.

These multi-employer defined-benefit schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under *classic*, *premium*, *classic plus*, *nuvos* and *alpha* are increased annually in line with Pensions Increase legislation. Dstl (Trading Fund) is unable to identify its share of the underlying assets and liabilities. A full scheme valuation was performed by the scheme actuary during 2012. The valuation is updated annually using the underlying 2012 valuation. Details can be found in the resource accounts of the Cabinet Office: Civil Service Superannuation: www.civilservicepensionscheme.org.uk/about-us/resource-accounts.

Employee contributions are salary-related and range between 3.0 per cent and 8.1 per cent of pensionable earnings for members of *classic* (and members of *alpha* who were *classic* immediately before joining *alpha*) and between 4.6 per cent and 8.1 per cent for members of *premium*, *classic plus*, *nuvos* and all other members of *alpha*. For 2016/17, the Trading Fund employer contributions of £28.6 million were payable to My CSP (2015/16: £28.6 million) at one of four rates in the range 20.0 per cent to 24.5 per cent of pensionable earnings, based on salary bands.

The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016/17 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

More details on the *classic*, *premium*, *classic plus*, *nuvos* and *alpha* pension schemes including information about benefits and contributions are available at: www.civilservicepensionscheme.org.uk/employers/employer-pension-guide/civil-service-pension-arrangements/

Since October 2002, employees joining Dstl can opt for either the appropriate defined-benefit arrangement as above or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account). For 2016/17, employer contributions of £283,678 were paid to the stakeholder pension providers. Employers also contribute a further 0.5 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement). For 2016/17, Dstl contributed £9,028 to My CSP. Contributions due to the partnership pension providers at 31 March 2017 were £25,339. There were no prepaid contributions at that date.

Two people retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £7,712 for these individuals.

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk.

Our staff composition

As at 31 March 2017, the gender numbers for our Non-Executive Directors, Directors, Senior Civil Service and employees were:

	Male	Female	Total
Non-Executive Directors	5	1	6
Directors[1]	6	2	8
Senior Civil Service[2]	1		1
Employees	2,510	1,224	3,734
Totals	**2,522**	**1,227**	**3,749**[3]

[1] The Chief Executive, Capability and Delivery Director, Finance Director, People and Business Services Director, and the Transformation Director (x2 people, job-share) are Senior Civil Service.

[2] There is one other member of the SCS who is not a member of the Dstl Executive.

[3] All the above figures are headcount. Employee numbers include our permanent staff, our apprentices, and our fixed-term appointments.

PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

Parliamentary accountability

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

The Dstl Chief Executive is personally accountable to Parliament for our performance and management of the Trading Fund. Our Annual Report and Accounts is subject to audit by the Comptroller and Auditor General, who heads the National Audit Office and is responsible for scrutinising public spending and safeguarding the interests of taxpayers on behalf of Parliament.

The Comptroller and Auditor General's audit certification of this report is presented on page 59. More information on our Parliamentary Accountability is published in our existing Framework Document, which is available at: www.gov.uk/government/publications/defence-science-and-technology-laboratory-framework-document

Statement of Parliamentary Supply (*subject to audit*)

As a Trading Fund agency during 2016/17, we did not have a Statement of Parliamentary Supply. Since April 2017, we are subject to control totals for (net) resource and capital funding from within MOD's departmental allocation. We will report against those totals in future annual reports in the context of MOD's overall Statement of Parliamentary Supply.

Public spending and administration budgets

As a Trading Fund agency during 2016/17, we received neither a departmental net expenditure limit nor an administrative control total. All our operating expenditures were funded by receipts from trading operations, supplemented by loan funding from our parent department if required. Our Chief Executive receives his letter of authority directly from the MOD Permanent Secretary. Since April 2017 our costs as an Executive Agency continue to be recovered via charges to our customers and are not classified as administrative costs. All our expenditure is associated with delivery of our S&T outputs. See page 19 for our long-term expenditure trends.

Fees and charges (*subject to audit*)

We charge for goods and services in accordance with the principles in Managing Public Money and apply a fee to all the goods and services we provide; details of these services can be found on pages 7 to 8 of this report. Additionally, details of our principal operating segments are disclosed in Note 2 to the financial statements on page 71. From April 2017, our charges are set to recover our net cash resource expenditure only and we no longer charge a fee to our MOD customers as we are now within the departmental boundary. The fee applied to non-MOD business is set so as to make a proportionate contribution towards capital expenditure which is otherwise funded by MOD through a separate capital control total, and to cover our cost of capital.

Remote contingent liabilities (*subject to audit*)

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

Continued over page ▶

Regularity of expenditure (*subject to audit*)

There was a reduction in the doubtful debt provision of £0.2 million (2015/16: reduced by £0.5 million) in respect of a receivable from Ploughshare (in the Trading Fund financial statements).

During 2015/16, Dstl did not receive Cabinet Office approval for one Helios Voluntary Early Exit (VEE) payment in excess of £95,000, which should have been completed in line with Employer Pension Notice 392 (effective August 2014). Cabinet Office approval was not sought by Dstl HR and MOD HR because the original settlement quote received from MyCSP did not indicate the cost of pension top-up; it appeared that the offer to the employee was not in excess of £95,000. Once the employee's final VEE-exit offer was received on the overarching scheme terms (standard tariff plus pension top-up), it was in excess of the threshold. However, MyCSP should not have actioned the exit as they did not have the requisite approval in place. Cabinet Office did not approve the payment retrospectively.

As a consequence of this error, Dstl HR has amended the exit process. This now ensures that all compensation exit payment costs are included as an estimate to check high values and take appropriate action. Dstl has also requested that MyCSP changes the way it quotes exit offers so that the pension top-up cost is clear.

An internal audit finding during the latter part of 2016/17 identified the possibility of a breach of Cabinet Office spending controls. We are awaiting clarification from Cabinet Office as to whether a subcontract procurement framework used by Dstl fell within the intended scope of the controls for consultancy expenditure.

Losses and special payments (*subject to audit*)

During the year, the Trading Fund decided to stop the Project, Programme and Portfolio Management System (P3MS) project. The project was set up with the objective of delivering a system to provide tools and reporting across Dstl's projects, programmes and portfolios. The decision to stop the project followed a review of a revised business case, with its emerging risks and the impact these could have on the technical solution, timescales and the cost against potential benefits. Improving P3M capability across Dstl remains a high priority, and the project will be exploring what benefit can be realised from the work already performed. The majority of the cost of the project £2.75 million has been expensed as an impairment, for which authority was received from MOD. A residual value of £0.35 million has been retained for identifiable assets created as part of the project, and which are of future use to the business.

One severance payment of £6,500 was made for an out of court settlement that had received Cabinet Office approval.

A reconciliation of the VAT account identified erroneous debit balances that had been incorrectly classified as receivables. An amount of £1.07 million was reclassified as expenditure and reported within the Statement of Comprehensive Income. No associated overpayments or incorrect payments were identified.

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

I certify that I have audited the financial statements of the Defence Science and Technology Laboratory (Dstl) for the year ended 31 March 2017 under the Government Trading Funds Act 1973. The financial statements comprise the Group and Trading Fund: Statement of Comprehensive Income; Statement of Financial Position; Statement of Cash Flows; Statements of Changes in Taxpayer's Equity; and, the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in that report as having been audited.

Respective responsibilities of Dstl, the Chief Executive and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Dstl's and the Group's affairs as at 31 March 2017 and of Dstl's and the Group's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

16 June 2017

Our Annual Report and Accounts 2016/17

Dstl's *Framework Document* requires us to prepare our own annual report and accounts and present it to Parliament following certification by the Comptroller and Auditor General to the House of Commons (see page 59). Our Dstl Audit Committee endorsed this report at its meeting on 6 June 2017, and the Dstl Board approved it at its meeting on 7 June 2017. Our annual report and accounts is prepared in line with the *Government Financial Report Manual* (FReM), *Managing Public Money* and any applicable HM Treasury (HMT) instructions.

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

I believe that the information we have presented in our Performance Report (pages 5 to 26) provides a fair, balanced and understandable analysis of Dstl's performance. As required, I have signed and dated our Performance Report on page 26, as well as signing here our Accountability Report, which meets Dstl's key accountability requirements to Parliament. I have also signed our Statement of Financial Position on page 65 – our fully audited Financial Statements follow in the rest of this document, which give a true and fair view of Dstl's state of affairs and of its profit, changes in taxpayers' equity and cash flows.

I hope you find our annual report and accounts helpful to your understanding of Dstl's business and performance over the past financial year.

Jonathan Lyle

Jonathan Lyle | Chief Executive
7 June 2017

FINANCIAL STATEMENTS

Our financial statements and disclosure notes make up the final report in this year's annual report and accounts; they have been audited by the Comptroller and Auditor General, who has sub-contracted Moore Stephens to undertake the audit on his behalf.

These statements have been prepared in accordance with the 2016/17 Government *Financial Reporting Manual*, which contains the accounting policies that apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The particular policies that have been adopted in our financial statements are listed on pages 67 to 70 and have been applied consistently in dealing with items that are considered material to the accounts.

Accounting information

Statement of Comprehensive Income for the year ended 31 March 2017

	Note	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Turnover	3	**586.6**	**611.9**	**584.7**	**609.5**
Cost of sales		(238.6)	(274.5)	(238.6)	(274.1)
Net income		**348.0**	**337.4**	**346.1**	**335.4**
Operating expenses		(327.0)	(306.8)	(325.1)	(304.6)
Operating profit	4	**21.0**	**30.6**	**21.0**	**30.8**
Share of associate's income		0.0	0.0	0.0	0.0
Finance income	6	0.3	0.5	0.3	0.5
Finance expense	7	(0.5)	(0.6)	(0.5)	(0.6)
Profit before taxation		**20.8**	**30.5**	**20.8**	**30.7**
Taxation expense	8	0.0	0.0	0.0	0.0
Profit for the year		**20.8**	**30.5**	**20.8**	**30.7**
Dividend	9	(58.0)	(13.2)	(58.0)	(13.2)
Retained profit / (loss) for the year		**(37.2)**	**17.3**	**(37.2)**	**17.5**
Other comprehensive income					
Net gain on revaluation of property, plant and equipment		6.2	10.7	6.2	10.7
Net loss on revaluation of available-for-sale investments		(0.1)	(1.9)	0.0	0.0
Net gain on revaluation of intangible assets		0.1	0.0	0.1	0.0
Total comprehensive income for the year		**(31.0)**	**26.1**	**(30.9)**	**28.2**

The notes on pages 67 to 93 form an integral part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2017

Group	Note	Retained earnings £ million	Public dividend capital £ million	Revaluation surplus £ million	Total taxpayers' equity £ million	Total comprehensive income £ million
Balance at 1 April 2015		**264.5**	**50.4**	**81.6**	**396.5**	
Transfer to retained earnings				(2.0)	(2.0)	(2.0)
Surplus on revaluation of properties	10			2.1	2.1	2.1
Surplus on application of modified historic cost accounting to property, plant and equipment	10			10.6	10.6	10.6
Deficit on revaluation of non-current financial asset investments	11			(1.9)	(1.9)	(1.9)
Net gains recognised in the Statement of Comprehensive Income				8.8	8.8	8.8
Net profit for the period		30.5			30.5	30.5
Dividend	9	(13.2)			(13.2)	(13.2)
Transfer from revaluation surplus		2.0			2.0	
Modified historic cost accounting	10, 12	0.3			0.3	
Balance at 31 March 2016		**284.1**	**50.4**	**90.4**	**424.9**	**26.1**
Transfer to retained earnings				(1.5)	(1.5)	(1.5)
Surplus on revaluation of properties	10			11.6	11.6	11.6
Deficit on application of modified historic cost accounting to property, plant and equipment	10			(3.9)	(3.9)	(3.9)
Deficit on revaluation of non-current financial asset investments	11			(0.1)	(0.1)	(0.1)
Surplus on application of modified historic cost accounting to intangible assets	12			0.1	0.1	0.1
Net gains recognised in the Statement of Comprehensive Income				6.2	6.2	6.2
Repayment of public dividend capital on cessation of Trading Fund	23		(50.4)		(50.4)	
Net profit for the period		20.8			20.8	20.8
Dividend	9	(58.0)			(58.0)	(58.0)
Transfer from revaluation surplus		1.5			1.5	
Modified historic cost accounting	10, 12	0.5			0.5	
Balance at 31 March 2017		**248.9**	**0.0**	**96.6**	**345.5**	**(31.0)**

Statement of changes in taxpayers' equity for the year ended 31 March 2017

Trading Fund	Note	Retained earnings £ million	Public dividend capital £ million	Revaluation surplus £ million	Total taxpayers' equity £ million	Total comprehensive income £ million
Balance at 1 April 2015		**266.5**	**50.4**	**79.3**	**396.2**	
Transfer to retained earnings				(2.0)	(2.0)	(2.0)
Surplus on revaluation of properties	10			2.1	2.1	2.1
Surplus on application of modified historic cost accounting to property, plant and equipment	10			10.6	10.6	10.6
Net gains recognised in the Statement of Comprehensive Income				10.7	10.7	10.7
Net profit for the period		30.7			30.7	30.7
Dividend	9	(13.2)			(13.2)	(13.2)
Transfer from revaluation surplus		2.0			2.0	
Modified historic cost accounting	10, 12	0.3			0.3	
Balance at 31 March 2016		**286.3**	**50.4**	**90.0**	**426.7**	**28.2**
Transfer to retained earnings				(1.5)	(1.5)	(1.5)
Surplus on revaluation of properties	10			11.6	11.6	11.6
Deficit on application of modified historic cost accounting to property, plant and equipment	10			(3.9)	(3.9)	(3.9)
Surplus on application of modified historic cost accounting to intangible assets	12			0.1	0.1	0.1
Net gains recognised in the Statement of Comprehensive Income				6.3	6.3	6.3
Repayment of public dividend capital on cessation of Trading Fund	23		(50.4)		(50.4)	
Net profit for the period		20.8			20.8	20.8
Dividend	9	(58.0)			(58.0)	(58.0)
Transfer from revaluation surplus		1.5			1.5	
Modified historic cost accounting	10, 12	0.5			0.5	
Balance at 31 March 2017		**251.1**	**0.0**	**96.3**	**347.4**	**(30.9)**

Statement of Financial Position as at 31 March 2017

	Note	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Assets					
Non-current assets					
Property, plant and equipment	10	327.4	308.2	327.4	308.2
Financial assets	11	0.4	0.5	3.7	3.7
Investment in associate	11	0.0	0.0	0.0	0.0
Intangible assets	12	6.6	8.0	6.6	8.0
Receivables	15	2.0	0.5	2.1	0.5
Total non-current assets		336.4	317.2	339.8	320.4
Current assets					
Work in progress	14	0.1	2.9	0.1	2.9
Receivables	15	207.5	203.2	207.0	202.3
Cash and cash equivalents	16	6.9	78.4	5.1	76.9
Total current assets		214.5	284.5	212.2	282.1
Total assets		550.9	601.7	552.0	602.5
Current liabilities					
Trade and other payables	17	201.1	163.8	200.3	162.8
Short-term provisions	18	1.5	0.3	1.5	0.3
Total current liabilities		202.6	164.1	201.8	163.1
Non-current assets plus net current assets		348.3	437.6	350.2	439.4
Non-current liabilities					
Other payables	17	1.6	11.5	1.6	11.5
Long-term provisions	18	1.2	1.2	1.2	1.2
Total non-current liabilities		2.8	12.7	2.8	12.7
Assets less liabilities		**345.5**	**424.9**	**347.4**	**426.7**
Taxpayers' equity					
Public dividend capital	23	0.0	50.4	0.0	50.4
Revaluation surplus		96.6	90.4	96.3	90.0
Retained earnings		248.9	284.1	251.1	286.3
Total taxpayers' equity		**345.5**	**424.9**	**347.4**	**426.7**

The financial statements were signed on 7 June 2017. The Accounts were authorised for issue on the date of certification by the Comptroller and Auditor General.

Jonathan Lyle

Jonathan Lyle | Chief Executive

Statement of cash flows for the year ended 31 March 2017

	Note	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Cash flows from operating activities					
Net profit before taxation		20.8	30.5	20.8	30.7
Adjustments for:					
Depreciation	4, 10	21.0	17.1	21.0	17.1
Amortisation	4, 11	1.9	1.8	1.9	1.8
Operating profit before working capital changes		43.7	49.4	43.7	49.6
(Increase) / decrease in work in progress		2.8	(0.2)	2.8	(0.2)
(Increase) / decrease in receivables		(5.7)	16.6	(6.2)	17.4
Decrease in payables		(0.3)	(17.9)	(0.1)	(18.3)
Use of provisions		(1.1)	(1.9)	(1.1)	(1.9)
Finance income		(0.3)	(0.5)	(0.3)	(0.5)
Finance expense		0.5	0.6	0.5	0.6
Net cash inflow from operating activities		39.6	46.1	39.3	46.7
Taxation paid		0.0	0.0	0.0	0.0
Cash flows from investing activities					
Purchases of property, plant and equipment		(33.9)	(25.9)	(33.9)	(25.9)
Purchases of non-current financial asset investments		0.0	(0.1)	0.0	0.0
Purchases of intangible assets		(0.5)	(0.7)	(0.5)	(0.7)
Finance income		0.3	0.5	0.3	0.5
Net cash used in investing activities		(34.1)	(26.2)	(34.1)	(26.1)
Cash flows from financing activities					
Repayment of loans from MOD		(12.9)	(3.2)	(12.9)	(3.2)
Interest paid on loans		(0.5)	(0.6)	(0.5)	(0.6)
Payment of public dividend capital		(50.4)	0.0	(50.4)	0.0
Dividend paid		(13.2)	(12.7)	(13.2)	(12.7)
Net cash used in financing activities		(77.0)	(16.5)	(77.0)	(16.5)
Net increase / (decrease) in cash and cash equivalents		(71.5)	3.4	(71.8)	4.1
Brought forward cash and cash equivalents		78.4	75.0	76.9	72.8
Carried forward cash and cash equivalents	16	**6.9**	**78.4**	**5.1**	**76.9**

Notes to the accounts

1. Accounting policies

(a) Statement of accounting policies
The financial statements have been prepared in accordance with the 2016/17 Government *Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The particular policies adopted by the Group are described below. They have been applied consistently in dealing with items that are considered material to the accounts. The accounts of all Group undertakings are drawn up to 31 March 2017.

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

(ii) Going concern
On 13 January 2016, MOD announced that Dstl's Trading Fund status will be revoked from 1 April 2017. From this date, Dstl has continued as an Executive Agency of MOD, with a similar function and purpose to the Trading Fund. The Trading Fund Revocation Order was laid before Parliament on 15 February 2017.

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

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

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

- **Valuation of property**
The accounting policy for the valuation of freehold land and buildings is disclosed in Note 1 (e), and the valuations are disclosed in Note 10. With independent professional advice, the Group has concluded that the most appropriate method of valuation provided by the Royal Institute of Chartered Surveyors (RICS) is Depreciated Replacement Cost (DRC). The market for the Group's specialised laboratories and secure accommodation is extremely limited. The large size of the two main sites (Porton Down and Portsdown West) and their relatively remote locations has a limiting effect on the number of alternative users.

- **Biological High Containment Facility**
Details of the facility and valuation are disclosed in Note 10. Due to the specialised nature of the facility and its extremely limited market, it is not possible to determine the facility's fair value less costs to sell. The Group therefore consider the facility's recoverable amount to be its value in use.

- **Financial assets available-for-sale**
The Group's wholly owned subsidiary, Ploughshare Innovations Ltd (Ploughshare), holds equity investments in other entities. The Group considers that it does not have direct control, participating control or interests in any of these investments that influence their activities and exposes the Group to variability of returns from their performance.

The equity investments are disclosed as non-current available-for-sale financial assets and are valued annually using the British Venture Capital Association (BVCA) Guidelines. The investments are unlisted. The Group therefore considers the price per share of the most recent investment, discounted using Ploughshare's knowledge of the market, to be the most appropriate valuation method. See Note 1 (c) (ii) below and Note 11 for further details.

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

- **Accruals**
Accruals are estimated with reference to available documentation, advice from the relevant Project Manager, information provided by third parties, and from experience gained from previous years. Third party verification is sought from suppliers of all sub-contracted research where the value of uninvoiced work is expected to be £100,000 or above. The total cost of sales accrual is £59.3 million (2015/16: £68.2 million).

Staff holiday is not recorded on central management information systems and therefore the holiday pay accrual calculation is an area of estimation uncertainty. The estimate is based on daily pay, using the mid-point for each pay scale. This is applied to the total calculated holiday entitlement for all employees by pay scale. An appropriate proportion is assumed to be outstanding at the year end. The proportion applied is derived from periodic sample testing. The last sample testing was performed during 2013 from which an estimate of 32 per cent of all annual holiday was considered to be outstanding at the financial year end. The total annual holiday accrual liability is £6.7 million (2015/16: £6.6 million). A variance of 5 per cent to the proportion of holiday entitlement outstanding would vary this liability by £1.1 million.

- **Fair value non-current financial assets available-for-sale**
Ploughshare performs the valuations following BVCA Guidelines (see Note 1 (c) (i) above). A market discount is applied based on market intelligence. If no discount was applied, the total valuation would be £0.8 million. Further information is provided in Note 11.

- **Modified Historic Cost Accounting (MHCA)**
Non-current plant and equipment and non-current intangible assets are reported at fair value by applying various indices provided by the Office of National Statistics (ONS). Freehold land

and buildings are subject to a rolling programme of quinquennial revaluation by an independent professional valuer. RICS indices are applied to building valuations in the years between independent professional valuations. An index provided by ONS is applied to freehold land valuations in the years between independent professional valuations.

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

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

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

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

- **Provisions**
  The measurement of early departure provisions is derived from information provided by the Cabinet Office (My Civil Service Pension). Variations between estimated values and the final cost on crystallisation of the liability are not considered material. The measurement of dilapidation provision is based on a third party estimate provided during 2009. The Retail Price Index has been applied to derive its current value. Further disclosures are provided in Note 18. Any change in expectations, or difference between expectation and the actual liability on crystallisation, will be accounted for in the period the determination is made.

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

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

(e) Property, plant and equipment
All assets are independently inspected on a five-year rolling programme.

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

Land and buildings:
Where valuations are carried out, they are performed using RICS Red Book methods.
  Porton Down – DRC
  Portsdown West – DRC
For land and buildings that have been declared surplus
  – Market Value
Specialised facilities
  – Lower of DRC and recoverable amount.
  The recoverable amount is calculated as the greater of:
  (i) the estimated net present value of the cash flows derived from the continued use of the asset in its current state
  (ii) the estimated net sale proceeds of the asset.
Plant, machinery, computers and office equipment
  – Modified historic cost accounting.
Property is revalued in the years between professional independent valuations using the following indices:
  Land – Retail Price Index
  Buildings – Buildings Cost Information Service (BCIS), All-In Tender Price Index.
Plant, machinery, computers and office equipment assets are revalued using relevant indices published by ONS.
Plant, machinery, computers and office equipment are capitalised where the cost of acquisition is greater than £10,000.
Depreciation is provided on a straight-line basis over the useful economic lives of the assets, which are as follows:

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

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

(f) Grant-funded assets
Grants received or receivable for the acquisition or construction of property, plant or equipment are recognised as other operating income after the activity that creates the entitlement has been performed.

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

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

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

(j) Impairment
The carrying value of the Group's non-current assets is reviewed during the year to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairments are first offset through other comprehensive income where sufficient revaluation surplus exists. If impairment is through consumption of economic benefit, or there is insufficient revaluation surplus, it is charged through profit or loss.

Impairment losses will be reversed if there is an increase in the fair value or service potential of a previously impaired asset. The increased carrying amount attributable to a reversal of an impairment is first credited to profit or loss to the extent of any original charge to profit or loss. Any remaining balance, or the whole reversal (if impairment was fully offset through other comprehensive income), will be credited through other comprehensive income.

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

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

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

(n) Financial instruments
Financial assets and liabilities are recognised where the Group has become a party to contractual terms of a financial instrument. Financial instruments are initially measured at fair value, which is usually cost. The fair value of financial instruments is determined by reference to quoted market prices where an active market exists for the trade of these instruments. Where there is no active market, the fair value of the financial instrument is determined using generally accepted valuation techniques, including estimated discounted cash flows. Long-term loans are measured at amortised cost using the effective interest rate method. Available-for-sale investments are measured at fair value. Unrealised gains and losses arising from changes in fair value are recognised in Other Comprehensive Income. The Group does not use financial instruments for speculative purposes.

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

(p) Pensions
Past and present employees are covered by pension benefits provided through Civil Service pension arrangements that are unfunded multi-employer schemes. The Trading Fund is unable to identify its share of the underlying assets and liabilities and therefore it accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the Statement of Comprehensive Income represents the contributions payable to the schemes in respect of the accounting period. Details of the schemes' rates and amounts of contributions during the year are disclosed in the Remuneration and Staff Report on page 55.

(q) Foreign currencies
Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities that are denominated in foreign currency are retranslated at the rates of exchange ruling at the Statement of Financial Position date. Gains and losses arising on retranslation are included in the Statement of Comprehensive Income.

(r) Turnover
Turnover is recognised when the significant risks and rewards of ownership have been transferred to the buyer and there is reasonable certainty of recovery of the consideration receivable. For cost-plus-fee contracts, turnover is recognised as work is performed, and includes the contractually agreed profit rate, but is capped at the contracted price limit. For firm-price contracts, the contracted price is recognised as turnover as agreed milestones or deliverables are met, and are accepted by the customer. Losses are recognised as soon as they are foreseen.

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

(t) Reserves within taxpayers' equity
The revaluation surplus represents taxpayers' equity arising from increases in the value of non-current assets. For buildings, the difference between depreciation charged on the total revalued amount and the depreciation relating to the original historic cost of the asset is transferred to retained earnings.

(u) IFRS, amendments and interpretations in issue but not yet effective or adopted
IAS8: Accounting Policies, Changes in Accounting Estimates and Errors requires disclosures in respect of new IFRS, amendments and interpretations that are or will be applicable after the reporting period. There are a number of standards, amendments and interpretations issued by the IAS Board that are effective for financial statements after this reporting period. The following new or amended standards will be adopted by the Group when as directed, interpreted or adapted by the FReM:

IFRS9: Financial instruments
A new standard issued during July 2014 to replace IAS39: Financial Instruments: Recognition and Measurement. IFRS9 includes requirements for classification and measurement of financial instruments, impairment, derecognition, and hedge accounting. The standard will be effective for accounting periods beginning on or after 1 January 2018 and the FReM intends to adopt the standard for the accounting period beginning on 1 April 2018. The standard has been reviewed and is not expected to have a future material impact on the financial statements of the Group.

IFRS15: Revenue from Contracts with Customers
A new standard intended to replace previous revenue standards IAS11 and IAS18. IFRS15 establishes a framework for determining when to recognise revenue and the amount of revenue to recognise.

The effective date is for accounting periods beginning on or after 1 January 2018. The FReM intends to adopt the standard for the accounting period beginning 1 April 2018. The standard has been reviewed and is not expected to have a future material impact on the financial statements of the Group. More than 90 per cent of Dstl's revenue is from MOD. From 1 April 2017, all revenue from MOD will be on a cost basis. The obligations are very specialised, has no alternative use and Dstl will have an enforceable right to payment for work performed to date. It will therefore be considered appropriate to continue to recognise revenue over time. Revenue contracts with wider Government and non-Exchequer customers are also very specialised, have no alternative use and the Group has an enforceable right to payment for work completed to date. Revenue for cost-plus-fee contracts will continue to be recognised over time. Revenue for firm-price contracts will continue to be recognised at a point in time on achievement of agreed milestone obligations.

IFRS16: Leases

A new standard issued during January 2016 intended to replace the previous Leases standard IAS17. The standard provides a single lessee accounting model for recognising, measuring, presenting and disclosing leases. The effective date is for accounting periods beginning on or after 1 January 2019 (subject to European Union adoption). The FReM's interpretation and adoption date is yet to be determined. The standard has been reviewed and its impact is likely to depend on the exit arrangements and subsequent negotiations surrounding the lease for property at Fort Halstead. This is the Group's only material lease. Under the current plan, the Trading Fund may have left the site and settled all of its lease obligations within the first year that IFRS16 is in force. The transition arrangements of the standard would consider the lease to have a duration of less than 12 months and it would therefore be outside of its scope. The current annual rental charge is £3.1 million per annum. See Note 20 for further information.

2. Operating segments

Group and Trading Fund

All of the Group's business reporting segments are disclosed to enable users of these financial statements to evaluate the nature and financial effects of the Group's business activities. The Group's Corporate Support Functions have been aggregated. All Divisions derive their revenues from the provision of specialist and technical services. The Group derives more than 90 per cent of its revenues from MOD, and more than 95 per cent of its revenues from wider Government. More detailed disclosures can be found in Note 24, Related-party transactions, on page 91.

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

From 1 April 2016, the role and responsibilities of the Portfolio Office transferred to the Capability and Delivery Office (CDO) and to Defence Science and Technology (DST). See below for further details.

Operating segment analysis for the year ended 31 March 2017:

	Note	Chemical, Biological and Radiological Division £ million	Cyber and Information Systems Division £ million	Counter-Terrorism and Security Division £ million	Defence and Security Analysis Division £ million	Platform Systems Division £ million	Capability and Delivery Office £ million	Corporate £ million	Ploughshare £ million	Internal trading and Group consolidation adjustments £ million	Group total as per financial statements £ million
MOD Chief Scientific Adviser		32.8	72.7	43.7	61.3	140.7	0.0	0.0	0.0		351.2
MOD other		42.7	14.9	52.7	15.5	58.3	0.0	0.3	0.0		184.4
Wider Government		1.8	12.2	18.6	0.0	0.3	0.0	0.0	0.0		32.9
Non-Exchequer income		8.9	0.6	2.1	0.0	0.3	0.0	4.3	0.1		16.3
Non-Exchequer equity sales, royalty income and licensing income		0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.8		1.8
Turnover	3	**86.2**	**100.4**	**117.1**	**76.8**	**199.6**	**0.0**	**4.6**	**1.9**	**0.0**	**586.6**
Revenue from other operating segments		6.5	9.0	7.8	25.2	18.6	0.2	1.9	0.2	(69.4)	0.0
Turnover (internal and external)		**92.7**	**109.4**	**124.9**	**102.0**	**218.2**	**0.2**	**6.5**	**2.1**	**(69.4)**	**586.6**
Underlying operating profit[1]		1.0	8.0	1.2	8.2	13.8	(1.5)	0.3	0.1	(0.1)	31.0
Significant operating items	5	0.0	0.0	0.0	0.0	0.0	0.0	(10.0)	0.0		(10.0)
Operating profit / loss[2]		**1.0**	**8.0**	**1.2**	**8.2**	**13.8**	**(1.5)**	**(9.7)**	**0.1**	**(0.1)**	**21.0**
Finance income	6	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0		0.3
Finance expense	7	0.0	0.0	0.0	0.0	0.0	0.0	(0.5)	0.0		(0.5)
Profit / loss before taxation		**1.0**	**8.0**	**1.2**	**8.2**	**13.8**	**(1.5)**	**(9.9)**	**0.1**	**(0.1)**	**20.8**
Taxation	8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0
Dividend	9	0.0	0.0	0.0	0.0	0.0	0.0	(58.0)	0.0		(58.0)
Retained profit / (loss) for the year		**1.0**	**8.0**	**1.2**	**8.2**	**13.8**	**(1.5)**	**(67.9)**	**0.1**	**(0.1)**	**(37.2)**

[1] Underlying operating profit is the measure of profit routinely presented to the Board.
[2] Within operating profit is depreciation and amortisation expensed as follows:

	Note	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million		£ million
Depreciation and impairment of property, plant and equipment	4	0.6	0.3	1.5	0.0	0.3	0.0	18.3	0.0		21.0
Amortisation of intangible assets	4	0.0	0.0	0.0	0.1	0.0	0.0	1.8	0.0		1.9
Total depreciation and amortisation		**0.6**	**0.3**	**1.5**	**0.1**	**0.3**	**0.0**	**20.1**	**0.0**		**22.9**

The comparatives for the year ending 31 March 2016 are:

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

[1] Underlying operating profit is the measure of profit routinely presented to the Board.
[2] Within operating profit is depreciation and amortisation expensed as follows:

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

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

Chemical, Biological and Radiological (CBR)
The CBR Division provides an integrated chemistry, biology, radiation and medical sciences capability. The Division delivers longer-term research as well as short-term advice and consultancy, and supports both the Front Line Commands and wider Government.

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

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

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

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

Capability and Delivery Office (CDO)
From 1 April 2016, the role and responsibilities of the Portfolio Office transferred to the CDO and to Defence Science and Technology (DST). CDO is a Function within the corporate operating segment, and its role is to work with the Division leadership teams to integrate stewardship of S&T capability and to maximise the impact of the S&T programmes. DST sits within MOD but outside of the Trading Fund and is responsible for setting the requirements and design of the S&T Portfolio.

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

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

3. Turnover

Turnover by major class of customer is analysed as follows:

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
MOD:	535.6	563.6	535.6	563.6
Chief Scientific Adviser	351.2	382.1	351.2	382.1
Other	184.4	181.5	184.4	181.5
Non-MOD:	51.0	48.3	49.1	45.9
Wider Government	32.9	30.6	32.9	30.6
Non-Exchequer income	16.3	15.4	16.2	15.3
Non-Exchequer equity sales, royalty income and licensing income	1.8	2.3	0.0	0.0
Total	**586.6**	**611.9**	**584.7**	**609.5**

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

4. Operating profit

Operating profit is stated after charging £200.4 million of staff costs. Staff costs are disclosed in more detail in the Remuneration and Staff report on page 53. Operating profit is stated after charging/(crediting) the following other main overhead items:

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Depreciation charge for year:	21.0	17.1	21.0	17.1
Depreciation of owned property, plant and equipment	16.4	16.3	16.4	16.3
Exceptional costs of impairment of property, plant and equipment	4.0	0.6	4.0	0.6
Exceptional costs of reversal of impairment of property, plant and equipment	(0.1)	0.0	(0.1)	0.0
Adjustment valuation of property, plant and equipment	0.7	0.2	0.7	0.2
Amortisation of software licences	1.9	1.8	1.9	1.8
Operating lease property rentals	3.4	3.3	3.4	3.3
Travel, subsistence and hospitality	2.8	3.0	2.8	3.0
Doubtful debt provision[1]	0.0	0.0	(0.2)	(0.5)
Foreign exchange gains	(0.2)	(0.1)	(0.2)	(0.1)
Auditor's remuneration and expenses[2]	0.1	0.1	0.1	0.1
Other operating income[3]	(2.5)	(11.2)	(2.7)	(11.4)

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

2 The audit fee is £74,500 (2015/16: £69,500). During the years ending 31 March 2016 and 31 March 2017, the Group did not contract any non-audit services from its external auditor, the National Audit Office (NAO).

3 Included within the other operating income comparative is a £7.5 million grant funding contribution from MOD towards the construction of the Large Energetics facility.

5. Significant operating items

Significant operating items are defined as operating income or operating expenses that are not routine to the core business and due to their size or incidence, are considered material. They warrant supplementary disclosure to aid user's understanding of the Group's underlying operating performance. They may occur as a single in-year item, or they can be part of a project that span several years and whose continued disclosure enables users to assess the longer-term impact on financial performance.

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
i lab[1]	0.0	0.3	0.0	0.3
Helios[2]	5.5	3.6	5.5	3.6
Magazine and associated materials processing facilities[3]	0.0	0.3	0.0	0.3
Donated assets[4]	0.0	(0.3)	0.0	(0.3)
MOD Grant funding[5]	0.0	(7.5)	0.0	(7.5)
Impairment of assets under construction[6]	2.7	0.0	2.7	0.0
Facilities Management Service (FMS) transition[7]	1.8	0.0	1.8	0.0

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

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

3 Cost of delay and design associated with review of incorporating additional processing facilities.

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

5 See Note 4(3).

6 Impairment of Project, Programme and Portfolio Management System (P3MS) project. See losses and special payments on page 58.

7 One-off costs for contract transition and changes to service delivery mechanisms.

6. Finance income

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Interest received and receivable from bank accounts and short-term deposits	0.3	0.5	0.3	0.5
Total	**0.3**	**0.5**	**0.3**	**0.5**

7. Finance expense

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Interest paid and payable on loans	0.5	0.6	0.5	0.6
Total	**0.5**	**0.6**	**0.5**	**0.6**

One payment of £883 was made under the Late Payments of Commercial Debts (Interest) Act 1998 (2015/16: £5,277).

8. Taxation

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

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

	2017 Group £ million	2016 Group £ million
Current tax:		
UK corporation tax	0.0	0.0

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

	2017 £ million	2016 £ million
Group profit on ordinary activities before tax	20.8	30.5
less Trading Fund profit (exempt) and consolidation adjustments on ordinary activities before tax	(20.8)	(30.2)
Profit on ordinary activities before tax	0.0	0.3
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20 per cent (2015/16: 20 per cent)	0.0	0.1
Effects of:		
Unutilised trading losses carried forward	0.0	(0.1)
Current tax charge	**0.0**	**0.0**

Ploughshare has unutilised gross trading losses carried forward of £5.9 million (2015/16: £6.1 million). No provisions for deferred tax have been made.

9. Dividends

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Ordinary dividend payable	58.0	13.2	58.0	13.2
Total	**58.0**	**13.2**	**58.0**	**13.2**

Dividends payable to MOD are set by agreement with the Secretary of State for Defence.

10. Property, plant and equipment

Group and Trading Fund

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

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

	Freehold land £ million	Freehold buildings £ million	Legacy facilities £ million	Plant and machinery £ million	Computers and office equipment £ million	Assets under construction £ million	Total £ million
Valuations and gross modified historic cost:							
Balance at 1 April 2016	41.5	194.3	0.1	98.2	36.4	58.9	429.4
Additions	0.0	0.0	0.0	0.2	0.0	32.1	32.3
Disposals	0.0	(1.2)	0.0	(0.8)	(1.0)	0.0	(3.0)
(Transfers) / additions	0.0	8.7	0.0	3.7	5.1	(17.5)	0.0
Reclassified as non-capital spend	0.0	0.0	0.0	0.0	0.0	(0.3)	(0.3)
Downward revaluation	0.0	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Revaluations	1.1	1.7	0.0	1.6	0.0	0.0	4.4
Impairment	0.0	0.0	0.0	0.0	0.0	(2.7)	(2.7)
Balance at 31 March 2017	**42.6**	**203.5**	**0.1**	**102.9**	**40.4**	**70.5**	**460.0**
Depreciation:							
Balance at 1 April 2016	0.0	(35.9)	(0.1)	(66.6)	(18.6)	0.0	(121.2)
Charge for year:							
historical	0.0	(5.7)	0.0	(4.8)	(5.9)	0.0	(16.4)
supplementary	0.0	(1.1)	0.0	(1.4)	(0.1)	0.0	(2.6)
impairment	0.0	(0.1)	0.0	(1.2)	0.0	0.0	(1.3)
Disposals	0.0	1.1	0.0	0.8	1.0	0.0	2.9
Revaluations	0.0	6.0	0.0	0.0	0.0	0.0	6.0
Balance at 31 March 2017	**0.0**	**(35.7)**	**(0.1)**	**(73.2)**	**(23.6)**	**0.0**	**(132.6)**
Net modified historic cost:							
Balance at 31 March 2017	**42.6**	**167.8**	**0.0**	**29.7**	**16.8**	**70.5**	**327.4**
Balance at 1 April 2016	41.5	158.4	0.0	31.6	17.8	58.9	308.2

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

The land at Portsdown Main has been declared surplus and is valued annually. The latest valuation was carried out as at 31 January 2017 on a Market Value basis by Alder King LLP, Property Consultants. The land and building assets at Portsdown West were valued by GVA Ltd, Chartered Surveyors, as at 31 March 2013. A third of all building assets at Porton Down were valued by Alder King LLP, Property Consultants, as at 31 March 2017. A third of all building assets at Porton Down were valued by Alder King LLP, Property Consultants, as at 31 March 2016. A third of all building assets at Porton Down were valued by Alder King LLP, Property Consultants, as at 31 March 2015. The land at Porton Down was valued by GVA Ltd, Chartered Surveyors, as at 31 March 2014.

The published figures for land and buildings include:
- a professional external valuation of Portsdown Main as at 31 January 2017.
- a professional external valuation of the land and building assets at Portsdown West as at 31 March 2013.
- a professional external valuation of the land at Porton Down as at 31 March 2014.
- a professional external valuation of a third of the building assets at Porton Down as at 31 March 2017.
- a professional external valuation of a third of the building assets at Porton Down as at 31 March 2016.
- a professional external valuation of a third of the building assets at Porton Down as at 31 March 2015.

The valuation of Portsdown Main remained unchanged.

Included within freehold land and freehold buildings are properties from which rental income is derived. These were last valued as at 31 March 2014. They are not material and are not disclosed separately.

Included within plant and machinery are donated assets. A sub-set of the note is as follows:

	Plant and machinery £ million	Assets under construction £ million	Total £ million
Valuations and gross modified historic costs:			
Balance at 1 April 2016	1.8	0.3	2.1
(Transfers) / additions	0.3	(0.3)	0.0
Revaluations	0.1	0.0	0.1
Balance at 31 March 2017	**2.2**	**0.0**	**2.2**
Depreciation:			
Balance at 1 April 2016	(0.4)	0.0	(0.4)
Charge for year:			
historical	(0.4)	0.0	(0.4)
Balance at 31 March 2017	**(0.8)**	**0.0**	**(0.8)**
Net modified historic cost:			
Balance at 31 March 2017	**1.4**	**0.0**	**1.4**
Balance at 1 April 2016	1.4	0.3	1.7

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

An annual business-in-use valuation is performed on the facility, which includes cash flows from staff and facility income that are largely independent from other assets. The valuation includes capacity support income from MOD used to underwrite any shortfall where the cost to run the facility exceeds turnover generated. The valuation for the facility is £6.6 million (2015/16: £8.3 million). The facility's remaining useful economic life is estimated to be 18 years (2015/16: 19 years). HM Treasury's nominal discount rate of 3.7 per cent (2015/16: 3.7 per cent) has been applied to derive the net present value.

The business-in-use valuation is sensitive to a variety of assumptions. The most significant include:
- the discount factor
- the percentage of shortfall covered by on-going capacity support income from MOD
- income generation from customer demand for the use of the facility by the Trading Fund's microbiology scientists.

The Trading Fund has assumed full on-going capacity support throughout the facility's remaining useful economic life, and 3 per cent income generating utilisation of the facility by microbiology scientists. The most significant factor that affects the valuation is capacity support. Assuming a discount factor of 3.7 per cent, and 3 per cent income generating utilisation of the facility by microbiology scientists, reducing capacity support to 50 per cent results in a net present value of minus £20.1 million, and assuming no capacity support would reduce the net present value to minus £46.7 million.

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

		Facility utilisation by microbiology staff 0% £ million	3% £ million	30% £ million	60% £ million	90% £ million
2% discount factor						
Capacity support:	0%	(54.4)	(54.2)	(49.2)	(43.6)	(38.0)
	50%	(23.7)	(23.1)	(18.1)	(12.5)	(6.9)
	100%	7.4	7.9	13.0	18.6	24.2
3.7% discount factor						
Capacity support:	0%	(47.1)	(46.7)	(42.3)	(37.4)	(32.5)
	50%	(20.5)	(20.1)	(15.7)	(10.8)	(5.9)
	100%	6.1	6.6	11.0	15.8	20.7
5% discount factor						
Capacity support:	0%	(42.3)	(41.9)	(37.9)	(33.5)	(29.0)
	50%	(18.5)	(18.1)	(14.1)	(9.7)	(5.2)
	100%	5.3	5.7	9.7	14.1	18.6

The comparatives for the year ended 31 March 2016 are:

	Freehold land £ million	Freehold buildings £ million	Legacy facilities £ million	Plant and machinery £ million	Computers and office equipment £ million	Assets under construction £ million	Total £ million
Valuations and gross modified historic cost:							
Balance at 1 April 2015	40.9	180.9	0.1	97.7	23.3	44.2	387.1
Additions	0.0	0.1	0.0	0.8	0.2	25.0	26.1
Disposals	0.0	0.0	0.0	(1.4)	(0.1)	0.0	(1.5)
(Transfers) / additions	0.0	0.1	0.0	0.5	11.9	(12.5)	0.0
Transferred from intangible assets	0.0	0.0	0.0	0.0	0.0	2.7	2.7
Transferred to intangible assets	0.0	0.0	0.0	0.0	0.0	(0.4)	(0.4)
Revaluations	0.6	13.2	0.0	0.6	1.1	0.0	15.5
Impairment	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.1)
Balance at 31 March 2016	**41.5**	**194.3**	**0.1**	**98.2**	**36.4**	**58.9**	**429.4**
Depreciation:							
Balance at 1 April 2015	0.0	(29.1)	(0.1)	(62.3)	(11.9)	0.0	(103.4)
Charge for year:							
historical	0.0	(5.9)	0.0	(4.6)	(5.8)	0.0	(16.3)
supplementary	0.0	(1.9)	0.0	(0.8)	(1.0)	0.0	(3.7)
impairment	0.0	0.0	0.0	(0.3)	0.0	0.0	(0.3)
Disposals	0.0	0.0	0.0	1.4	0.1	0.0	1.5
Revaluations	0.0	1.0	0.0	0.0	0.0	0.0	1.0
Balance at 31 March 2016	**0.0**	**(35.9)**	**(0.1)**	**(66.6)**	**(18.6)**	**0.0**	**(121.2)**
Net modified historic cost:							
Balance at 31 March 2016	**41.5**	**158.4**	**0.0**	**31.6**	**17.8**	**58.9**	**308.2**
Balance at 1 April 2015	40.9	151.8	0.0	35.4	11.4	44.2	283.7

11. Non-current financial assets

	Trading Fund subsidiary undertaking £ million	Trading Fund associate £ million	Trading Fund Total £ million	Group investments and associate £ million	Group Total £ million
Cost or valuation:					
Balance at 1 April 2016	3.7	0.0	3.7	0.5	0.5
Revaluations	0.0	0.0	0.0	(0.1)	(0.1)
Balance at 31 March 2017	**3.7**	**0.0**	**3.7**	**0.4**	**0.4**

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

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

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

	2017 £'000	2016 £'000	Movement £'000
Claresys Ltd	63.2	64.2	(1.0)
Esroe Ltd	142.9	144.0	(1.1)
Subsea Asset Location Technologies Ltd (SALT)	79.8	167.3	(87.5)
SALT Aviation Recovery Assistance Ltd (SARA)	113.6	113.6	0.0
			(89.6)

During the year, the creditors of Enigma Diagnostics commenced voluntary liquidation. This had no impact on the Group's financial performance. For 2015/16, Ploughshare had reduced the valuation of Enigma to zero because additional funding had not been secured.

Further details of the subsidiary and associate owned directly by the Trading Fund as at 31 March 2017 are shown below:

Name of company	Principal area of operation and country of incorporation	Proportion of voting rights and shares held	Class of shares held	Last financial year ended	Turnover £ million	Profit for year £ million	Total assets £ million	Total liabilities £ million	Aggregate capital and reserves £ million	Nature of business
Subsidiary										
Ploughshare Innovations Ltd	Great Britain	100%	Ordinary of £1	31 March 2017	2.0	0.1	2.9	2.7	0.2	Technology transfer management

Draft statutory accounts for the year ended 31 March 2017 have been used due to a different timetable for preparing audited accounts.

Associate										
Tetricus Ltd	Great Britain	33.3%	Ordinary C of £1	31 March 2017	0.4	0.0	0.4	0.3	0.1	Business support to biotechnology start-ups

Management accounts for 12 months to the year ended 31 March 2017 have been used due to a different timetable for preparing audited accounts.

The comparatives for the year ended 31 March 2016 are:

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

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

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

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

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

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

12. Intangible assets

Group and Trading Fund

The accounting policy for intangible assets is covered in Note 1.

Intangible asset movements during the year were:

	Purchased software licences £ million	Software assets under construction £ million	Total £ million
Gross modified historic cost:			
Balance at 1 April 2016	13.0	2.7	15.7
Additions	0.0	0.5	0.5
(Transfers) / additions	1.5	(1.5)	0.0
Revaluations	0.2	0.0	0.2
Balance at 31 March 2017	**14.7**	**1.7**	**16.4**
Amortisation:			
Balance at 1 April 2016	(7.7)	0.0	(7.7)
Charge for year:			
historical	(1.9)	0.0	(1.9)
supplementary	(0.2)	0.0	(0.2)
Balance at 31 March 2017	**(9.8)**	**0.0**	**(9.8)**
Net modified historic cost:			
Balance at 31 March 2017	**4.9**	**1.7**	**6.6**
Balance at 1 April 2016	5.3	2.7	8.0

The comparatives for the year ended 31 March 2016 are:

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

13. Impairments

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

Group

	Note	2017 Profit or Loss £ million	2016 Profit or Loss £ million	2017 Other Comprehensive Income £ million	2016 Other Comprehensive Income £ million
Investment in Enigma Diagnostics Ltd	11	0.0	0.0	0.0	1.7
Investment in Claresys Ltd	11	0.0	0.0	0.0	0.3
Investment in Subsea Asset Location Technologies Ltd	11	0.1	0.0	0.0	0.0
Biological High Containment Facility	10	1.3	0.3	0.0	0.0
Buildings (including MHCA*)[1]	10	0.5	0.4	0.8	1.2
Plant and machinery (MHCA)	10	0.2	0.1	0.1	0.3
Computer equipment (MHCA)	10	0.2	0.1	0.0	0.0
Assets under construction	10, 12	2.7	0.0	0.0	0.0
Total		**5.0**	**0.9**	**0.9**	**3.5**

* Modified Historic Cost Accounting
[1] Includes impairment reversal of £0.1 million.

Trading Fund

	Note	2017 Profit or Loss £ million	2016 Profit or Loss £ million	2017 Other Comprehensive Income £ million	2016 Other Comprehensive Income £ million
Biological High Containment Facility	10	1.3	0.3	0.0	0.0
Buildings (including MHCA)[1]	10	0.5	0.4	0.8	1.2
Plant and machinery (MHCA)	10	0.2	0.1	0.1	0.3
Computer equipment (MHCA)	10	0.2	0.1	0.0	0.0
Assets under construction	10, 12	2.7	0.0	0.0	0.0
Total		**4.9**	**0.9**	**0.9**	**1.5**

[1] Includes impairment reversal of £0.1 million.

14. Work in progress

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Central Government bodies	0.0	2.8	0.0	2.8
Non-public sector organisations	0.1	0.1	0.1	0.1
Total	**0.1**	**2.9**	**0.1**	**2.9**

15. Trade receivables and other current assets

Amounts falling due within one year:

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Trade receivables	**190.7**	**43.1**	**190.4**	**42.8**
Central Government bodies	187.1	40.9	187.1	40.9
Non-public sector organisations	3.6	2.2	3.3	1.9
Amounts recoverable under contracts	**8.8**	**149.5**	**8.8**	**149.5**
Central Government bodies	6.6	148.0	6.6	148.0
Non-public sector organisations	2.2	1.5	2.2	1.5
Deposits and advances – staff receivables	**0.4**	**0.3**	**0.4**	**0.3**
Other receivables	**0.2**	**3.4**	**0.4**	**3.4**
Central Government bodies	0.2	0.4	0.4	0.4
Non-public sector organisations	0.0	3.0	0.0	3.0
Prepayments and accrued income	**7.4**	**6.9**	**7.0**	**6.3**
Central Government bodies	0.0	1.0	0.0	1.0
Local authorities	1.1	0.7	1.1	0.7
Non-public sector organisations	6.3	5.2	5.9	4.6
Total	**207.5**	**203.2**	**207.0**	**202.3**

Amounts falling due after more than one year:

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Deposits and advances – staff receivables	**0.4**	**0.5**	**0.4**	**0.5**
Other receivables – Central Government bodies	**0.0**	**0.0**	**0.1**	**0.0**
Prepayments and accrued income – Non-public sector organisations	**1.6**	**0.0**	**1.6**	**0.0**
Total	**2.0**	**0.5**	**2.1**	**0.5**

16. Cash and cash equivalents

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Balance brought forward	78.4	75.0	76.9	72.8
Net change in cash and cash equivalent balances	(71.5)	3.4	(71.8)	4.1
Balance carried forward	**6.9**	**78.4**	**5.1**	**76.9**

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
The following balances were held at:				
Commercial banks – cash	6.9	73.4	5.1	71.9
Debt Management Office – short-term investments	0.0	5.0	0.0	5.0
Balance carried forward	**6.9**	**78.4**	**5.1**	**76.9**

17. Trade payables and other liabilities

Amounts falling due within one year:

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Current part of long-term loan payable to MOD	**0.0**	**3.2**	**0.0**	**3.2**
VAT	**37.7**	**7.1**	**37.7**	**6.8**
Other taxation and social security	**6.0**	**5.4**	**5.9**	**5.3**
Payments received on account	**5.9**	**9.2**	**5.9**	**9.2**
Central Government bodies	0.9	5.5	0.9	5.5
Non-public sector organisations	5.0	3.7	5.0	3.7
Trade payables	**12.3**	**29.5**	**12.3**	**29.5**
Central Government bodies	0.1	0.5	0.1	0.5
NHS Trusts	0.0	0.1	0.0	0.1
Local authorities	1.8	2.3	1.8	2.3
Non-public sector organisations	10.4	26.6	10.4	26.6
Other payables	**4.7**	**4.8**	**4.7**	**4.8**
Central Government bodies	4.6	4.7	4.6	4.7
Non-public sector organisations	0.1	0.1	0.1	0.1
Pay and expenses – staff payables	**3.7**	**3.8**	**3.7**	**3.8**
Accruals and deferred income	**72.8**	**87.6**	**72.1**	**87.0**
Central Government bodies	5.3	8.9	5.3	8.9
Trading funds	0.1	0.1	0.1	0.1
Local authorities	9.1	8.4	9.1	8.4
Non-public sector organisations	54.0	69.3	53.3	68.7
Staff	4.3	0.9	4.3	0.9
Dividend	**58.0**	**13.2**	**58.0**	**13.2**
Total	**201.1**	**163.8**	**200.3**	**162.8**

Amounts falling due after more than one year:

	2017 Group £ million	2016 Group £ million	2017 Trading Fund £ million	2016 Trading Fund £ million
Non-current part of long-term loan payable to MOD	**0.0**	**9.7**	**0.0**	**9.7**
Accruals and deferred income – Central Government bodies	**1.6**	**1.8**	**1.6**	**1.8**
Total	**1.6**	**11.5**	**1.6**	**11.5**

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

18. Provisions for liabilities and charges

Group and Trading Fund

	Onerous contracts £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Balance at 1 April 2016	1.1	0.1	0.2	0.0	0.1	1.5
Provided in the year	0.2	0.0	0.2	0.2	1.8	2.4
Provisions not required written-back	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Provisions utilised in the year	(0.2)	(0.1)	(0.3)	(0.1)	(0.4)	(1.1)
Balance at 31 March 2017	**1.1**	**0.0**	**0.1**	**0.0**	**1.5**	**2.7**

Analysis of expected timing of cash flows:

	Onerous contracts £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Between 1 April 2017 and 31 March 2018	0.0	0.0	0.1	0.0	1.4	1.5
Between 1 April 2018 and 31 March 2019	0.0	0.0	0.0	0.0	0.1	0.1
Between 1 April 2019 and 31 March 2024	1.1	0.0	0.0	0.0	0.0	1.1
Balance at 31 March 2016	**1.1**	**0.0**	**0.1**	**0.0**	**1.5**	**2.7**

No amounts are expected to be called after 31 March 2024 and therefore no further analysis is necessary for amounts after this date. The provisions have not been discounted. The effect of discounting is not material.

Onerous contracts
A lease is in place for a facility (owned by the Trading Fund) to remain at the Farnborough site. This defers a dilapidation obligation under the Farnborough lease to beyond a year. The current expiry date of the lease is 31 March 2020, and therefore utilisation of the provision may not be until beyond this date. During the year, the Trading Fund had an obligation to settle a contractor's staff redundancies totalling £0.2 million. This was utilised during the year.

Remediation
As freehold owner of the Portsdown Main site, the Trading Fund has an obligation to clear, remove and safely dispose of hazardous waste. The hazardous waste, which had been left by a contractor who had been using the site, was cleaned up during the year. An environmental survey will be performed next year.

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

Helios Project provisions
Due to a phased withdrawal from the Fort Halstead site, there have been some voluntary early departures for non-mobile staff.

Early departure costs
The Trading Fund meets the additional costs of benefits beyond the normal Civil Service pension arrangements in respect of employees who depart early, by paying the required amounts to the Cabinet Office (My Civil Service Pension (MyCSP)). The Trading Fund provides for this in full when the early departure agreement becomes binding. Payment values are established by MyCSP. During the year, there was one targeted voluntary early exit scheme that cost £1.3 million (of which £0.1 million has been utilised), and others amounting to £0.5 million (of which £0.3 million has been utilised).

The comparatives for the year ended 31 March 2016 are:

Group and Trading Fund

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

Analysis of expected timing of cash flows:

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

19. Long-term loans

	2017 Group and Trading Fund £ million	2016 Group and Trading Fund £ million
Balance brought forward	12.9	16.1
Repayment of loan	(12.9)	(3.2)
Balance carried forward	**0.0**	**12.9**

A £21.5 million loan was received from MOD on 11 September 2008 and was repayable by instalments until 31 March 2020. Interest was charged at 4.53 per cent per annum. The interest rate was fixed for the duration of the loan. A further loan of £10.7 million was received from MOD on 15 October 2009, and was repayable by instalments until 31 March 2020. Interest was charged at 2.75 per cent per annum. The interest rate was fixed for the duration of the loan. As part of the revocation of the Trading Fund, the loans were repaid in full during the year.

	2017 Group and Trading Fund £ million	2016 Group and Trading Fund £ million
Analysis of repayments:		
Within one year	0.0	3.2
After one year but within two years	0.0	3.2
After two years but within five years	0.0	6.5
Total	**0.0**	**12.9**

20. Commitments under leases

Operating leases

Commitments under non-cancellable operating leases to pay rentals after 31 March 2017 are analysed as follows:

	2017 Group and Trading Fund £ million	2016 Group and Trading Fund £ million
Property:		
Due within one year	3.4	3.8
Due after one year but within five years	12.5	14.2
Total	**15.9**	**18.0**

The Group leases various properties, including land, under short-term cancellable operating lease agreements. There is only one significant lease – the property at Fort Halstead. To cancel the lease, a notice period of not less than five years is required of the Group. The landlord does not have a right to cancel. No renewal or purchase options exist. There is a rent review every five years, performed on a Market Value basis. The next review will be for the period from 1 April 2017. There is no contingent rent or any significant restrictions concerning the use of the property.

21. Capital commitments

	2017 Group and Trading Fund £ million	2016 Group and Trading Fund £ million
Property, plant and equipment:		
Capital expenditure that has been contracted for but has not been provided for in the accounts	12.8	24.9
Capital expenditure that has been authorised but has not been provided for in the accounts	49.2	65.6
Intangible assets:		
Capital expenditure that has been contracted for but has not been provided for in the accounts	0.6	0.3
Capital expenditure that has been authorised but has not been provided for in the accounts	0.4	0.5

The Trading Fund has obtained Ministerial approval for the Helios Project, which will result in migration away from the Fort Halstead site and the construction of replacement facilities at Porton Down. Ministerial approval of £115 million at 2013 prices was granted, which has been revised for inflation to a total expected cost of £119 million comprising both revenue and capital amounts. Some construction elements of the project remain in the design phase prior to tendering, and the final approval based on confirmed costs is not expected until late 2017. Within the approved £119 million, £39.9 million has been capitalised, £11.1 million has been contracted for but has not been provided for, and £48.3 million has been provisionally authorised subject to tender. The balance of £19.7 million is expected to be expensed.

22. Financial instruments

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

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

Categories of financial instruments

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

Liquidity risk

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

The following is an analysis of financial liabilities by remaining contractual maturity:	Matures within 1 year £ million	Matures between 1 and 2 years £ million	Matures between 2 and 3 years £ million	Matures between 3 and 4 years £ million	Matures between 4 and 5 years £ million	Matures after more than 5 years £ million
Trade payables	12.3	0.0	0.0	0.0	0.0	0.0
Other payables:						
Staff / payroll	3.7	0.0	0.0	0.0	0.0	0.0
Taxation and social security	43.7	0.0	0.0	0.0	0.0	0.0
Payments on account	5.9	0.0	0.0	0.0	0.0	0.0
Other	4.7	0.0	0.0	0.0	0.0	0.0
Accruals and deferred income	72.8	0.4	0.2	0.1	0.1	0.8
Provisions	1.5	0.1	1.1	0.0	0.0	0.0
Dividend	58.0	0.0	0.0	0.0	0.0	0.0
Total financial liabilities	**202.6**	**0.5**	**1.3**	**0.1**	**0.1**	**0.8**

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

	Matures within 1 year £ million	Matures between 1 and 2 years £ million	Matures between 2 and 3 years £ million	Matures between 3 and 4 years £ million	Matures between 4 and 5 years £ million	Matures after more than 5 years £ million
Work in progress	0.1	0.0	0.0	0.0	0.0	0.0
Trade receivables	190.7	0.0	0.0	0.0	0.0	0.0
Amounts recoverable under contract	8.8	0.0	0.0	0.0	0.0	0.0
Prepayments	7.4	1.6	0.0	0.0	0.0	0.0
Other receivables:						
Staff	0.4	0.1	0.1	0.1	0.0	0.1
Other	0.2	0.0	0.0	0.0	0.0	0.0
Total financial assets	**207.6**	**1.7**	**0.1**	**0.1**	**0.0**	**0.1**

Market risk

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

As at 31 March 2017, the Group's exposure to currency exchange movements, denominated in sterling, is:

	US Dollar £'000	Euro £'000
Assets	2,095.3	16.4
Liabilities	63.1	109.1

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

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

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

0 - 90 days £ million	91 - 180 days £ million	Over 180 days £ million
14.3	7.1	4.9

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

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

	£ million	£ million
Trade receivables		190.7
Amounts recoverable under contract		8.8
Other receivables:		
Other	0.2	
Staff loans, advances and imprests	0.8	
		1.0
Cash and cash equivalents:		
Cash at bank – Lloyds Bank	5.1	
Cash at bank – Santander Bank	0.8	
Short-term investments – HSBC Bank	0.2	
Short-term investments – Santander Bank	0.7	
		6.8
Maximum exposure to credit risk		**207.3**

The amount quoted above is the technical maximum, quantitative exposure but, within this, £183.7 million relates to MOD. Credit risk with MOD is minimal since it is a central Government department, and is the Group's immediate Owner.

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

23. Public dividend capital

Group and Trading Fund

The FReM interprets public dividend capital as equity.

	2017 £ million	2016 £ million
Balance brought forward	50.4	50.4
Net movement in year	(50.4)	0.0
Balance carried forward	**0.0**	**50.4**

During March, the public dividend capital was paid to MOD as part of the process of cessation of the Trading Fund.

24. Related-party transactions

Dstl is a Trading Fund owned by MOD.

MOD
MOD is a related party and has a representative on the Board as a Non-Executive Director. During the year, the Trading Fund had various material transactions with MOD, all of which were carried out under contract terms and subject to the normal course of internal and external audit:

	2017 £'000	2016 £'000
Sales	544,626.0	577,127.6
Purchases	24,991.5	22,659.2
Receivables	183,739.3	178,800.6
Payables	61,310.5	21,424.6

Sales include £8,985.1 thousand of other operating income (2015/16: £13,501.1 thousand). In addition to purchases, an ordinary dividend of £58.0 million, payable to MOD, was agreed (2015/16: £13.2 million). Interest paid on the loans totalled £0.5 million, measured at amortised cost using the effective interest rate method (2015/16: £0.6 million). Full repayment of the principal was made during the year totalling £12.9 million. See Note 19 for further information.

Ploughshare Innovations Ltd
Ploughshare is a wholly owned subsidiary undertaking of the Trading Fund. Details are provided in Note 11. Inter-company trading has been eliminated on consolidation using the purchase method. During the year, the following trading occurred with Ploughshare, which was carried out under standard contract terms:

	2017 £'000	2016 £'000
Sales and other operating income	342.4	342.9
Purchases and expenses	103.9	130.7
Receivables	112.1	12.3
Payables	0.0	0.0

During the year, Ploughshare settled £646.4 thousand of its debt with the Trading Fund. A full doubtful debt provision has been maintained to include sales made to Ploughshare during the year. This has resulted in a total provision of £1,887.7 thousand (2015/16: £2,157.2 thousand), and a net credit to profit or loss of £217.8 thousand (2015/16: net credit of £539.4 thousand).

Available-for-sale investments and associate

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

	Sales		Purchases		Receivables		Payables	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Claresys Ltd	56.1	21.9	0.0	0.0	22.5	19.6	0.0	0.0
Enigma Diagnostics Ltd[1]	5.5	0.0	0.0	0.0	6.6	0.0	0.0	0.0
Esroe Ltd	45.0	45.0	0.0	0.0	192.0	138.0	0.0	0.0
Subsea Asset Location Technologies Ltd	9.7	9.8	0.0	0.0	30.2	18.9	0.0	0.0
Tetricus Ltd	181.1	242.6	0.0	0.0	51.5	3.3	0.0	0.0

[1] During the year, the creditors of Enigma Diagnostics commenced voluntary liquidation.

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

Other public sector bodies

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

	Sales		Purchases		Receivables		Payables	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Cabinet Office (excluding My Civil Service Pension)	0.0	144.2	157.2	76.7	0.0	86.2	84.5	8.6
Centre for Applied Science and Technology	0.0	720.0	0.0	11.4	0.0	0.0	11.4	11.4
Centre for Protection of National Infrastructure	1,084.1	0.0	79.9	0.0	178.4	0.0	72.0	0.0
Defence Electronics and Components Agency	13.2	10.1	0.0	6.4	6.4	3.0	0.0	0.0
Department for Energy and Climate Change	64.2	246.0	0.0	0.0	21.0	127.8	0.0	0.0
Department for the Environment, Food and Rural Affairs	23.7	312.4	13.1	59.7	0.1	26.2	0.0	2.3
Department for Transport	4,309.1	3,922.4	0.0	50.8	1,200.2	1,102.7	52.3	15.0
Economic and Social Research Council	0.0	150.0	80.5	161.4	0.0	0.0	0.0	7.4
Engineering and Physical Sciences Research Council	0.0	0.0	1,705.8	2,200.4	0.0	0.0	42.0	548.3
Foreign and Commonwealth Office	192.7	59.9	37.9	0.1	44.2	35.6	12.0	0.0
Government Communications Bureau	10.7	9,331.1	1,683.2	433.4	1,725.8	4,078.3	140.8	481.6
Government Communications Centre	5,712.6	6,766.0	643.7	238.3	2,044.1	1,760.9	1.2	123.7
Government Legal Department	0.0	0.0	48.6	57.3	0.0	0.0	0.0	0.9
Health and Safety Executive	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Health and Safety Laboratory	0.0	0.0	96.9	47.2	0.0	0.0	2.9	22.7
Home Office	9,270.7	8,397.5	79.9	96.0	2,642.4	2,484.6	498.1	127.6
Innovate UK	0.0	477.0	0.0	2,613.9	0.0	11.0	0.0	2,294.4
Medical Research Council	8.7	0.0	33.0	2.6	8.7	0.0	0.0	2.6
Meteorological Office	46.4	4.2	1,038.4	1,060.7	0.0	0.0	149.3	6.5
Natural Environment Research Council	0.0	0.0	108.8	105.4	0.0	0.0	0.0	5.3
Public Health England	539.9	1,317.8	367.2	1,165.6	129.9	364.2	117.8	123.3
Science and Technology Facilities Council	0.0	0.0	1,598.3	486.8	0.0	0.0	79.9	0.0
UK Space Agency	1,225.4	313.6	0.0	0.0	850.0	26.9	0.0	0.0
Cabinet Office – My Civil Service Pension	0.0	0.0	38,787.8	41,559.1	0.0	0.0	6,046.1	7,626.5
HM Revenue and Customs:								
Employer's and Employees' Income Tax and National Insurance	0.0	0.0	49,610.3	45,230.8	0.0	0.0	6,274.3	5,688.4
VAT	0.0	0.0	45,450.3	48,102.9	0.0	0.0	37,714.3	6,840.2

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

25. Contingent liabilities

There were no contingent liabilities at 31 March 2017 or 31 March 2016.

26. Events after the reporting period

From 1 April 2017, the Trading Fund Revocation Order takes effect. See note 1 (b) (ii) on page 67 for further details.

Dstl's nine priority S&T capabilities

Analysis

Platform Systems

Weapons

C4ISR
Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance

Human Capability

Counter-Terrorism (CT) and Security

CBR
Chemical, Biological and Radiological

Integrated Survivability

Cyber

T +44 (0) 1980 613121
F +44 (0) 1980 959100
E centralenquiries@dstl.gov.uk

For more information about Dstl's work, visit
www.gov.uk/dstl

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